

FINANCE - GENERAL

1990  
JUNE

Work status : no transition

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NEW Bankorp executive chairman Piet Liebenberg, who starts work on Monday, has denied that he was lured from Nedcor to the ailing Bankorp group by anything but the challenge.

In a wide-ranging interview, Liebenberg said the share price was the distillation of a bank's position in the market.

"Bankorp is trading at a large discount to its true worth. The challenge is to restore the rating of the share.

"With the backing of an organisation such as Sanlam/Sankorp, the strong management team that is shaping up and the co-operation of the various boards, I have no doubt that Bankorp can be restored to profitability within the next two years.

"My appointment was absolutely an arm's-length contract; no promises in the Sanlam environment were made at all. I'm just an employee. I have share options, but nothing out of line with comparable situations found at other banks."

Liebenberg, who founded Finansbank, one of the merchant banks in the Nedcor stable, converted his shares into a personal fortune worth many millions when Finansbank was purchased by Nedcor.

The challenge at Bankorp is formidable. Bankorp interims to end-December

# Facing the challenges of Bankorp

By Wyn 1/6/90

## BARRY SERGEANT

her reflected earnings plummeting 25%, and a rights issue during the year diluted equity by a half. Liebenberg confirmed that yet another rights issue might be on the cards. Meanwhile, there were a number of noted management changes at Bankorp, and commercial arm TrustBank — now delisted — was the home of a number of serious frauds.

Liebenberg denied that there was any discussion that Bankorp would be delisted now that Sanlam owned 87% of Bankorp. Said Liebenberg: "Bankorp cannot be delisted in terms of proposed new banking legislation (and it also requires that Sanlam/Sankorp reduce their 87% stake to 49% in due course).

"Do not lose sight of the fact that our reorganisation document published this week includes the stated objective of Bankorp Holdings remaining in the Sanlam/Sankorp environment.

"Second, we as management have as our first priority the restoration of profitability." On this score, "there is no intention to dispose of any division whatsoever; our focus at the moment is to get the current operation profitable, and to allocate all

non-performing assets to the newly created division of Risk Management". Until somebody is found, Liebenberg will run this division.

Liebenberg added that the document contained radical changes. "It starts at the top. We were faced with four boards of directors and each had at least four committees. Before eliminating overlaps there were about 54 board directors.

"This has been reduced to one board of 15 directors, and four board committees. The amount of time that top management can spend doing good business is radically up. The increase in productivity should be seen over time throughout the group."

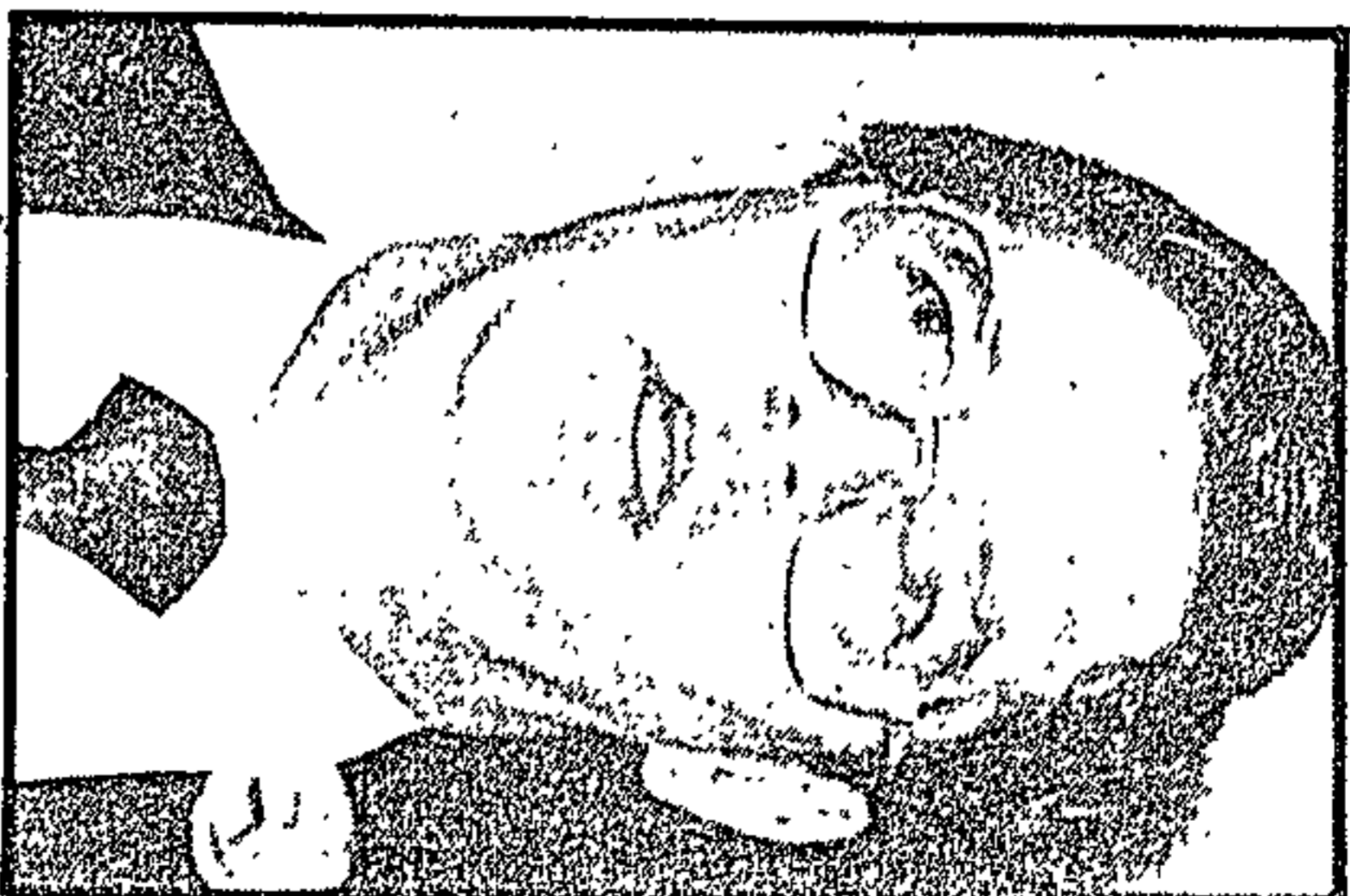
The dozens of directors willingly relinquished their posts.

On the question of why Bankorp fell gradually into such trouble, Liebenberg explained: "Group chairman Fred du Plessis was tragically lost last March. He was succeeded by Tjaart van der Walt, and then by

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Derek Keys in September.

"Derek Keys — and I give him all the credit for he started an investigation — called a meeting in February



□ LIEBENBERG

## LETTERS

for strategic purposes. Employees reported back at the end of April. I was appointed in March — and have until now been under total restrictions until Monday — and believe the whole project has been pursued with speed and professionalism."

Liebenberg said he had not yet had time to investigate Bankorp's bad debt position, which has never been disclosed. "Employees will have to report non-performing assets to the Risk Management division. They will then have the time to manage the performing assets; put another way, these assets should manage themselves."

On the question of disclosure, where Bankorp has often drawn criticism, Liebenberg said "over a period of time you will see fuller disclosure."

Liebenberg said Bankorp's "brand" names — TrustBank, Senbank and Santambank — would not be changed. "We regard every brand name as extremely valuable; clients identify with a brand." The names had been pulled together to achieve greater cohesion.

In the final analysis, initial reaction to the Bankorp reorganisation has been positive. Liebenberg's track record is impeccable and there is no doubt that Bankorp has the potential to do extremely well after it has managed the bumps that lie ahead.



# More autobanks than West Germany!

By ANN FRIEDMAN **58**

WITH nine major banks and building societies and several smaller ones, South Africa has long been described as "overbanked".

The country has, for example, more automatic teller machines than does West Germany. Industry leaders and the Reserve Bank believe the banking sector needs rationalising.

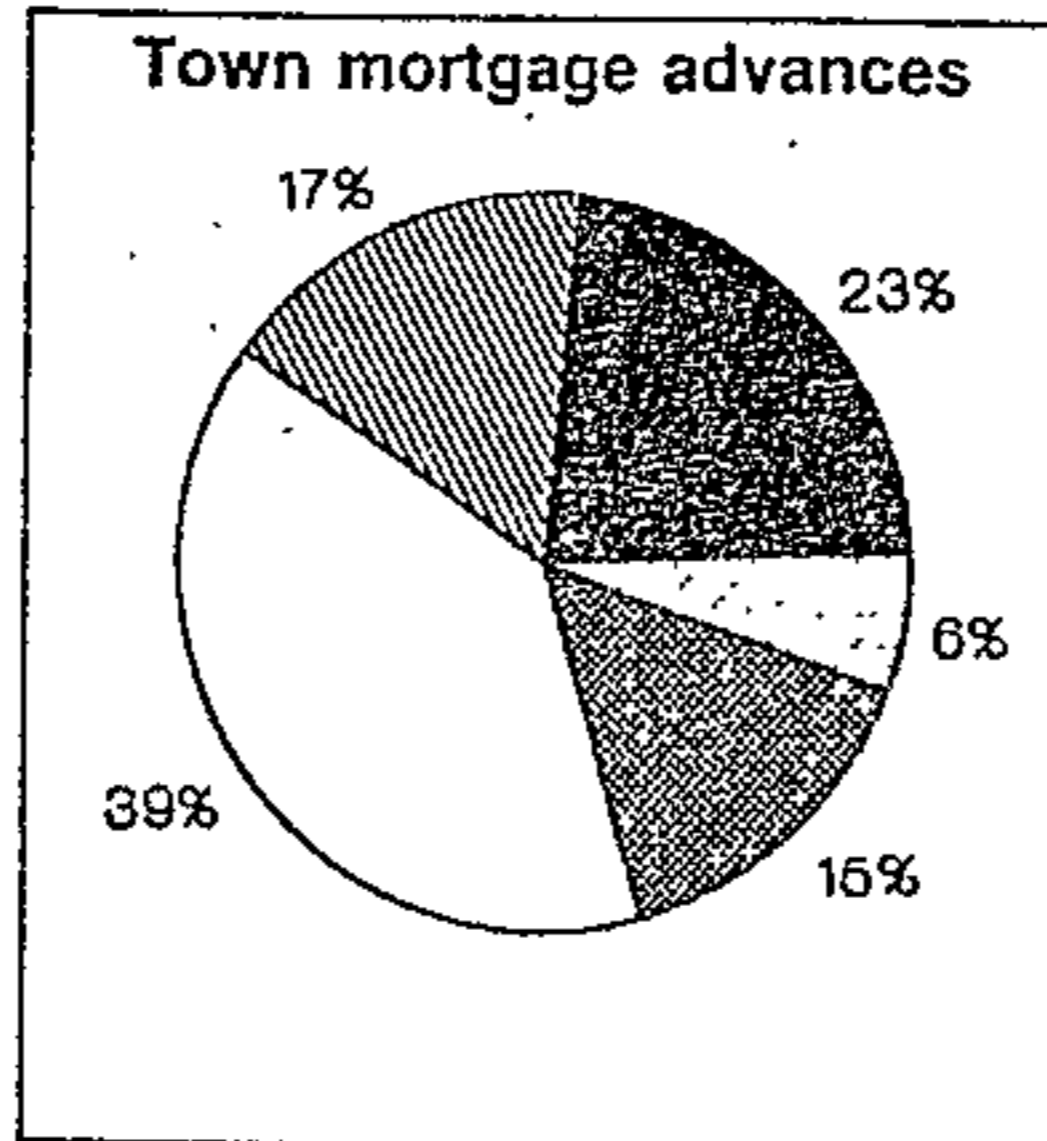
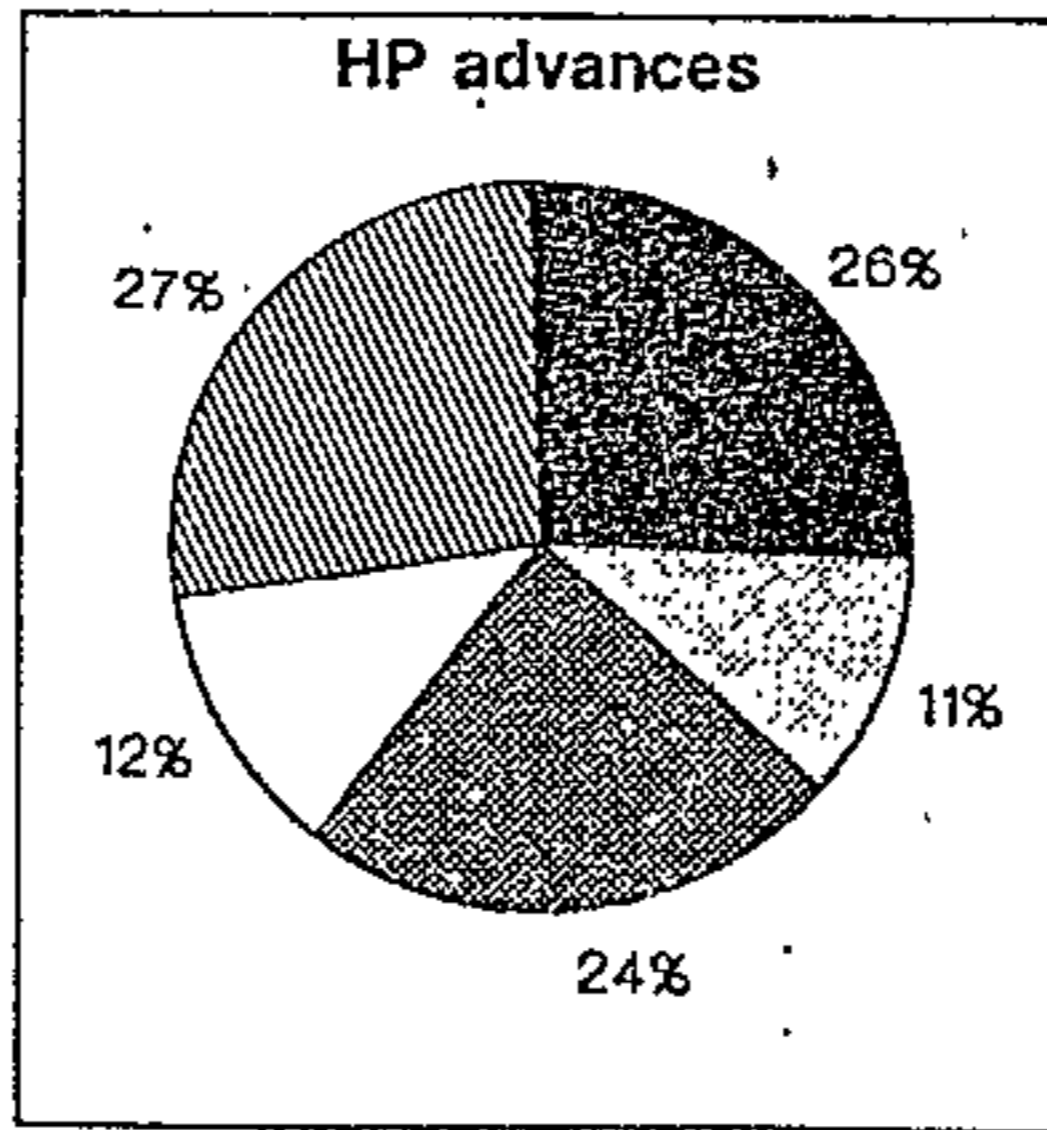
The new Deposit Taking Institutions Bill, tabled in parliament this week, may speed up this process: it is likely to intensify competition among the financial institutions and make the weaker players vulnerable.

Rationalisation would mean greater concentration of power in the banking industry, in which the Johannesburg Stock Exchange's large conglomerates already have a substantial presence. Of the "big five", First National Bank is in the Anglo stable; Nedcor is controlled by Old Mutual; Standard is in the Liberty Life camp; Sanlam controls Bankorp, which controls Trust Bank; and Rembrandt has a 30 percent stake in Volkskas.

Building societies are a little different in that legislation has until now prevented any shareholder from owning more than 10 percent of the equity, so that the societies have remained more independent. The big groups have a presence too, as have the banks. Volkskas and Rembrandt, for example, have 9,9 percent stakes in United Building Society (which in turn owns 30 percent of Volkskas), the largest and strongest of the societies. The Perm has been absorbed into Nedcor and is technically no longer a building society.

But the 10 percent stockholding limit is to go once the Bill becomes law. That will open the way for takeovers of the building societies, although the Reserve Bank will have the power to stop hostile takeovers if these are seen as undesirable.

The Bill effectively eliminates any difference between banks and building societies, who will now be subject to the same rules (where previously they were governed by two different pieces of legislation). It has been welcomed by the industry because it "levels the playing field", for example by allowing the building societies to raise funds on the same basis as banks. But it does lay down more stringent requirements than before on capital adequacy for "deposit-taking institutions" — banks and



Key: First National, Standard, Nedcor, Bankorp, Volkskas

w/mail 116-716190.

building societies are required to back up the lending they do with a certain percentage of share capital. The more stringent requirements are designed as safeguards, to prevent banks going bust. But they will make it more difficult for those with weak capital bases to survive and in this sense will provide a greater impetus to rationalisation in the industry.

This could be bad for consumers, individual and corporate. With fewer players there would be less competition on rates and services.

But greater concentration is not necessarily bad. The battle for market share among the financial institutions after deregulation of the industry in 1986 led to some indiscriminate lending. Banks and building societies were wooing customers with promises of easy credit — which could mean they were granting credit to people who couldn't really afford it and subsequently became "bad debts". The huge growth in credit

which fuelled the boom in 1988 also, arguably, had adverse effects at a macro-economic level, by increasing inflationary pressures.

The question is: where will the rationalisation be and who will emerge on top?

Already one rationalisation is to take place, within Bankorp, which this week announced it will merge the operations of Trust Bank and the smaller Santambank. Santambank retail branches will be closed and the group will also rationalise the operations of its merchant bank, Senbank, with the corporate banking services of Trust Bank. Piet Liebenberg recently resigned his position as chief executive of Nedcor to take over as chief of Bankorp and he is moving fast to restructure the troubled group, the weakest player in the sector. Bankorp's capital adequacy ratio stands at 4,2 percent — where Nedcor leads the banks at 5,6 percent and UBS leads the sector at 9,2 percent, according to UBS calculations.

Bankorp's profitability is also the lowest in the sector. In the most recent financial year, it earned a return on assets of 0,35 percent, compared to UBS' 1,36, Nedcor's 1,0, Natal Building Society's 0,87 and First National's 0,72.

Most of the banks would like to merge with or take over building societies — particularly UBS or NBS, which have strong capital bases and are profitable.

Once the new legislation is in place, though, it's likely that there will be takeovers or mergers among banks and building societies but all will in future be simply "deposit taking institutions". And there's speculation about which of the "big nine" will get into bed with which other.

By this time next year some well-known names may have disappeared from the industry. However, mergers or takeovers wouldn't necessarily mean the "brand names" would disappear. For example, the Perm's image and branches remain separate from those of Nedbank, even though the two are now in the same group. Nedcor intends to keep it that way because the Perm serves a different market with different needs to the Nedbank clientele.

What is clear is consumers will have less choice in where to put their money — or where to borrow.

**Looking ahead** (58)

A **chink** has appeared in Reichmans' impressive growth record: the core business lost momentum and investments failed to perform in the 10 months to end-December.

The change in the financial year-end from February follows FSI's acquisition of 37% of Reichmans from former-chairman Milton Levine. Jeff Liebesman succeeds him.

Pre-tax profit rose 21% annualised, compared to the previous year, but there was a definite slowdown in the second half in line with the general economic decline. In the second six months there was virtually no growth in profits but a fall in the tax rate

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**Activities:** Provides trade finance and related services.

**Control:** FSI and directors.

**Chairman:** J Liebesman; MD: C Cohen.

**Capital structure:** 36,0m ord. Market capitalisation: R84,6m.

**Share market:** Price: 253c. Yields: 10,7% on dividend; 18,4% on earnings; PE ratio, 5,4; cover, 2,1. 12-month high, 250c; low, 150c. Trading volume last quarter, 518 962 shares.

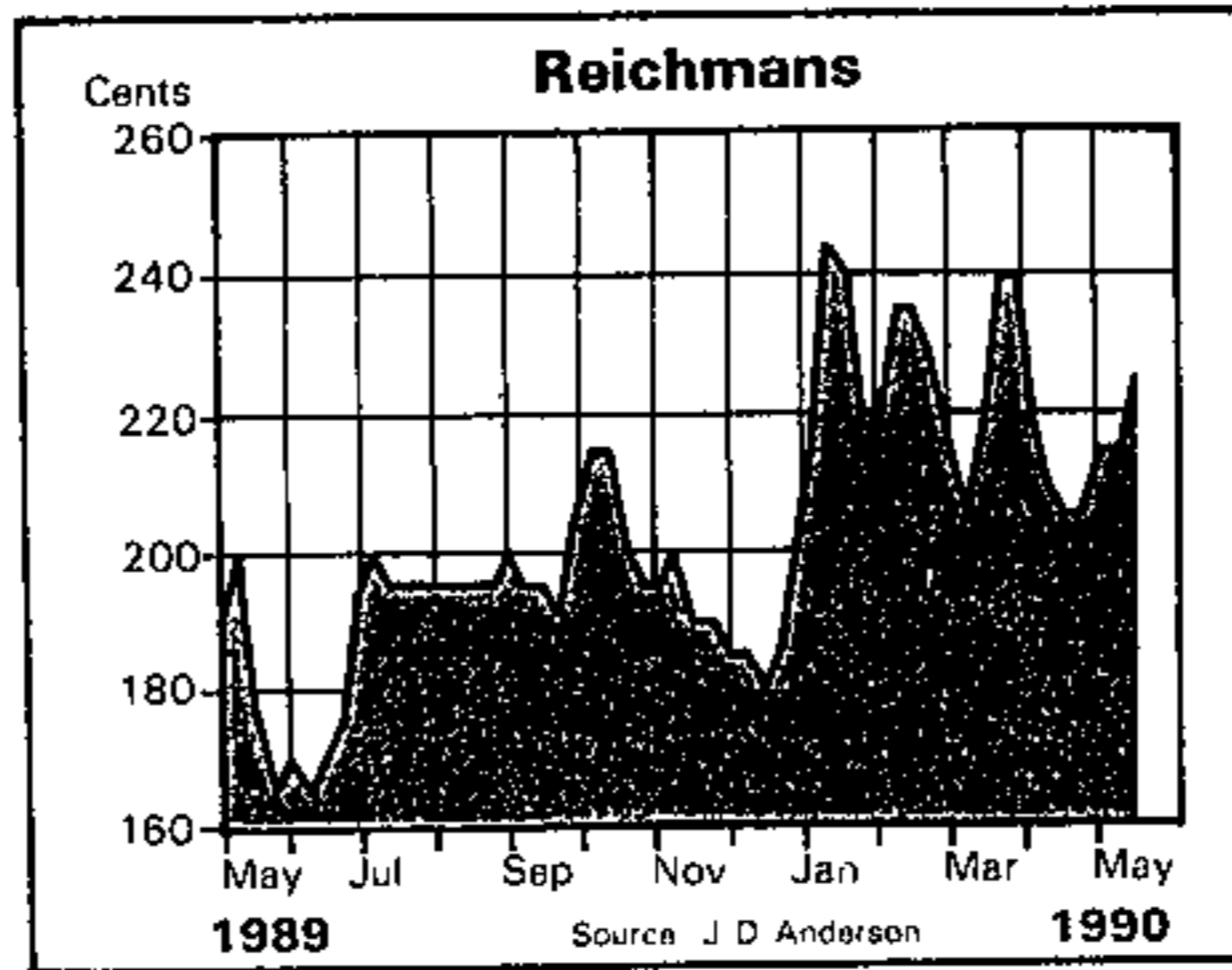
Year to Dec 31	'88†	'89*
ST debt (Rm) .....	19,6	24,9
LT debt (Rm) .....	2,0	3,7
Debt:equity ratio .....	3,14	3,75
Shareholders' interest .....	0,20	0,18
Int & leasing cover .....	3,1	3,8
Return on equity (%) .....	24,2	27,2
Pre-tax profit (Rm) .....	15,2	15,3
Earnings (c) .....	35,7	43,2†
Dividends (c) .....	15	21
Net worth (c) .....	138,9	153,0

\* 10 months to December 31  
† 12 months to February 28  
‡ Annualised

bolstered the bottom line. MD Clive Cohen says Reichmans' expansion reflects growth of a niche market for specialised trade finance services. The growth in the business caused gearing to increase but Cohen says it remains conservative compared to the industry norm of 0,80.

**Associates' income falls**

Annualised EPS and dividend growth did not fully reflect the profit rise because of the R1,2m fall in income from associates. The taxed profit of the 20%-held steel distributor and processor, Van Reenen & Nicholls (VRN), fell to R1,4m from R7,3m. Margins came under intense pressure, heavy costs were incurred in setting up a West German



operation and Jacksons Metals was acquired at a time when demand for stainless steel was slowing. A fire and labour problems reduced the profit contribution from 10%-held I B Joffe.

Cohen is confident that VRN's problems are non-recurring and that Macsteel's purchase of joint control in February will provide an additional growth stimulus. He also expects a material increase in profit from I B

Joffe.

After the year-end the group acquired a 75% holding in Trade Power, a buying organisation with a significant presence in the Far East. This gives Reichmans access to professional buying services capable of sourcing and inspecting goods throughout the East. Also, a fire destroyed the Ciskeian operation of a client to which Reichmans has a net exposure of about R12m; a response from the insurers is awaited.

Cohen is cautious about prospects for 1990 but hopes to see a pick up in activity towards year-end as clients stock up in anticipation of better conditions in 1991. He intends to enhance growth through offering trade facilities to larger companies — higher volumes at more competitive rates — and expanding the marine and short-term insurance and factoring businesses.

Meanwhile, the market is rating the share on a dividend yield of 10,7% compared with the 6,3% average for the banking and financial services sector.



**Bristol fashion** (58)

The Property Group (PGSA) restructuring announced at the beginning of March (*Fox March 16*) is proceeding apace but original plans have been amended.

In place of the planned insertion of Retprop Investments (RI) and Retprop Management Services (RMS) into subsidiary Premier Consolidated (Premcon), PGSA has sold them both outside the group. PGSA's 66,2% interest in RI has been sold to Amaprop at 40c a share for a cash total of R2,33m; and RMS has conditionally assigned its management contract with RI to Ampros (Anglo American Property Services) for cash "not exceeding" R12,5m. The effective date of the disposals is June 30.

Thus PGSA is set to pocket a total of R14,83m. To this must be added the proceeds from the disposal of shareholdings in Bellcanto and Bristol Industries to Premcon for R3,69m cash. So PGSA now realises a total of R18,52m whereas the original scheme envisaged that all of these disposals would net PGSA just R8,54m.

**Less funding**

The other side of the deal is that Premcon has to fund only the Bellcanto and Bristol property interest purchases of R3,69m instead of having to lay out an originally-intended R8,54m. In the meanwhile, Premcon has sold its interest in President Medical Investments for R3,38m ex-div.

Premcon has thus been cleaned out of all its non-property interests. Its assets will comprise 23% of Faircape Homes, 100% of Bellcanto and 19,25% of Bristol.

Retco, held 72% by PGSA, is left as the industrial vehicle in the group. Its only interests will now be 90% of Ivitex, the textiles manufacturer, and the R23,5m in cash and debentures that was held on March 9.

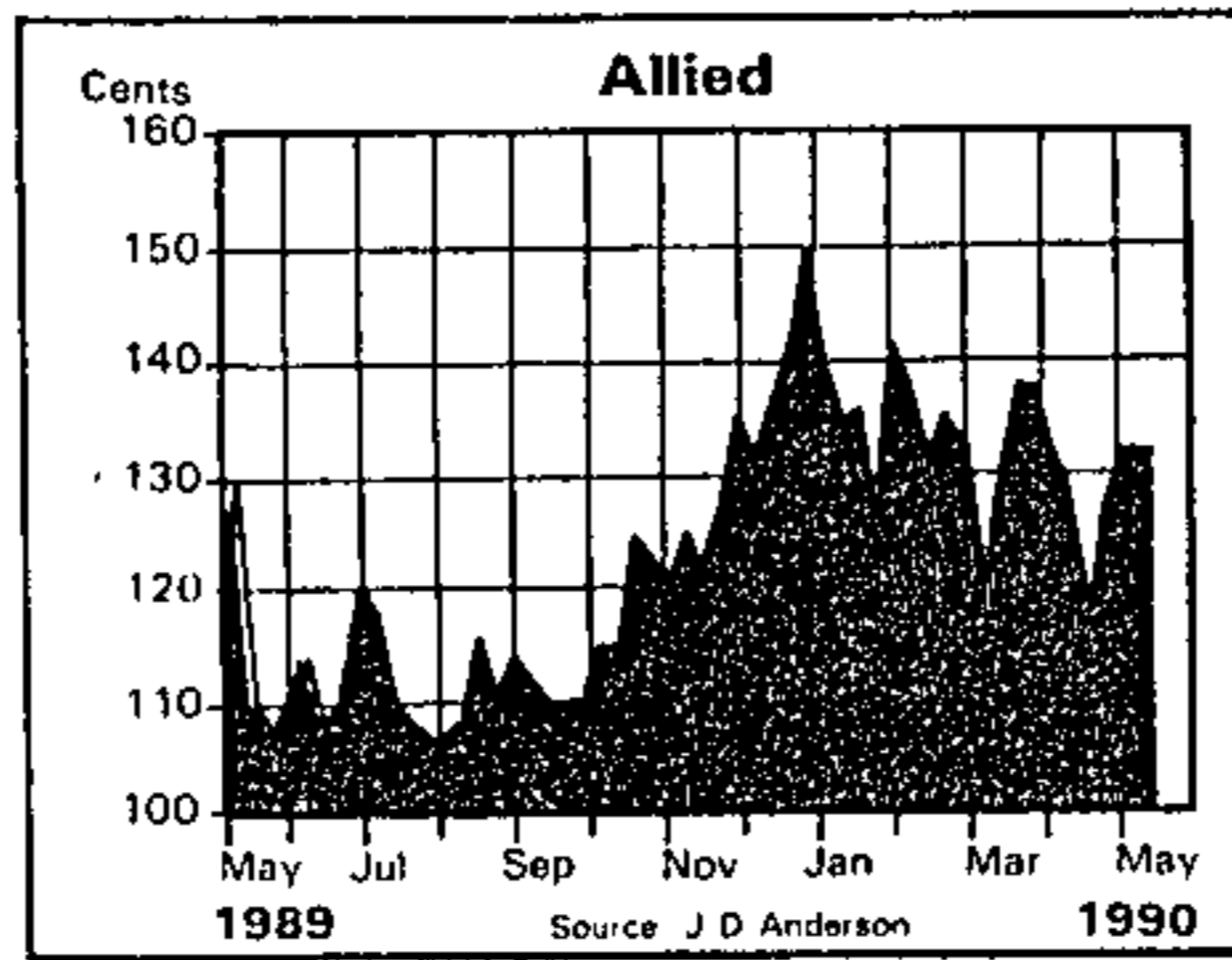
Obviously EPS and net asset value of each entity involved will be affected. After the 82,5c special dividend payment in March PGSA's net worth a share was reduced to 168,56c. Similarly, after payment by Retco of a special dividend of 45c a share during March, the net asset value of both Retco and Premcon were reduced to 66,33c and 61,49c a share respectively.

Management's estimates for EPS for the year to June 30 after the transactions are: PGSA: 15,84c (the original March 9 estimate was 14,05c); Retco: 5,57c (originally 7,44c) and Premcon 5,70c (9,30c).

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None of this changes the offer by PGSA to acquire all or part of the minority shareholders' interests for 45c a Premcon share or four shares in Retco for every five Premcon. The formal offer is still in the pipeline.

Gerald Hirshon



De Villiers is also aiming to improve profitability by another 25% a year during the next three-year period — in 1990 it rose by 30% — and, with virtually all but one of its 55 products in place, an existing customer base of around 2m, and a more settled management structure, the new-look Allied could be turning the corner.

However, the cost of introducing new systems and products (42 have come on stream since January 1987) to take the group from building society to bank, has taken its toll. Net operating costs were up 35% to R233,9m. These high levels are likely to continue mainly because of the introduction of Allied's last product, due at the beginning of September, a cheque account. Costs of installing the service amounted to R1,5m last year while this year R3m will be used to pay for this facility and R3m next. "The purpose of the cheque account is to build further relationships with our customers," De Villiers says.

But it will take 10-15 years before De Villiers reaches his goal of 6%-7% market share in this area. Advances in the corporate market, where most of the new products have been introduced, increased 105% to R611,7m but this was done mainly "at the margin" with high-cost wholesale funds.

Allied introduced its banking facilities in 1987. De Villiers denies meeting the major banks head-on but says the group will focus on the medium-sized company on the corporate side while offering existing consumer customers a full range of banking services.

He hopes to take three years to gain 6% of the market on the instalment credit side and regain market share on the home loan market, which Allied has lost mainly because of intense competition from major banks, especially Standard. Allied's market share has dropped from a consistent 15%-16% for the past 10 years to 14,5% in 1989 with gross lending a month of R180m. But figures since February are already showing an improvement: February — R210m home loan business was written; March — R260m; April — R215m while May looks likely to reach R220m.

However, the Allied share price is still being hammered by poor market perceptions. With a dividend yield of 9,3%, it is at the same level as Saambou and higher than poorly rated Bankorp (8,1%). At 123c it is way below its 193,6c net asset value.

Allied's non-performance on the banking

board has been mainly as a result of round after round of rumours due mainly to changes in top management which has left investors uncertain about the group's ability to perform. According to De Villiers, share volatility has also been caused by the lack of a stable parent. The group's largest shareholder (10%) Sage Holdings, has itself been having a tough time (see page 78). Allied has a 20% shareholding in Sage.

"A large stable parent with a 30%-40% shareholding in the group could steady investors' perceptions," De Villiers says. Allied has no intention of issuing new shares and a new parent would have to buy existing ones on the open market.

Most insurance giants already have shares in banking institutions. But other interested parties could be large industrial companies and conglomerates, such as Anglovaal, which last year bought a 41,6% stake in insurer AA Life.

Heather Formby

## Waiting for a bite

**Activities:** Building society and banking.

**Control:** Minorities; Sage 10%.

**Chairman:** D Paxton; MD: K de Villiers.

**Capital structure:** 22,5m ords. Market capitalisation: R27,6m.

**Share market:** Price: 123c. Yields: 9,35% on dividend; 18,9% on earnings; p:e ratio, 5,28; cover, 2,03. 12-month high, 150c; low, 97c.

Trading volume last quarter, 9,2m shares.

Year to Mar 31	'87	'88	'89	'90
Advances (Rbn) .....	4,58	5,67	6,92	7,86
Return on assets (%) .	0,72	0,96	0,68	0,75
Taxed income (Rm) .	36,1	60,9	52,8	68,7
Earnings (c) .....	n/a	20,6	17,9	23,3
Dividends (c) .....	n/a	10,0	10,5	11,5
Net worth (c) .....	n/a	174,4	181,8	193,6

Allied's 1990 results could be the hook to lure the large parent for which the group is looking. Figures showed an all-round improvement after a few shaky years and MD Kevin de Villiers is aiming even higher. He is looking to improve the return on equity to 18%-19% in the next three years from fiscal 1990's 12,4%, slightly up from 10% in 1989. EPS rose 30% to 23,3c, return on assets was up 10% at 0,75% and a dividend of 11,5c was 10% higher than last year.





**Southern's Calitz ...  
less prescriptive**

vestment income rise 19% to R879m, compared to a 15% rise in net premium income to R1,6bn.

"With the total equity market providing a return of over 33%, it outperformed all other investments," says executive director Jan Calitz. "This compares with the 20% return from the money market, 23% from property and a surprisingly high 21%-27% from fixed-interest stocks." However, despite the better performance of fixed interest stock, Southern reduced these investments by 25% to R1,6bn.

Calitz says increased exposure to the equity market obviously had a positive impact on the performance of portfolios. "However, the 65% limit should be raised to give trustees the full benefit of the best performing investments," he says.

Calitz sees the equity market continuing to outperform other investment areas but to a lesser degree than in past years. Over a 15-year period equities have given a total annual 25% return compared to an 18% return on property and only 10% on fixed-interest stock.

*Heather Formby*

SOUTHERN LIFE FIM 116190

**Changing stocks** (58)

Southern Life has seen the value of its investments in equities rise by about 58% over the past year. Equity investments at the 1990 year-end stood at R7,9bn compared with R5bn at March 31 1989.

This represents nearly 60% of total investment assets of R13,2bn (R10bn). The increase follows the change to prescribed asset requirements, gazetted in September, when life assurers no longer had to invest large portions of their assets in government and other fixed-interest stock and cash.

New prudential investment requirements allow a 65% exposure to the equity market. In its managed portfolios, Southern has increased equity exposure to the maximum limit from 55% in 1989. If the Immediate Annuity Portfolio — which invests largely in fixed-interest investments — is taken into account, total equity exposure was 60% against 50% last year.

Increased equity investment saw net in-

**SOUTHERN LIGHTS**

Year end March 31	1989	1990
Net premium income (Rm)	1 387,6	1 595,9
Net invest income (Rm)	739,2	879,5
Attributable earnings (Rm)	94,9	115,2
Earnings (c) .....	56,3	68,3
Dividends (c) .....	37,6	45,5

**On the move** (58)

Motor insurance premiums, after being static for nearly two years, rose 15%-20% over the past few months. More increases are expected. David Hersch, MD of Compuquote, a comparative computer quotation system, expects rates to rise by at least another 15%-25% by year-end.

This development comes not a moment too soon for the business. Competition in a soft market has held down rates in the face of rising costs. Many insurers report underwriting losses or vastly diminished profits.

Contributors to higher costs include:

- Increased value of motor vehicles because of the low value of the rand;
- Major rises in spare parts prices;
- Higher wages;
- Thefts and hijackings;
- More unlicensed drivers;
- More road usage; and
- Increasing mobility of people.

The impact of these was absorbed by insurers until the end of last year when the cost

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of claims increased dramatically. This forced the business to re-assess premium structure.

Prestasi chairman Jan Erasmus says — whatever the risks of clients turning to self-insurance — the business has no alternative. Motorists will have to choose between paying higher rates or remaining under-insured or uninsured.

The value of insurance is not always understood. It is bought grudgingly and cover is often inadequate. Clients don't always realise the trade-off between the extent of cover and premium rates.

Gamsy Melnick Insurance Brokers financial director Tim Lazarus says the increasing value of second-hand cars is an important aspect of this problem. Clients should ensure cover remains in line with the price of the vehicle and adjust sums insured if necessary.

Rates should not be seen in isolation and the extent of cover is not the only factor to take into account, says Erasmus. Among others are:

- Whether the premium includes the services of a broker or whether the client will have to deal directly with the insurer when making a claim;
- How a company treats a client making a claim;
- Operational efficiency and financial stability of the insurers; and
- Shareholding links between insurer and brokers, or links between insurer and institutions granting cover.

Allianz's Les Ashford says the industry expects both gross value and the incidence of motor claims to rise this year.

There has been a resurgence of theft. Another adverse trend is that, as vehicles age, they pass to owners who either cannot afford or do not appreciate the role of insurance. The cost of recovering excess or full damage costs from uninsured third parties also puts pressure on premiums.

Lazarus points out the executive car market still offers proportionately lower premiums than on cheaper cars because insurers believe these owners take better care of vehicles.

Linda Mitchell



FIM 116/90

## Manning the pass <sup>(704)</sup>

After last year's major reorganisation and expansion of the Reserve Bank's Exchange Control Division, large scale breaches of regulations continue to be exposed. Former Repfin Finance MD Adriaan Prakke faces exchange control (excon) charges amounting to R350m — the latest in a staggering series of cases cumulatively running into billions.

What needs to be asked is whether, as a result of the reorganisation, more cases are being uncovered? Or whether they are happening despite the reorganisation? <sup>(S8)</sup>

Changes (FM Survey September 1 1989) included a much-enlarged inspectorate and seconding two private sector foreign exchange experts as deputy GMs: exchange

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control: FNB's Tickey Gill and Nedcor's Tom Euijen. Assistant GM Charles van Staden heads the investigations division.

Though this case and others hinge on permission to use finrand for direct investment, both John Postmus (GM exchange controls at the Reserve Bank) and Gill say this type of concession is in the national interest. But the total for which permission has been given under this head remains secret. <sup>(S8)</sup>

Gill says applications are being scrutinised far more carefully than in the past. The Bank now calls for international valuation certificates. This has already paid off. Recently an applicant claimed machinery to be imported was worth R170m. The valuator he selected valued the machinery at only R21m. After various prevarications, the application was abandoned with the excuse that the staff who had originated it had been dismissed.

The Bank is now calling for more and more information when permission for finrand use for direct investment is sought — such as feasibility studies and forward financial projections for up to four years. Gill explains the original basis for such an application must remain in the control of the bank branch which originally approved it and not be transferred to another branch or bank.

Theoretically, there are three broad categories of infringement — double invoicing (which is difficult to police), finrand round-tripping involving collusion by bank officials and other forms of finrand abuse, even, says Postmus, involving totally falsified documentation (as alleged in the Prakke case). But it would be a mistake, says Postmus, to blame collusion by authorised dealers for more than a few contraventions.

Postmus emphasises the importance of more advanced training for bank officials in administering the complex excon rules and of advising banks on the excon implications of internal audit procedures.

Gill also points out that only "authorised banks" are permitted to deal in finrand. This status is only accorded to large branches with the expertise and controls to manage finrand transactions prudently.

Postmus concedes over-invoicing (of normal trade transactions not involving the finrand) is extremely difficult to detect, as documentation will give every appearance of regularity. Could Board of Trade inspectors who regularly travel abroad to evaluate reference prices for anti-dumping purposes not also do spot audits of international prices for important categories of imports which might seem susceptible to over-invoicing? ■

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## Paying the price

Profits of R67m made in illegal foreign exchange transactions by former African Bank employees, between late 1985 and early 1986, have been forfeited to the State. Notice and order of forfeiture were published in the May 25 *Government Gazette*.

Moves to retrieve tainted funds began three years ago when profits made by the bank and nine individuals were seized and frozen on deposit at the Corporation for Public Deposits. Other non-liquid assets were confiscated and sold to make up shortfalls. The financial affairs of six other employees should be settled within six months — with assets also forfeited to Treasury.





Maubane . . . late

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Of the total, the bank forfeited R63m, ex-MD Moses Maubane R1,9m, his widow Dorothy Maubane (making up a shortfall and not involved in the dealings) R236 000, and former employees S J Voss R259 000 and Priscilla Wilson R990 000.

Investigations began in 1986 into dealings worth an estimated US\$117m, and profits of R95m, in which SA clients paid financial rand rates for dollars while some African Bank forex dealers illegally imported the same dollars at commercial rates.

The activities came to light when the bank issued interim results early in 1986, showing profits of R5,9m for the six months to March, compared to only R169 000 the previous year. Stories of exorbitant incomes and luxurious living had also been circulating. Shortly afterwards, Maubane and eight other employees were suspended from foreign exchange dealings and ordered to pay "all sums due" into the special account.

Since the R63m forfeited by African Bank was paid in 1986, it will have no effect on this year's results. ■

FIM 1/6/90  
**Fatter travel wallets**

Travellers and businessmen whose rands have been buying ever-thinner wads of foreign currency will welcome the Reserve Bank's announcement that more money may be taken overseas. From today sums issued by authorised dealers without reference to

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authorities have been raised by 25%-50%.

"This may be the first official sign that the authorities perceive an improvement in the international climate," says Standard Bank's Rocco Rossouw.

The increases also reflect depreciation of the rand and higher prices abroad. "The measures will reduce the growing number of special requests recently directed to the Bank and thus paperwork for authorised dealers."

Travellers who have already used their full old allowances for 1990 may top up to the new limits. Annual new allowances are:

- Business: R10 000 (was R8 000) in neighbouring countries, with a daily maximum of R750 (R600); R22 500 (R15 000) elsewhere, daily maximum R1 200 (R750);
- Holidays: R5 000 (R4 000) to neighbouring countries; R15 000 (R10 000) elsewhere;
- Children under 12: neighbouring countries R2 500 (R2 000); elsewhere R7 500 (R5 000); and
- Study allowances: R2 250 (R1 500) a month for unmarried and R4 500 (R3 000) for married students. Annual allowances for travel expenses during vacations for people

studying abroad are R4 500 (R3 000) for a single student and R9 000 (R6 000) for one accompanied by a spouse.

The amount people may pay in advance for congress, seminar and exam fees is now R2 500 (R2 000).

Residents or non-residents entering or leaving may take notes worth R500 (R200).

Emigrants may now take out assets with a net value of up to R200 000 (R100 000). A family or single person may take household and personal effects of R50 000 (R40 000) and a R50 000 (R40 000) motor vehicle.

An authorised dealer may now approve payments to visiting artists, entertainers and sportsmen for R30 000 (R10 000).

Charges in connection with legal disputes may be approved by an authorised dealer up to R10 000 (R1 000) and alimony payments R3 000 a month (R500).

Tender guarantees and bid bonds residents may pay in favour of non-residents are up from 1% of contract price to 5% and performance guarantees from 10% to 15%.

A new provision relates to renewal of passports and obtaining visas. Authorised dealers may approve applications for transfers to

meet these of up to R500 per person per request, on top of the travel allowance.

Directors' fees, bequests from estates of SA residents and gifts and maintenance payments remain unaltered.



# Bankorp faced with another rights issue

6/Day 1/6/90

58

BANKORP, the Sanlam banking and financial services arm, is faced with the probability of a rights issue, new executive chairman Piet Liebenberg said yesterday.

Sanlam subsidiary Sankorp has informed the board of Bankorp it is prepared to support a further rights issue, if necessary, in order to satisfy any need for additional capital for Bankorp.

Liebenberg said Bankorp would be reducing its asset base and its number of staff, and should be restored to profitability within two years.

Liebenberg sent shock waves through the banking world in March when he resigned as Nedcor CE to become Bankorp executive chairman from July 1.

Said Liebenberg: "Nedcor chairman John Maree has, however, generously agreed that I can start work at Bankorp on Monday June 4th." Part of the radical reorganisation of Bankorp includes the reduction of directors from about 40 to 15.

Liebenberg said the long-expected rationalisation in the banking and financial services sector would affect Bankorp only to the extent that it might seek to purchase. "We have nothing to sell," he said.

The Bankorp group includes commercial bank TrustBank, corporate and merchant bank Senbank and instalment finance arm Santambank.

Bankorp interims to end-December saw earnings plummet 25%. Analysts said Ban-

BARRY SERGEANT

korp would need a rights issue of about R350m to rectify its capital starvation problem. Liebenberg said he could not comment on the figure at this stage, adding that the timing of the probable rights issue had not been finalised.

"But the probable rights issue has the fortunate backing of Sanlam, one of the largest institutions in SA," he said. Sanlam holds 87% of Bankorp.

At the interim stage to end-December Bankorp's equity to asset ratio was 3,8%, after a massive rights issue that doubled issued shares to 189-million and raised R345m. The equity to asset ratio is one of the most vital internationally used measures of a bank's soundness. Bankorp's 3,8% compares to about 5% reflected by several other banks. It would need to raise R350m to achieve a 5% ratio.

Liebenberg said the long-term equity to asset ratio target, as recommended by the Bank of International Settlements, required a higher figure, roughly 8%, but the exact figure depended on a bank's structure. He said the equity to asset ratio could also be strengthened by reducing assets.

"To this end Bankorp will shrink its asset base in a consolidation phase. The group grew by about 40% in one year and this has to now be digested. Bankorp will

□ To Page 2

## Bankorp

6/Day 1/6/90

not necessarily remain on the same asset base," said Liebenberg.

Analysts contend Bankorp increased its asset base when the economy was moving against it. In the year to end-June, for example, home loans increased from R963m to R2,6bn.

Liebenberg said a result of Bankorp's radical reorganisation would be a reduction of employees from the current 16 000.

58

□ From Page 1

"Realistically this will change over the two-year period. This may be done through attrition. In extreme cases there may be redundancies.

"The prime thing is to communicate to staff that by far the majority will be quite safe in their jobs. We're looking at the minority, but that will be handled with absolute care," he said.

● See Page 6

**Not so black** (58)

If it is considered that the middle-to-upper end of the black market is the focus of Metlife's new-business drive, an increase of 24% in recurring premium income for the six months ended March 31 looks good in these days of tight budgets. However, the first half's results reflect little of the heightened unrest in black areas.

Single premium business is best when economic sentiment is optimistic and the cost of money relatively low. So in present circumstances, it is not surprising that growth in this area has been limited to 5%. Since it forms such a small portion of Metlife's overall premium income (5,6%) it has not had a major effect on total premium income, which has risen in the six months by 22%.

But it is investment income, with a solid rise of 32% when compared with the same period last year, that has contributed significantly to the bottom line. Senior GM Peter Doyle says a timeous move into liquid assets and cash combined with high interest rates to generate this performance. He adds the share portfolio also performed well and, in itself, posted an increase in investment income of 15%-20%. Thus all three income sources together posted a 25% increase.

The summarised balance sheet shows significant falls in the value of both "other assets" and in "creditors and provisions." Doyle points out these declines are technical and that the true position will be shown only at the year-end when deferred premium adjustments are made and the final tax and dividend provisions are included.

Apart from the bald statement that earn-

Six months to	METLIFE RISES		
	Mar 31 '89	Sep 30 '89	Mar 31 '90
Total premium inc (Rm)	204,8	232,9	250,6
Investment inc (Rm) ..	99,5	117,7	130,9
Attrib earnings (Rm) ..	7,1	12,9	8,8
EPS (c) .....	16,5	28,5	20,5
Dividends (c) .....	11,0	19,0	13,5

ings and dividends for the full year will be higher than those of the previous year, no other salient information is available. It is now well known that almost all businesses are feeling the impact of tighter money conditions; also that township violence has affected black-related business. This will be crucial to Metlife's second-half performance.

Gerald Hirshon

# Boost in savings vital to SA growth — UBS expert

NEIL YORKE SMITH

LOW rates of saving and investment over the past decade crippled SA's economic growth potential, says UBS economist Hans Falkena.

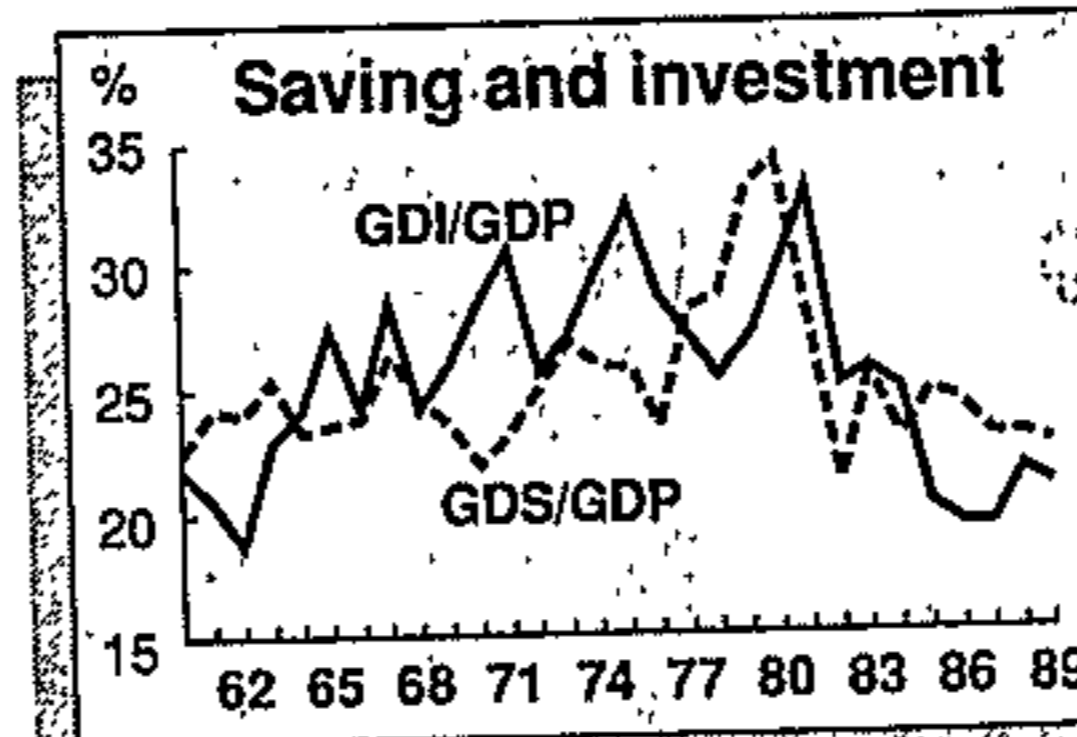
"Unless this country can boost gross domestic saving (GDS) — and related gross domestic investment (GDI) — we will not exceed the low growth levels which have plagued us in recent years," Falkena said in an interview this week.

Between 1980 and 1989 SA's net savings as a proportion of gross domestic product (GDP) averaged 8,2% compared with 17,5% for Japan.

"Declining investment lowered SA's potential growth rate to about 2% a year during the late 1980's," he said.

"We need to save about 19% of GDP to enable this economy to grow at 4% a year," Falkena added.

"The problem is that too much South African saving is on a contractual basis



Graphic: FIONA KRISCH Source: UBS

with organisations which manage funds and do not take them onto their balance sheets," he said.

There was a significant difference between savings which were kept in a bank and those "managed" by an organisation like an insurance company or pension fund, Falkena added.

"Fund managers generally invest in low risk areas which may provide good returns to investors but do not generate

substantial economic activity."

"Discretionary savings, on the other hand, may be used to finance more risky projects including manufacturing and industry, which if successful generate economic activity and spur growth," he added.

To encourage discretionary saving investors needed inflation beating rates of return, said Falkena.

"This implies positive real interest rates and a realistic tax structure which does not over tax income from discretionary saving," he added.

Some countries which had boosted saving and investment had generated real economic growth of more than 8% a year, said Falkena.

However, he confirmed the process was lengthy and that economic policies would necessarily be stringent while the foundations for growth were set in place.

"The economy, including government, would have to bite the bullet in the short term," he said.



# New health care scheme

8/16/90 EDWARD WEST (58) (288)

HEALTH care and life insurer Crusader Life Assurance Corporation was introducing a Crucare range of policies on a universal life basis, the assurance group said in its 1990 annual report.

Crulife's fourth element of its health care portfolio was the development of a "universal health care" product embracing a medical scheme, catastrophe stated benefits and a longterm insurance fund, the annual report said.

The policy holder would be issued with a credit card which "paid" all medical expenses on an indemnity basis, and a monthly statement indicating the cardholder's "financial status".

A computerised life system was acquired from the UK to handle increased volumes of business emanating from Crucare universal life policies. This system was in its final stages of implementation, the report said.

Crulife's dividends grew 25% while new business written increased by 49%, the report for the year to December showed. Net premium income grew by 51% to R60,73m while total assets exceeded R120m.

The report said Crulife's budget for 1990 was promising and substantial growth coupled with a further decline in expense ratios was anticipated.

Group executive chairman Alexander Rowand expressed disappointment at Crulife's share price which was about half that of August 1987, in spite of dividends increasing from 8c to 14,4c and without any contribution from its UK investment as yet.

The group did not believe the current price fairly reflected the group's performance, Rowand said in the annual report.

Pegasus Life, Crulife's 24,2% held associate in the UK, sold its first policy late in May 1989.

Crulife envisaged a first trading profit by 1992. Earnings would be over and above profits generated in SA and it might be possible to allow shareholders a direct stake in Pegasus when it sought a London Stock Exchange listing in due course, Rowand said.


MEMBER ORDER	FORM 2
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ATLANTIS BUYERS CO-OPERATIVE

# Decision on ERPM expected within days

ster 1/6/90  
S8 ERPM

By Ann Crotty

ERPM chairman Clive Knobbs believes it will be only a matter of days before Rand Mines hears what decision the Government has taken over the request for additional fundings for the troubled mine.

On Wednesday the Cabinet met to discuss Rand Mines' request. (Funds are needed to cover working capital requirements and to subsidise ERPM's hefty interest charges).

Without the additional funding, because ERPM is technically insolvent, the most logical course of action would be to liquidate the company.

Mr Knobbs said yesterday that he was still waiting to hear the Government's official decision: "I believe there's a 50:50 chance."

Ahead of the decision, the financial package that the Government has provided to ERPM comprises an interest subsidy on government-guaranteed loans of R220 million, state assistance for pumping of water and a government guarantee for deferred interest payments.

(The details of this assistance were provided last week in a parliamentary reply to a question from Geoff Engel (DP), the MP for Bezuidenhout).

## Interest costs

- The Government has undertaken to pay all interest costs above seven percent, but not more than 17 percent, on the R220 million of loans provided to ERPM by a consortium of banks and guaranteed by the government.

The subsidy is available until end-December 1992.

While interest rates remain at or above 17 percent, this subsidy costs the Government R22 million a year.

- ERPM is still threatened with closure within five years as a result of the inflow of water from neighbouring mines that have been closed down.

From April 1 1989, for the 1989/90

fiscal year, the Government undertook to provide financial assistance to help ERPM cope with this problem.

The assistance comprised an annual subsidy of R8 million initially to cover current costs incurred in pumping the water and an annual loan, for which R10 million was initially provided to cover operation and maintenance costs of the infrastructure of the shafts where pumping activity takes place.

- From July 1989 and December 1992 ERPM is allowed to defer and capitalise its part of the interest charge on the R220 million government-backed loan up to a maximum of R67 million.

The Government has undertaken to guarantee this deferred interest, but will not subsidise interest payments on it.

## Equal amounts

ERPM must repay the deferred interest in three equal amounts in 1993, 1994 and 1995.

While this government assistance is extended, ERPM must adhere to a number of conditions:

- Underground mining operations cannot be stopped without the written consent of the Government.

- ERPM will not dispose of any mineral rights without the written consent of the Government.

- No movable or immovable assets may be disposed of by ERPM without the written consent of the Government. All income derived from sales must be paid into an interest-bearing trust account and the Government and First National Bank must approve any use of these funds.

- Rand Mines, FNB and the bank consortium that provided the R220 million have given undertakings that they will not sue for payment of debts which may lead to the liquidation of the mine without consulting the Government and notifying it in writing.

# Banks reduce deposit rates

Own Correspondent

JOHANNESBURG. — Banks have reduced medium-term retail interest rates — the rates paid on deposits — pre-empting a Reserve Bank decision to drop the bank rate by year-end, Treasury officials said on Wednesday.

However, monetary officials including Reserve Bank Governor Chris Stals and the Finance Minister's special economic advisor Japie Jacobs stressed that banks' decisions did not necessarily reflect inside knowledge of monetary policy.

"Such decisions are based entirely on the forecasts of individual banks," Stals said.

"They may or may not reflect sentiments expressed at the regular consultations between the Reserve Bank and bank management," he added.

Many banks have already dropped rates on medium-term deposits by between a half and one percentage point.

Others said a reduction in retail rates appeared practical given their interest rate forecasts.

First National Bank (FNB) assistant treasurer Mike Law said: "We have adopted the view that prime will come down in the next six months."

"Given this assumption it would be pointless to pay excessive rates for medium-term deposits."

This was confirmed by Standard Bank treasury GM John Lloyd, who said current rates were too high in the first place.

"The interest rates on six month deposits is 19%pa. If interest is compounded monthly, the effective rate is in excess of 20% a year," he said.

Jacobs said banks could be reacting to the generally lower rate of money supply (MS) growth as well as to reduced domestic credit extension in recent months.

"These successes indicate the economy is moving in the right direction."

"Banks may be assuming they will result in an easing of monetary policy later in the year," he added.

Stals said: "We are pleased with reductions in producer and consumer price inflation."

However, he stressed inflation remained excessive and stringent measures would remain in place until significantly lower inflation was both achieved and maintained.

"At this stage there is little to suggest a lowering in the bank rate is necessary," he added.



## Rights issue on the cards

# Bankorp heads for radical reorganisation

CM 7453  
1/6/80  
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Own Correspondent

JOHANNESBURG. — Bankorp, a Sanlam banking and financial services arm, is faced with the probability of a rights issue in due course, new executive chairman Piet Liebenberg told Business Day yesterday.

Sanlam subsidiary Sankorp has informed the board of Bankorp it is prepared to support a further rights issue, if necessary, in order to satisfy any need for additional capital for Bankorp.

Liebenberg said Bankorp would be reducing its asset base and its number of staff, and should be restored to profitability "within two years".

Liebenberg sent shock waves through the banking world in March when he resigned as Nedcor CE to become Bankorp executive chairman from July 1.

Said Liebenberg: "Nedcor chairman John Maree has however generously agreed that I can start work at Bankorp on Monday June 4th."

Part of the radical reorganisation of Bankorp includes the reduction of directors in the group from about 40 to 15.

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"But the probable rights issue has the fortunate backing of Sanlam, one

of the largest institutions in SA," he said. Sanlam currently holds 87% of Bankorp.

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The equity:asset ratio is one of the most vital internationally used measures of a bank's soundness. Bankorp's 3,8% compares to about 5% reflected by several other banks. It would need to raise R350m to achieve a 5% ratio.

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He said the equity:asset ratio could also be strengthened by reducing a bank's assets.

"To this end," he added, "Bankorp will shrink its asset base in a consolidation phase. "The group grew by about 40% in one year and this has to now be digested.

"Bankorp will not necessarily remain on the same asset base."

Analysts contend that Bankorp increased its asset base at a time when the economy was moving against it. In the year to end-June for example, home loans increased from R963m to R2,6bn.

Liebenberg said another result of Bankorp's radical reorganisation would mean that its number of employees would be probably reduced from its current 16 000.

"Realistically this will change over the two year period. This may be done through attrition. In extreme cases there may be redundancies.

"The prime thing is to communicate to staff that by far the majority will be quite safe in their jobs. We're looking at the minority, but that will be handled with absolute care," he said.

## Reserve Bank to keep up the pressure

THE Reserve Bank remains firmly committed to present monetary policies despite the marked slowdown in the economy.

Treasury officials of the commercial banks approached on Wednesday for comment after their routine monthly meeting with Reserve Bank officials said the Bank seemed very confident about the success of monetary policies, and that they would "solve the country's problems in the medium term". *8/10 day 1/16/90*

No indication was given at the meeting, chaired by Bank Governor Chris Stals, that there would be any relaxation of policies

LINDA ENSOR

58 or that interest and bank rates would come down until money supply was under control and inflation had declined.

"My feeling is that the Bank is looking for real interest rates of 4%-6% and an inflation rate slightly in excess of 10%," one commercial bank representative said.

Another source said by July the major hump of foreign debt would have been paid — \$1.4bn in the first six months of this year — with only \$600m to be repaid in the final half. "From then on it will be plain sailing."



● JACOBS

● STALS

# Banks lower rates paid on deposits

Monday 11/6/70

NEIL YORKE SMITH (S8)

BANKS have reduced medium term retail interest rates — the rates paid on deposits — pre-empting a Reserve Bank decision to drop the bank rate by year-end, Treasury officials said on Wednesday.

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Many banks have already dropped rates on medium term deposits by between a half and one percentage point. Others said a reduction in retail rates appeared practical, given their interest rate forecasts.

First National Bank (FNB) assistant treasurer Mike Law said: "We have adopted the view that prime will come down in the next six months."

This was confirmed by Standard Bank treasury GM John Lloyd who said current rates were too high.

Jacobs said banks could be reacting to the generally lower rate of money supply growth as well as to reduced domestic credit extension in recent months.

"Banks may be assuming they will result in an easing of monetary policy later in the year," he added.

Stals emphasised inflation remained excessive and stringent measures would remain in place.

"At this stage there is little to suggest a lowering in the bank rate is necessary."

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## Not going West (58)

A leak about Standard Bank of SA's attempt to acquire an interest in a network of banks throughout Africa, now held by France's Banque Nationale de Paris, may have been an attempt to force the pace of negotiations.

Holding company Standard Bank Investment Corp MD Conrad Strauss says Standard was approached to take a major interest in a Banque Nationale subsidiary, Banque Internationale pour l'Afrique Occidentale, based in Paris with a network of subsidiaries, mainly in French West Africa, and branches in New York, London, Hamburg and Paris.

"We expressed interest because we believe, given our involvement in Africa, we could play an important role in a well-capitalised Banque Internationale. Various conditions were identified at the outset for our participation, including adequate capitalisation. It now seems that some critical conditions cannot be fulfilled and we have withdrawn," he adds. ■

The Group remains committed to disciplined asset growth and prudent lending practices, coupled with effective asset and liability management. Assets grew by 18,9% from R13 217 million to R15 715 million

Building society operations provided the largest contribution to Group earnings, accounting for R100,0 million (50,8%) of attributable net income compared with R74,7 million (49,6%) last year. Including equity-accounted earnings of associates, banking activities generated the second largest share of Group earnings at R36,5 million (18,5%) compared with R29,4 million (19,5%) the previous year, followed by insurance business which generated R34,2 million (17,4%) compared with R28,0 million (18,6%) the previous year.

United Bank substantially increased its client base with total assets increasing by 127,5% to R1 307 million. After conservatively providing for doubtful advances, the Bank achieved a satisfactory taxed profit of R4,7 million.

The after-tax profit of UBS Insurance Company increased 24,2% from R18,6 million in 1989 to R2

Although sales of housing units declined, the Housing Corporation posted a 25% increase in sales from R1,6 million in 1989 to R2,0 million.

The Group's share of associated companies (including dividends) rose by 16,9% to R45 million, with associates reporting satisfactory growth. The Group will embark upon the early implementation of the statutorily enforced separation of building society business at the earliest opportunity.

With a view to securing its business for the medium to long term, the Group has acquired a one-third interest in Real Estate Limited, which provides a professional participating estate agents, and a 25% interest in a listed estate agency company. In the uncertain political and economic environment, it is extremely difficult to forecast performance with accuracy. However, the strong growth coupled with sound growth in its subsidiaries should afford the Group the ability to meet its obligations in the forthcoming year.

#### Annual financial statements

The Group annual financial statements will be available to shareholders on or about 15 June 1990.

#### Annual general meeting

The annual general meeting of the Group will be held on Friday 27 July 1990 at 12h00.

On behalf of the Board

H V Hefer  
Chairman

P J  
Ch

28 May 1990

#### Declaration of ordinary

Notice is hereby given that a final dividend on ordinary share has been declared and that the books of the Group will be closed for purposes of the dividend on 15 June 1990. Cheques will be dated 30 June 1990 and will be payable to any shareholder who is outside the Republic of South Africa on or about that date at the applicable rate will be payable to any shareholder who is outside the Republic of South Africa.

By order of the Board

W R Somerville  
Group Secretary

28 May 1990

#### Registered office:

27th Floor  
United Towers  
160 Main Street  
Johannesburg 2001  
(PO Box 260595 Excom 2023)

#### Transfer secretaries:

Central Registrars Limited  
3rd Floor  
154 Market Street  
Johannesburg 2001  
(PO Box 4844 Johannesburg 2000)

# S.A. NATURE FOUNDATION

A FINANCIAL MAIL SURVEY

29 JUNE 1990



## CORPORATE PARTNERS

*Conservation*

### mutual benefit

Over the years the SANF has established a number of successful partnerships with companies who are aware of the increasing public support for conservation, but also of the benefits to be gained from a conservation sponsorship.

Special advertising positions are available.

Contact: Lupton (011) 497-2469

Ian Riddel (021) 208-4774

Jane Allison (031) 307-4822

The advertising booking deadline is  
8 JUNE 1990

Support the S.A. Nature Foundation  
- and South Africa's future

FIM 1/6/90 (58)

day had been postponed due to rain.

Another measure of the market's disenchantment with Sage is to compare its own market capitalisation with its attributable share of the capitalisations of SFS and SPH. Still working on a fully diluted basis, and assuming market prices of listed instruments are representative of how investors would value the two operating subsidiaries after conversion of all convertible instruments, the value put on Sage shares would slightly exceed 1 700c.

Accepting the sum of the parts is invariably worth more than the whole, it is nevertheless clear that Sage — without the drain caused by the debt burden in the holding company — would probably be worth its 1988 high of 1 400c, almost double the present price.

Until the company announces its capital restructuring, however, investors are probably correct to concentrate on the two operating subsidiaries. SFS, which boosted attributable earnings by 64% last year, has benefited from the capital injection which accompanied its listing and, given that this injection came halfway through the 1989 financial year, there should be more to come in the current year.

At SPH, 1989's pre-tax profit was well down but the bottom line was protected by a sharply lower tax rate. With the fraud episode behind it, this year's results are forecast to show a reversal of the 1989 pattern, with a substantial rise in pre-tax income likely to be muted by higher tax. The outcome is, nevertheless, expected to reflect satisfactory improvement.

Brian Thompson



DEPOSIT-TAKING INSTITUTIONS

# New look for banks

FIM 1/6/90

58

Two bogymen who have occupied prominent places in folklore since the emergence of SA's financial sector are put into some perspective by new banking legislation tabled in parliament this week.

One spectre which haunted generations of legislators is the potential monopolist, represented in this case by the large financial institutions. The other is the foreigner, long since vanished, who they feared might acquire an influential stake in an SA bank. The Deposit-taking Institutions Bill, which consolidates the Banks Act of 1965 and the Building Societies Act of 1986, allows:

- Foreigners to participate in banking on the same basis as local investors; and
- Holdings by a legal or natural person (and associates) of up to 49% of a bank's issued shares, as opposed to the present 10%, or 30% in the case of financial companies. (To provide symmetry, banks will be allowed to hold up to 49% in insurance companies.)

Permission will have to be granted for increased holdings in banks "to ensure only fit and proper persons become large shareholders and to prevent the exercising of undue influence . . . permission may only be granted if it is not contrary to the public interest . . ." As now, the minister of finance may also approve holdings above the limits.

The relaxation of holdings is part of a package deal, in return for greater public disclosure of banks' large credit exposures.

Though fears of "undue influence" remain, the reality of a multiplicity of deposit-taking institutions in a limited market has created new needs. When the legislation is promulgated later this year and, eventually, put into operation with accompanying regulations by proclamation, the structure of the industry may change dramatically with mergers between, and acquisitions of, existing institutions.

Excluded from the Bill are mutual building societies (as they are not companies) and "institutions or bodies established by specific

Acts of parliament or regulated in terms of other legislation . . ." Discount houses, which will no longer be recognised as a separate class of banking institution, will fall under the new Act.

The Bill aims to:

- Identify deposit-taking institutions;
- Start the process of regulating function rather than institution, eliminating inequalities and discrepancies between various deposit-taking institutions; and
- Stop "unregistered persons" acting as deposit-takers.

To ensure management competence, an institution which has been authorised to open its doors will be registered provisionally and must qualify for final registration.

New prudential requirements differ from existing ones in that they "do not prescribe the business and its associated risks . . . but aim at ensuring the prudent management of such business and risks." Requirements relate to capital adequacy, minimum reserve balances, minimum liquid asset holdings and, for the first time, large credit exposures.

Since the end of 1986, capital requirements for banks have been based on the risk composition of assets. This principle is retained but the Bill proposes a new definition of capital and a new method of calculating the minimum required capital for a deposit-taking institution — "in line with the Basle Committee's proposal . . ."

While cash and liquid asset requirements are retained, the level is to be determined by regulation, which will provide "flexibility to adjust these requirements to the liquidity management undertaken by the deposit-taking institutions themselves." This may mean that, if liquidity risks are neutralised by the structuring of liability and asset maturities, requirements may be reduced.

As to credit exposure, the board of directors must give permission for an investment or loan exposure to any one client "if such an exposure exceeds a prescribed percentage of

the institution's capital and reserves."

Appeals, now heard by the minister, will in future be directed to a five-strong board of appeal, two of whom will be fixed appointees — a jurist as chairman and a registered accountant. Of the other three, who will have "wide banking experience and thorough knowledge of the latest developments in deposit-taking institutions," one will be named to assist the two appointees in any given case.

A new provision indemnifies the Reserve Bank, its directors and officers from liability arising "from the bona fide performing of any function or duty under the Bill." Another lets the Registrar give information to anyone engaged in banking supervision, in this or other countries, when requested. ■

## MOTOR INSURANCE FIM 1/6/90

### On the move

Motor insurance premiums, after being static for nearly two years, rose 15%-20% over the past few months. More increases are expected. David Hersch, MD of Compuquote, a comparative computer quotation system, expects rates to rise by at least another 15%-25% by year-end.

This development comes not a moment too soon for the business. Competition in a soft market has held down rates in the face of rising costs. Many insurers report underwriting losses or vastly diminished profits.

Contributors to higher costs include:

- Increased value of motor vehicles because of the low value of the rand;
- Major rises in spare parts prices;
- Higher wages;
- Thefts and hijackings;
- More unlicensed drivers;
- More road usage; and
- Increasing mobility of people.

The impact of these was absorbed by insurers until the end of last year when the cost

## FACING UP TO RISING COSTS

New motor insurance rates; VW Jetta CLX 1990 model; Value: 39 945

	CFG0						CFG5								
	JHB		R000s		DBN	R000s		JHB		R000s		DBN	R000s		
	Monthly	Annually	B/E	Monthly	Annually	B/E	Monthly	Annually	B/E	Monthly	Annually	B/E	Monthly	Annually	B/E
SA Eagle .....	390,00	4 230,00	1 500	265,00	2 900	1 500	244,00	2 644,00	1 500	166,00	1 813,00	1 500	186,81	2 037,96	300
Guardian National .....	331,89	3 620,64	300	266,93	2 475,60	300	186,81	2 037,96	300	132,97	1 450,68	300	305,80	3 058,00	1 150
Fedgen .....	436,70	4 367,00	1 150	208,56	2 085,60	1 050	248,00	2 728,00	750	124,00	1 364,00	750	201,51	2 219,00	500
Allianz .....	345,00	3 795,00	750	172,00	1 892,00	750	208,84	2 275	350	148,40	1 619,00	350	208,84	2 275	350
Commercial Union* .....	322,18	3 547,00	500	261,42	2 878,00	500	208,84	2 275	350	148,40	1 619,00	350	208,84	2 275	350
Protea .....	376,84	4 111,00	350	274,36	2 993,00	350	242,00	2 904,00	350	167,00	2 004,00	350	242,00	2 904,00	350
Santam* .....	242,00	2 904,00	350	167,00	2 004,00	350	242,00	2 904,00	350	167,00	2 004,00	350	242,00	2 904,00	350

CFG = claim free group. CFG0 = has made a claim. CFG5 = has not made a claim in 5 years or more. ■ or 5% of claim. \* only available if supported by domestic insurance. B/E Basic excess.

Quotes supplied by Compuquote



FIM 11/6/90

## Manning the pass

After last year's major reorganisation and expansion of the Reserve Bank's Exchange Control Division, large scale breaches of regulations continue to be exposed. Former Repfin Finance MD Adriaan Prakke faces exchange control (excon) charges amounting to R350m — the latest in a staggering series of cases cumulatively running into billions.

What needs to be asked is whether, as a result of the reorganisation, more cases are being uncovered? Or whether they are happening despite the reorganisation? (S)

Changes (FM Survey September 1 1989) included a much-enlarged inspectorate and seconding two private sector foreign exchange experts as deputy GMs: exchange

FINANCIAL MAIL JUNE 1 1990

FIM 11/6/90

control: FNB's Tickey Gill and Nedcor's Tom Euijen. Assistant GM Charles van Staden heads the investigations division.

Though this case and others hinge on permission to use finrand for direct investment, both John Postmus (GM exchange controls at the Reserve Bank) and Gill say this type of concession is in the national interest. But the total for which permission has been given under this head remains secret. (S)

Gill says applications are being scrutinised far more carefully than in the past. The Bank now calls for international valuation certificates. This has already paid off. Recently an applicant claimed machinery to be imported was worth R170m. The valuator he selected valued the machinery at only R21m. After various prevarications, the application was abandoned with the excuse that the staff who had originated it had been dismissed.

The Bank is now calling for more and more information when permission for finrand use for direct investment is sought — such as feasibility studies and forward financial projections for up to four years. Gill explains the original basis for such an application must remain in the control of the bank branch which originally approved it and not be transferred to another branch or bank.

Theoretically, there are three broad categories of infringement — double invoicing (which is difficult to police), finrand round-tripping involving collusion by bank officials and other forms of finrand abuse, even, says Postmus, involving totally falsified documentation (as alleged in the Prakke case). But it would be a mistake, says Postmus, to blame collusion by authorised dealers for more than a few contraventions.

Postmus emphasises the importance of more advanced training for bank officials in administering the complex excon rules and of advising banks on the excon implications of internal audit procedures.

Gill also points out that only "authorised banks" are permitted to deal in finrand. This status is only accorded to large branches with the expertise and controls to manage finrand transactions prudently.

Postmus concedes over-invoicing (of normal trade transactions not involving the finrand) is extremely difficult to detect, as documentation will give every appearance of regularity. Could Board of Trade inspectors who regularly travel abroad to evaluate reference prices for anti-dumping purposes not also do spot audits of international prices for important categories of imports which might seem susceptible to over-invoicing? ■

# Insider traders will be hit in the pocket

4/2 2/6/90

58

THE authorities are making a determined effort to drive insider trading from the Johannesburg Stock Exchange.

Provisions in a Bill published in Cape Town this week will make it much easier for the JSE's Securities Regulation Panel to find an offender guilty of insider trading.

It also provides for anyone who has suffered a loss as a result of insider trading to receive compensation from the offender.

As this compensation could greatly exceed the profits made by anyone guilty of insider trading, it could prove to be a major deterrent.

A memorandum accompanying the Bill says: "For the purpose of effective enforcement of the rules of the panel, provision is being made for obtaining civil relief, including an order of specific performance, an interdict and an action for damages."

The Bill makes it an offence for anyone to deal in a share or any other sort of security on the basis of what is termed "unpublished price-sensitive information" if he knows that this information has been obtained through espionage, theft, bribery, fraud, misrepresentation or any other wrongful method."

## DEREK TOMMEY

It is also an offence to use such information if it has been gained through a breach of a relationship or trust or any contractual relationship, whether or not the person concerned is a party to that relationship.

Taken to the extreme this presumably would make it illegal for an investor to make use of tips obtained from a company official on the golf course.

## Sensitive information

According to the Bill price-sensitive information relates to the internal affairs of a company or its operations, assets, earning power and its involvement as an offeror or offeree in a transaction or proposed transaction."

It also gives two other definitions of price-sensitive information. The first is that it is information which is not generally available to the reasonable investor, and the second is information which would materially affect the price of a securities if it were generally available.

The Bill also defines "generally available". It means that steps

have been taken and enough time has elapsed that it can be reasonably expected that the information is known to the investor.

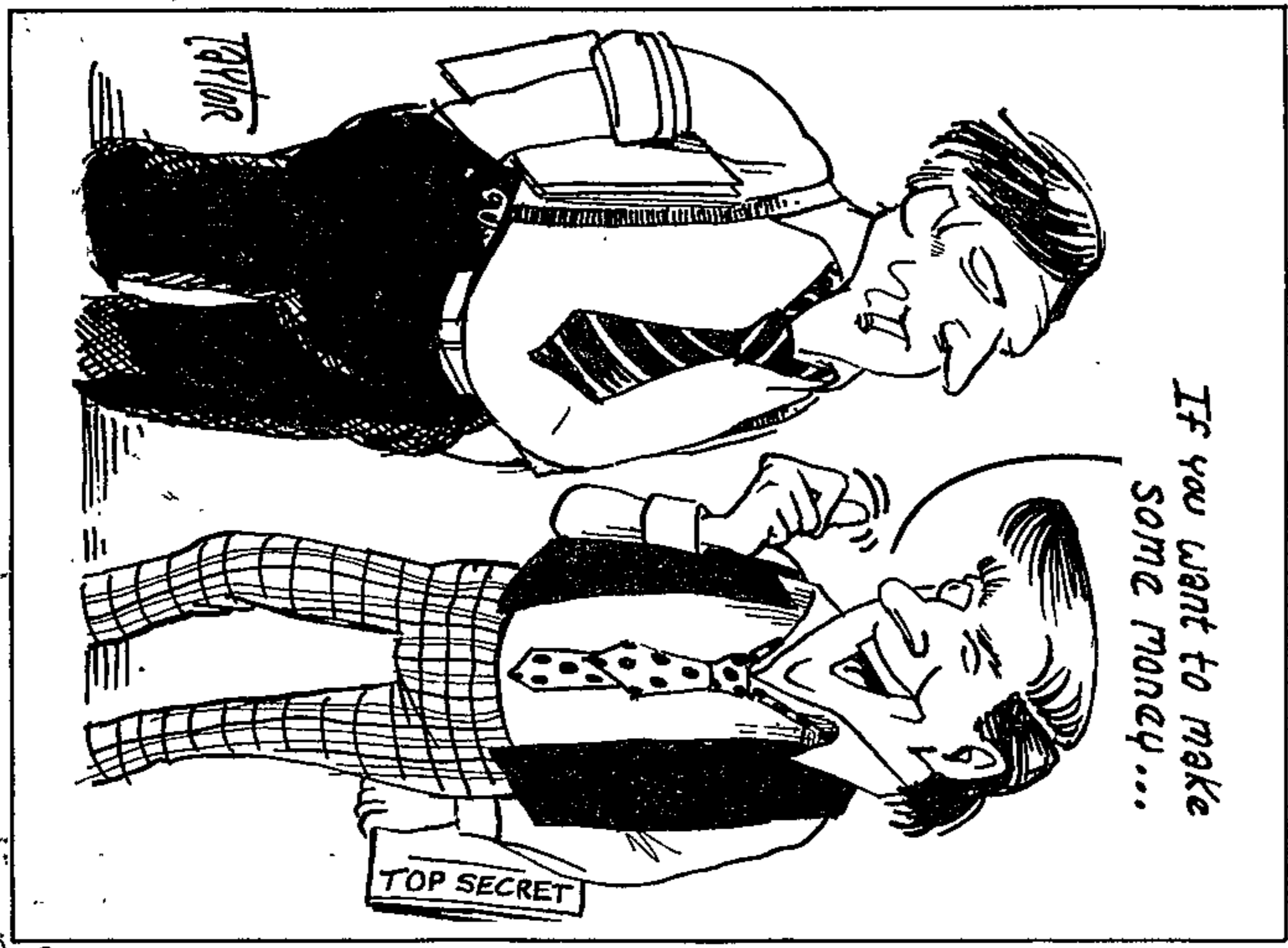
Provisions in the Bill make it easier to gain a conviction for insider trading. If it can be proved that a person dealt in a share while in possession of unpublished price sensitive information it shall be deemed, unless proven to the contrary, that he knowingly dealt in the share on the basis of this information.

The Bill provides for anyone who engages in insider trading to be liable "to any other person for any loss or damage suffered as a result of such contravention".

It adds that the plaintiff shall not need to prove intention or negligence towards him in such an action.

The memorandum says that the provisions were derived mainly from the equivalent provisions in the United States, mainly because interpretations by the courts in the past few years have given rise to a high degree of certainty in the legislation.

Some South African financial institutions expressed the view that the net has been cast too widely and that certain important, innocent investment activities would be included in the prohibition.





# Stronger powers for SRP

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By AUDREY D'ANGELO  
Financial Editor

INSIDER trading has been rife in this country for years, says the Chairman of the SA Shareholders Association, Issy Goldberg.

Goldberg — a familiar figure at company meetings, at some of which he has tried in vain to prevent de-listings or the sale of assets which did not appear to be in the interests of minority shareholders — has been appointed to the new SRP.

The chairman is Justice Cecil Margo and the executive director Doug Gair, a former listings manager at the Johannesburg Stock Exchange.

Other members represent a cross-section of the investment industry, from lawyers to merchant bankers.

"We are there to provide some protection to the thousands of ordinary shareholders", said Goldberg, in an interview yesterday.

Goldberg believes the stronger powers expected to be given to the Securities Regulation Panel (SRP), under the Second Amendment to the Companies Act about to be debated in Parliament, will reduce insider trading considerably.

They will also, he says, help to protect non-controlling shareholders against mergers and takeovers not in their in-



Issy Goldberg

terests — even in cases where they are too apathetic to vote but "cry when the balloon goes up".

Under SA law people guilty of insider trading are now liable to a fine of up to R500 000 or eight years' imprisonment or both.

Goldberg said that so far there have never been any prosecutions because the Companies Act was "lacking in incisiveness".

The offence was defined so loosely that there was little chance of a successful prosecution.

This was changed in the first amendment to the Companies Act passed last year. Now the second amendment, to be debated in the present Parliamentary session, spreads the net wider.

Goldberg said the new panel would make its own rules, and would carry out the spirit and not just the letter of the law.

It would end the risk of "dawn raids" resulting in a surprise change in control of a company. Change of control would now be defined by the panel as 30% or more. The acquisition of new shares in excess of 30% would have to be reported to the panel.

"Stratagems used in the past, to gain control of a company, were to gain 49.5% of the shares. In terms of the Companies Act this, peculiarly enough, did not constitute a change of control and therefore no offer had to be made to minority shareholders in terms of the law.

"Hopefully, the panel will be able to address this issue. In fact, control can be exercised over a company by people who own as little as 15% or 20% in cases where the remaining shareholding is widely dispersed among shareholders who display apathy."

Goldberg said it would be impossible to stamp out insider trading completely because it would be impossible to prove in all cases.

But the panel would investigate cases in which a share that had been traded lightly suddenly traded heavily a week or so before an important announcement was made.

"This gives rise to the assumption that somebody knew something.

"When the panel suspects something is wrong it will have the power to subpoena people, who will have to give evidence under oath."

It would not, however, act as a court but would recommend that certain people should be prosecuted.

Unlike the London takeover panel, which could only exercise "moral suasion", the SRP would be a statutory body with powers akin to that of the Securities Exchange Commission in the US.



# MYSTERY BANK GETS ON ANC BANDWAGON

By KURT SWART

AGENTS from a mystery bank which they claim is linked to the ANC have been accepting fees and recruiting clients in the Western Cape. But a Sunday Times probe this week could find no official record of any "African National Commercial Bank" or its offices.

And leading members of the ANC said they had never heard of the bank and had not given it their blessing.

According to reports given to the Sunday Times, agents claiming to represent the bank are asking residents of Cape Town's townships to join the bank for a fee.

Once the fee is paid the "client" is presented with a

bank "membership" card printed in black, yellow and green ANC colours.

"We have nothing to do with anyone claiming to represent the African National Commercial Bank," said Mr Amos Lengisi, the ANC's Western Cape regional executive member.

"We dissociate ourselves completely from this bank — if it exists. It shares our initials, but has nothing to do with us."

The bank is not listed in the Peninsula telephone directory and is not housed at any known address.

"Officials of this bank have been distributing information leaflets asking people to sign up for a fee ranging from R15 to R30.

"People who join get a card in our colours, although without our logo," said Mr Lengisi.

A spokesman for the African Bank in Johannesburg said he had not heard of a bank called the African National Commercial Bank.

## Mystery 58

"We are not saying that this bank does not exist, but we do know we are the only black-owned bank in South Africa."

The spokesman said the African Bank was "looking to expand" in the Western Cape, but it doubted that preliminary operations in this regard had anything to do with the mystery bank.

No banks can operate within the Republic without being registered with the SA Reserve Bank.

A spokesman at the Reserve Bank's head office in Pretoria expressed interest in the "ANC" bank's activities when informed by the Sunday Times.

The spokesman said: "There is no bank in SA registered as the African National Commercial Bank."



**BELEAGUERED** Bankorp shareholders can take consolation after this week's restructure in two strong positives.

First, proven fix-it men Derek Keys and Piet Liebenberg are in charge.

Second, Sanlam is committed to banking and prepared to contribute however many millions it takes to ensure Bankorp a place in the much-rationalised banking scene of tomorrow.

There are two negatives — possible asset write-downs and probably a large remedial rights issue.

Mr Liebenberg tells me he has not examined the assets, but vows to sweep clean — as he did at Nedcor.

"I'm a conservative individual and assets will be written down if they are not realistically valued."

As part of Bankorp's divisionalisation, underperforming assets will be placed in a "risk management division" for intensive care by specialists.

Mr Liebenberg does little to quell speculation that he and Bankorp are vitally interested in UBS. He points out that after a forthcoming rights issue, Bankorp's stake in Bankorp will rise above 90%.

### Flawed

New legislation will require that maximum holdings in banks be reduced to 49%. What better way to reduce the holding than by acquisition?

On Wednesday Mr Liebenberg virtually repeated the words of the UBS's Piet Badenhorst at a presentation on Monday, saying: "Further rationalisation in banking is inevitable."

Mr Liebenberg acknowledges that Bankorp is flawed for want of a building society. He says UBS is No 1 in the mortgage game, but deficient in such crucial future areas as commercial, merchant and corporate banking. The obvious complementarity between Bankorp and UBS is unspoken.

If there is to be an alliance with UBS, it will involve Rembrandt, which means it could extend to Volkskas.

Mr Liebenberg stresses that he has a lot of work to do in Bankorp before acquisition becomes a priority.

There was clearly some acrimony before and after Mr Liebenberg's departure from Nedcor. Nedcor chairman John Maree would initially not release Mr Liebenberg from an agreement not to start work at Bankorp until July 1, but this week he relented, for which Piet Liebenberg pays him tribute.

Mr Liebenberg says he made minimal input to Bankorp's divisionalisation arrangements announced this week.

"Derek Keys started looking at a remedial plan in January this year and, unbeknown to me, certain decisions were taken on February 26 and 27. The first I heard from Derek was on March 6 when I was taking a break on my farm.

"He had heard I might be



PIET LIEBENBERG ... further rationalisation of SA's banking on the way Picture: HORACE POTTER

## Fix-It Piet takes broom to Bankorp

amenable to a move. He phoned me and later gave me documents. I had to decide quickly because we were starting strategic planning for Nedcor. It would not have been fair for me to leave after that.

### Challenge

"We signed heads of agreement on March 8, the day I gave my verbal resignation to Nedcor. I was asked to vacate my office at Nedcor on March 12.

"John Maree has agreed to my starting on June 4. When I heard he had agreed, I made some last-minute input to this week's announcement. But otherwise I still haven't started."

Hasn't former Bankorp and TrustBank chairman and

chief executive Chris van Wyk been sidelined by latest developments?

"I wouldn't use that word. As the chief executive of TrustBank, Chris has a line function and a great challenge. I think he's happy with that."

What are the strengths and weaknesses of Bankorp? "I always say banking is people, markets and technology. I think marketing and technology are strengths. I have yet to find out if the people are a strength."

Mr Liebenberg says the new structure will give each division clearer focus. Senbank will undertake all the group's merchant and corporate banking. Although corporate bank accounts may be drawn on TrustBank

● To Page 3

**CARTE BLANCHE**



**BY DAVID CARTE**

## Shake-up for Piet's Bankorp

● From Page 1

cheques, the contact people will be at Senbank.

Mr Liebenberg wants Senbank to offer expertise in all the most sophisticated and technical areas. His long-time right-hand man Henrie van der Merwe will be boss of Senbank.

TrustBank will be the commercial bank. It will focus on small and medium businesses as well as individuals. Santambank, headed by J.P. Myburgh, will be the hire-purchase and leasing arm. The group has centralised the treasury under Doug Anderson. Johan Howell will run infrastructure and a boss has yet to be named for risk management.

The Bankorp board shows several changes since Mr Keys took over as chairman last year. Altogether, 11 former heavyweights have gone.

Apart from the executive appointments of Mr Liebenberg and Mr Van der Merwe, non-executives Brian Connelan of Barlow Rand and Professor FG Schutte of Stellenbosch University come on to the board.

Banks need to rationalise because of changed legislation, the cost of technology and staff, duplication of branches and ATMs, and because capital bases are constrained by thin margins. Smaller players will have to

find niches, be absorbed or fade away.

There are several possible permutations. In the end, it seems, Sanlam through Bankorp, Old Mutual, through Nedcor, and Anglo American through First National and Southern, will each have its banking-assurance empire.

Liberty has joint control of Standard, but Anglo and Old Mutual are also significant holders. Liberty could probably not act without consent of Standard's executive, G.F.S.A. and Rembrandt.

Rembrandt, with the biggest single stakes in Volkskas and UBS, not to mention Momentum Life, is free to deal with all parties.

58  
3/6/90



## Bankorp 'not out to buy anything' (58)

NEIL YORKE SMITH

BANKORP will ensure its own house is in order before considering any acquisitions, new executive chairman Piet Liebenberg said in an interview yesterday.

"We won't even contemplate any deals until we're running smoothly and profitably — which is likely to take about two years. (58) 6/10am 4/6/90

"Until then any rumours that we are interested in acquiring anything will be pure speculation," he said.

Liebenberg, who takes up his new post today, was responding to the possibility of the troubled banking group bedding down with the sector's high flier, UBS Holdings.

UBS has a very strong capital base and is SA's biggest building society. These attributes make it attractive to Bankorp which is plagued by a dismal capital base and is keen to develop substantial interests in the home loan market.

But Liebenberg emphasised he would focus on fixing Bankorp from within.

"Our priorities are on getting Bankorp straightened out internally. There will be neither the time nor inclination to look further afield for acquisitions."

Initial remedial measures announced this week involved divisionalisation of Bankorp's operations.

"The result will be a clearer focus and the elimination of service duplication," a Bankorp spokesman said.

Another benefit will be an improved

□ To Page 2

## Bankorp (58) 6/10am 4/6/90

ability to manage the group's risk exposure, he said.

This will be vitally important given that by chasing market share and boosting assets Bankorp severely compromised the quality of its lending book.

Staff numbers will be scaled down but most of the 16 000 employees will retain their jobs, he said.

"We will focus on improving staff productivity and efficiency."

Liebenberg only officially starts his Bankorp job today so specific strategies

(58) □ From Page 1

can only be expected once he has studied the group in more detail.

Liebenberg has an open policy in dealing with the public so shareholders are likely to remain informed. Better accounting disclosure can also be expected.

A banking source compared Liebenberg's position to that of a captain changing the course of a fully laden oil tanker.

"The initial turn around steps have been taken, but the effects will take a long time to be seen," he said.



# Pessimists view softer undertone with caution

58  
Blom  
4/6/90

THE softer undertone in the money market, welcomed by bullish optimists, is treated with caution by the pessimists who are largely influenced by gold's poor performance.

There is some validity in fearing the dark shadow which the gold price is casting over the financial scene. Although gold does not exert the influence it once wielded over the trade balance it remains an important component of SA's foreign earnings, and therefore in the bottom-line reckoning of the foreign reserves.

Theoretically, when the reserves are in good health, liquidity flows through the banking system without fears of thromboses and other obstructions. In reality, however, the Reserve Bank controls the flow of funds — and short-term interest rates — through its open-market operations. But the silent, iron-handed moves by the central bank cannot control market expectations, which are largely a gut feel.

The persistent easing during the past holiday-fractured weeks of rates on longer-term negotiable certificates of deposit (NCDs) confirm that investors are convinced that, despite



## IN THE MONEY MARKETS

Harold  
Fridjhon

the gold price, Bank rate and prime will be lowered before 1990 is out, with a possible further reduction within 12 months.

In the past three weeks 12-month NCDs have shed 50 points to a middle price of 18,65%. Six-month NCDs have come down 25 points to 19,15%. Rates on three-month NCDs have not changed. There is little incentive to invest in three-month NCDs yielding 19,40%; buying non-liquid bankers acceptances (BAs) at 18,90% discount to yield 19,82% is more profitable.

The NCD market is somewhat cautious, almost tentative and wholly professional. But it is sufficiently supported to enable issuing banks to shave the rates.

The month-end shortage — the

banks' debt to the Reserve Bank — peaked at R3,97bn the day before the Republic Day holiday, but this dropped to R3,63bn when the month-end accounts were finally drawn. On Friday bankers reported that the market was still very tight because no sign had been seen of the expected inflow of funds from government's monthly payments to the independent states. The cheques were probably delayed by the holiday.

The R3,63bn shortage includes the R1bn increase in banknote issue to R8,916bn from the mid-month figure of R7,9bn. This suggests that the banks are in a more comfortable state than earlier during the year.

Static for four weeks, the BA rate went down to 18,35% because of the shortage of paper and the pressure of demand. This chase for assets acceptable for re-discount at the Reserve Bank's "window" is skewed by the banks swopping BAs with each other, leaving the market very short.

The treasury bill (TB) rate was shaved one point to 17,99% from 18% with massive intervention from the Reserve Bank. Bidding for the R70m in bills reached R141m, sufficient to keep TBs almost steady at Bank rate.

Monday 4/6/90

# Allied's aim of full range of banking services in sight



● PAXTON

THE introduction of cheque accounts at Allied Bank in the next few months will see Allied become a fully fledged banking institution offering a range of services to the public, according to Allied's 1990 annual report.

The report said Allied was approaching its goal of providing a full range of domestic and international services in spite of relatively high development costs, increased provisions, tight interest margins and deteriorating economic conditions.

By October 1989 Allied had successfully introduced and bedded down all major banking services other than cheque accounts. As a result it was marketed more aggressively

**EDWARD WEST**

in the second quarter and in February and March, record volume new business was written, the report said.

Allied chairman Dennis Paxton said in his outgoing review, the longer term outlook for SA had improved considerably with political developments, but the short- to medium-term outlook was as difficult to gauge as ever.

Accurate predictions were difficult to make, but the group had forecast further improved earnings for the year ahead.

For the year to March Allied's taxed income was R68,7m compared with R52,8m last year. A dividend of

11,5c (10,5c) a share was declared, which was covered two times. During the year profits improved and markets were maintained. (58)

More equitable competitive conditions in the financial services industry would be encouraged once legislation, in the pipeline, was enacted, said Paxton.

Reserve Bank policy of encouraging positive real interest rates should help to reduce inflation and encourage savings. A major portion of the increased savings should flow to building society based institutions, he said.

Paxton is to retire at the Allied AGM on June 12.

## Development needs at the fore — bank

POLITICAL change in SA will bring development needs to the fore and allow the Southern African Development Bank (SADB) to fulfil its potential, says chairman Simon Brand.

"Obviously... there will be a need to step up the quality of life, and that will become more important. The type of institution we have tried to create will be very necessary in the future."

As blacks moved into cities, the bank shifted its focus from efforts to lure industry to rural homelands to development in SA. Projects carried out included a joint SA-Lesotho hydro-electric scheme and small urban improvement, sewerage and irrigation efforts.

Earlier this month the bank ventured onto local capital markets, raising R175m to back up a R500m allocation from government.

Brand plans to raise R300m privately this year, building up to a total of R1,5bn by 1993.

"We would have preferred to have included foreign funds with a view to establishing ourselves on those markets. We do believe that as soon as political circumstances allow it, and (foreign banks) consider lending again, that the bank will be a popular candidate," he said.

### Local version 56

"I would not be surprised if in this financial year some of the remainder of the R300m we raise will be on overseas markets," he said, adding that foreign funding would be essential if the bank were to expand into southern Africa.

Brand sees a future SADB as a local version of the World Bank's soft loan arm, the International Development Agency, with SA providing the bulk of capital from which other countries could draw.

At present SA and its four nominally independent homelands are the bank's only members. Its neighbours have the Southern African Development Co-ordination Conference (SADCC), set up to reduce economic dependence on SA.

Brand says there is a lot of room for co-operation with SADCC.

Alec Erwin, an economist associated with the ANC, said the inequalities caused by apartheid meant there was a definite need for a development bank, but he had reservations about the SADB. "Obviously one doesn't want to lose expertise, and there's an awful lot of expertise there... but it's still lurking in the grey mists of the apartheid state."

"The ANC... envisages a mutually beneficial arrangement with surrounding countries. One wants to avoid any economic domination." — Sapa-Reuter.



# Finansbank takes minority stake in Mercedes dealers

Star 4/6/90 (58) (52)

Merchant bank Finansbank has acquired a minority interest in Mercurius Motors, the largest privately-owned Mercedes-Benz dealership in South Africa.

Mercurius, which was formed 20 years ago by managing director John Mills, has grown from a small service station in Boksburg to a substantial dealership with the Mercedes-Benz and lately Honda franchises in the Boksburg and Kempton Park areas.

For the current financial year ended February 1991, Mercurius is projecting a turnover in excess of R150 million. With deregulation of the transport industry, and the widening of the Mercedes-Benz commercial vehicle range, the truck market is where Mr Mills sees future growth for the company.

Truck related activities currently comprise roughly one-third of the company's turnover.

"Over time, we have sold into some of the largest truck fleets in the country and as part of our commitment to after-sales service, we have recently opened a R2,5 million technically advanced panel and paint shop exclusively for Mercedes' heavy vehicles, based on the latest Mercedes technology."

A strong factor for the company's future growth is Mercedes-Benz AG's ongoing commitment to South Africa, says Mr Mills.

"This, combined with the professionalism and financial strength of our new partner finansbank, means that we are in a powerful position to maximise our future potential and further

increase our market share," he commented.

This acquisition is in line with Finansbank's investment banking division's strategy of actively seeking out high quality investment opportunities, says Mike Dollow, general manager of the division.

"We have made it our policy to find successful businesses, run by true entrepreneurs, with high quality products and good growth potential," says Mr Dollow.

"Mercurius impressed us because it has built its reputation on after-sales service in a demanding corporate market, and has been rated as one of the top Mercedes-Benz dealers in the country by its principal, Mercedes-Benz South Africa." Sapa

# Bankorp: No acquisitions in sight

CHE TIMES  
4/6/90  
58

## Own Correspondent

JOHANNESBURG. — Bankorp will ensure its own house is in order before considering any acquisitions, new executive chairman Piet Liebenberg said in an interview yesterday.

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*CAZT Times 4/6/90 (20) 58*

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Mercurius, which was formed 20 years ago by MD John Mills, has grown from a small service station in Boksburg to a substantial dealership with the Mercedes-Benz and lately Honda franchises in the Boksburg and Kempton Park areas.

In recent years, the company has been a consistent winner of Mercedes-Benz after-sales service awards for excellence.

For the current financial year ended February 1991, Mercurius is projecting a turnover in excess of R150m.

With deregulation of the transport industry, and the widening of the Mercedes-Benz commercial vehicle range, the truck market is where Mills sees future growth for the company.

Truck related activities currently comprise roughly one-third of the company's turnover.

This acquisition is in line with Finansbank's investment banking division's strategy of actively seeking out high quality investment opportunities, says GM Mike Dollow.

"We have made it our policy to find successful businesses, run by true entrepreneurs, with high quality products and good growth potential," says Dollow.

"Mercurius impressed us because it has built its reputation on after-sales service in a demanding corporate market, and has been rated as one of the top Mercedes-Benz dealers in the country by its principal, Mercedes-Benz SA." — Sapa



## How to read a balance sheet

# No need to feel intimidated

Are you intimidated by financial terms? Have you wished you could understand what a company's financial statements mean, and how to compare them with those of another?

*How to Read a Balance Sheet* is an easy-to-understand series that will present a set of financial statements of a fictitious company, PTI (Pty) Ltd, and explain in detail how to read and understand them.

This series is aimed at those readers who have no idea what a balance sheet or income statement is, and how a set of financial statements fits together. It will address:

- The business cycle;
- The theory of ownership;
- The need for financial statements;
- Accounting concepts;
- Balance sheet and income statement captions;
- Cash flow concepts;
- Accounting policies;
- Ratio and other analyses;
- Taxation aspects;
- Other reports related to financial statements.

The series is not intended to provide all the knowledge necessary to understand every type of financial report.

But it is to be hoped that at the conclusion those who felt lost in, or intimidated by, fi-

This is the first of a 19-part series by Richard Buchholz of accountants KPMG Aiken & Peat for lay financial report readers.

financial terms and analysis published in the media at least will be able to understand the basic concepts and to make better informed appraisals of financial reports.

To understand a set of financial statements, we first need to understand the business cycle and the accounting equation.

Our model company, PTI (Pty) Ltd, manufactures and sells a specialised but popular gardening implement called the prawn spade and marketed under the "Black Prawn" label.

This spade is used for digging and extracting 'Parkmore' prawns from their daytime burrows. PTI sells the spade to the large supermarket chains and numerous hardware outlets.

For the spade's manufacture, PTI uses two special machines, each costing R8 000, and employs a small labour force to do the finishing work.

The spades are sold for R200 each to the supermarkets and hardware stores.

PTI has 10 owners (or shareholders) who each contributed R200 to start the company.

In simple terms, the firm's business cycle is:

- PTI buys the raw materials necessary to make the spades;
- The raw materials are put through the two machines and are 'finished' off by its workers;
- The workforce is paid wages and salaries;
- The products are sold, and the cash is collected;
- The cash is used to buy more raw materials, pay wages and other expenses, and so the cycle continues.

Clearly, if PTI is going to operate effectively, some record of the number of spades made and sold, cash spent, and cash collected must be kept:

- For its own information, and because it needs to report the results of these operating cycles to various people; and to keep operating from day to day, and to pay staff, rent, and other overheads, because it needs to know it is selling its spades for more than it costs to make. In other words, PTI needs to sell its product for a profit.

● Next week: the accounting system.

## Bank buys into motor dealership

CHARLOTTE MATHEWS

FINANSBANK has bought a minority interest in one of the top-ranked Mercedes Benz dealerships in South Africa with a foothold in the servicing of truck fleets, Finansbank investment banking division GM Mike Dollow announced yesterday. (58)

The merchant bank was reluctant to disclose how much it had paid for its interest because it feared this would prejudice other acquisitions being negotiated.

Mercurius Motors was started 20 years ago as a small service station in Boksburg and is now a large dealership with Mercedes Benz and Honda franchises in the Boksburg and Kempton Park areas.

MD John Mills said Mercurius had sold into some of the largest truck fleets in the country and had just opened a R2,5m panel and paint shop specifically for Mercedes' heavy vehicles.

Truck-related activities form about a third of Mercurius' turnover which is projected at about R150m for the year to February 1991.

"With deregulation of the transport industry and the widening of the Mercedes-Benz commercial vehicle range, the truck market is where I see future growth for the company," Mills said.

Dollow said the investment was in line with Finansbank's strategy of actively seeking out high quality investment opportunities.

He said Mercurius was rated as one of the top Mercedes-Benz dealers in the country by its principal, Mercedes-Benz SA.

B/Daw 4/6/90

Commercial <sup>58</sup>

Union shows  
8 Dec 4/6/90  
rise in profits

COMMERCIAL Union has announced a 31% increase in 1989 after-tax profits for with-profit life and pensions policyholders to R48m from the previous year's R36,7m.

These profits, used to boost the value of policyholders' benefits, derived from investment income and capital appreciation on equities and property which were substantially higher than those assumed in fixing premium rates, said GM John van der Linde.

A 20,25% total yield on deposit administration plans for pension funds underlined Cusaf's competitiveness in providing retirement benefits, he said.

Cusaf's life fund stood at R1,3bn at end-December 1989, backed by assets of R1,8bn, a 50% increase on the 1988 assets figure. — Sapa.



rec 4/6/90

# Lydex set to treat slimes dam

By Derek Tomme  
Lydenburg Exploration (Lydex), the minerals development company in which Old Mutual has a significant stake, is planning to produce gold.

In co-operation with Southern Prospecting, it has acquired from Welgadacht Exploration the rights to treat a slimes dam on the Far East Rand.

The dam contains about 3,4 million tons of slimes averaging 0,47 g/t gold, 0,063 kg/ton U308 and 1,17 percent

Director Rob Lee said last night Lydex was planning to treat the slimes.

Lydex, Potchefstroom Gold Areas and Southern Prospecting have also entered into a joint venture agreement to acquire a 45 percent beneficial interest (50 percent contributory interest) in a gold exploration project generated by Southern Prospecting in the Evander area.

The joint venture has bought 396 ha of strategically located

mineral rights and secured a further 2 344 ha under option.

Lydex paid for its share of the Evander mineral rights and dump permit by issuing 1,270 million fully paid shares.

Lydex chairman Pieter Beiber says the company has significantly stepped up its exploration expenditure.

In the six months to end-March it spent R2,3 million in this area, which is more than six times the R363 000 spent in the same period last year.

# NECC to guide Govt on R800-m for education

Ste 4/16/90

58

After a request from the Department of Education and Training, the National Education Co-ordinating Committee is discussing a number of proposals researched by the Education Policy Unit at the University of the Witwatersrand on how best to allocate R800 million non-recurrent funds within DET schooling.

NECC general secretary Thron Rensburg stressed that one of the problems the NECC faced was how to engage the Government on the educational terrain without being co-opted.

The NECC understood the DET's request to mean that the NECC should provide the department with ideas on how the expenditure "could be most productively allocated without causing friction between departments and without causing frictions between communities."

In addition to the money allocated in the education budget for Department of Education and Training schooling, the Government has set aside a non-recurrent R800 million for black schooling this year. The National Education Co-ordinating Committee (NECC) this week suggested a number of ways the funds could be spent in an attempt to alleviate the crisis in education. Education Reporter JANET HEARD, reports.

After discussing the proposals, the NECC may decide that the entire R800 million should be spent on one feature in an attempt to address short-term priorities, for instance the electrification of schools, or whether to spread it over a number of areas.

The NECC stressed that a priority within the next six months was the establishment of Parent-Teacher-Student-Associations (PTSA's) which would take part meaningfully in the administration of schools and the allocation of funds.

The proposals, which give an

The proposals, which give an idea of the depth of the qualitative and quantitative problems in education, include:

- Pre-primary and primary schooling: People without basic levels of literacy were excluded from all but the most menial forms of labour.

## Formal schooling

Investment in primary schooling made the largest contribution to returns in both the social and economic spheres than any other kind of educational investment.

Pre-school programmes assisted children in adjusting to the demands of formal schooling.

ing, irrespective of their socio-economic background.

However, the costs of establishing pre-primary schools for all children would be prohibitive, but Early Childhood Education centres could be established and maintained for no more than a few thousand rands a year.

- Expanding provision: Classrooms should be provided for all within a system of compulsory education. The present shortage of classrooms was one legacy of the lack of forward planning and the failure to link school provision to demographic patterns during the '60s.

Textbooks: The World Bank report (1988) noted that the mere presence of textbooks in a classroom was second only to the quality of the teacher in influencing the quality of learning, yet the supply of textbooks

was almost without exception inadequate in every school.

The reasons textbooks were not supplied included inefficiency in supply procedures, corruption, budget restrictions and poor control of books in schools.

The backlog in the supply of books was so great that it will be impossible to eliminate immediately but it was possible to concentrate on crucial subjects such as mathematics and the sciences. If all students, say in Stds 6 and 7, were provided with mathematics and science textbooks, there could be a real improvement in results in these subjects.

- Parent-Teacher-Student Associations: Authority in black schools had broken down. PTSA's could play a role in providing the technical skills needed in the workplace and in acting as one important node in the web of community.

# 'Alarming' deterioration for short-term insurers

By David S. 1/19/90

LINDA ENSOR

SHORT-term insurance companies will be coming up with very poor performances as underwriting results have shown such a marked deterioration in the first four months of the year that several companies are in the red. Rodney Schneberger, CEO of the SA Insurance Association (SALA), says the alarming, and unprecedented, feature of monthly figures provided by insurance companies for the first four months is the rapidity of the deterioration which first set in in the last four months of 1989.

The results of some companies are in the red, Schneberger says, even after accounting for investment income which has been the mainstay of bottomline profits over the past year, compensating for declines in underwriting surpluses.

Schneberger warns the situation will deteriorate dramatically should the investment climate become less favourable.

Bill Rutherford, MD of Commercial Union, adds that if the deterioration is as bad as it is said to be, it is likely that investment income is being eaten up to pay for claims and may well be overtaken by underwriting losses.

Mutual & Federal MD Ken Sagers says the signs are very clear that the industry has taken a dramatic turn downwards.

Regarding the possibilities of liquidations in the industry, Schneberger says this will be averted "provided the correct measures are implemented now. Significant rating increases

must follow. We have to act now and institute remedial action.

"We will also be examining all other salient aspects such as putting a halt on the outflow of premiums from the country."

Schneberger says rate increases in many cases will have to be in excess of 20%.

## Perils

The main reason for the deterioration in underwriting profits has been the "unbridled competition and rate cutting", he says.

The average cost of motor claims has escalated to R4 000 per vehicle. Also, the accident rate has increased and the industry has projected car thefts to reach 72 000 this year compared with last year's 60 000. Sagers estimates that the cost

of claims has increased by about 35% and the incidence of losses by 14% and says that car thefts in the first three months of the year increased by 25% compared with the same period in 1989.

Last year the industry's premium income in the fire department — which includes the perils of fires, explosions, malicious damage, storms, floods and earthquakes — declined by 2%.

Commercial Union is to increase its motor rates on private vehicles by an average of 12.5% from July 1 and by about 20% for commercial vehicles. This is in addition to the respective 20% and 18% increases imposed earlier in the year.

Auto & General has also increased its motor insurance rates by about 20% and its householders by 10-20%.

58



# Bank data shows steady easing in demand for credit

58  
 8/10am 5/16/90  
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CREDIT extended for hire purchase (HP) and leasing transactions increased by R788m in the first quarter — the lowest increase in two years — according to banks' latest BA9 returns to the Reserve Bank.

The increase boosted total lease and HP receivables to R25,13bn, which was 26,9% higher than last year's comparable figure of R19,79bn.

The lower increase indicated the Reserve Bank's tough monetary measures were eventually taking effect, industry spokesmen said yesterday.

"There has been a steady decline in demand for consumer credit," Stannic MD Gutch Vickers said.

"There has also been a welcome re-

NEIL YORKE SMITH

duction in demand for corporate credit," he added.

Authorities had previously expressed concern that corporate borrowing was comfortably withstanding high interest rates.

Growth in credit extension was now well within the requirements expressed by the Reserve Bank early last year, Vickers said.

"They asked us to curb growth to 1% a month; recent growth has been closer to 0,5% a month," he added.

Banks, already plagued by low margins, would also have to face increased bad debt levels, Nedfin MD Ron Rundle said.

"There is no such thing as a soft landing," he said.

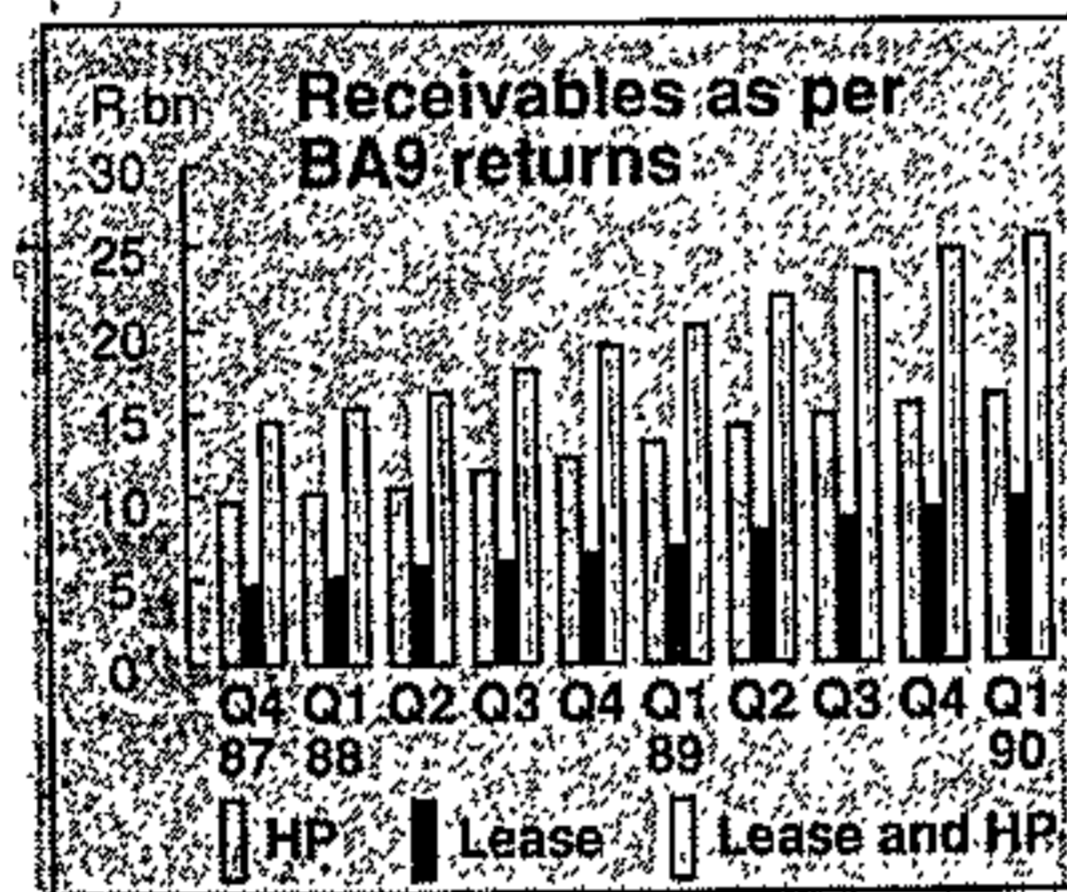
"Business is going to have a rocky ride for the next six to 12 months," Rundle added.

The Reserve Bank has stressed the importance of curbing domestic credit extension.

Tough monetary policies are aimed at achieving this and ultimately lowering inflation.

Reserve Bank Governor Chris Stals last week confirmed the economy "was beginning to move in the right direction."

However, he stressed it was far too early to ease monetary policy and reduce interest rates.



Graphic FIONA KRISCH Source NEDFIN BANK

Star 5/6/90

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How to read a balance sheet — 2

## The accounting system

This is the second instalment in a 19-part series by Richard Buchholz of accountants KPMG Aiken & Peat on reading a balance sheet.

Our first article addressed the business cycle of our model firm, PTI (Pty) Ltd, and the need for it to keep a record of its operations and activities.

The next step is to understand what we call the 'accounting equation'. This, quite simply, is: Owner's capital equals assets minus liabilities.

When a company is established, it is usual for individuals to put up money to enable it to buy the items it needs to get started. These individuals are known as the 'shareholders'. The money they provide is called 'owner's capital'.

In PTI's case, 10 shareholders provided owners capital of R20 000 (R2 000 each). The R20 000 was used to:

- buy two machines (R8 000 each) = R16 000.
- bank the balance of R4 000.

In addition, PTI also bought R2 000 worth of raw materials on account from its suppliers.

In terms of the 'accounting equation', this means the shareholders who put up the money are regarded as the owners; the machines worth R16 000, the money in the bank account (R4 000), and the raw materials PTI has ordered, worth R2 000, are the assets. The R2 000 owed to the supplier is a liability.

We therefore have:

Owner's capital=	Assets	Less	Liabilities
	4 000 (cash)		
	16 000 (machines)		
	2 000 (materials)		
R20 000 (shares)=	22 000	less	2 000 (loan)
	The equation will balance, whatever we do.		

If we buy more raw materials on account, we will increase the 'Assets' column. Because we owe the suppliers for the raw materials, the 'Liabilities' side will increase by exactly the same amount, and so the equation stays balanced.

This is a fundamental accounting concept: for every inflow, there has to be a corresponding outflow to keep our equation in balance. It is the basis upon which all financial statements are drawn up, and, believe it or not, it is why we call a balance sheet a 'balance' sheet — both sides of the equation must always balance.

Our example is a simple balance sheet. It will be the foundation upon which we shall build further concepts.

Tomorrow: assets and liabilities.

# 'Accountants moving into merchant banking field'

NEIL YORKE SMITH

ACCOUNTING firms have expanded into some traditional merchant banking fields, resulting in service shifts between them and merchant banks, says Ernst & Young corporate advisory services chief Claire Herbst.

"Accounting firms have become increasingly attractive for their corporate finance services — which used to be dominated by merchant banks," she said in an interview.

Accounting firms have broadened their service mixes away from pure auditing. Services they now offer include finding and financing acquisitions, corporate and project finance and management consulting.

However, Volkskas Merchant Bank chief Jean Brown contends "accountants have no or little experience themselves of monetary risk.

"They therefore do not have the mind-set or the service range to significantly disrupt traditional merchant bank business."

"There has been a definite shift in

the balance of skills between merchant banks and accounting firms in the last few years," said Herbst.

"SA's brain drain has made this particularly noticeable as accounting firms have enjoyed better staff retention than merchant banks," she added.

## Skilled

Brown argued in opposition to this view that Volkskas Merchant Bank had hardly lost any skilled corporate advisory staff during the past few years.

"Also, most merchant banks employ a large number of qualified accountants, lawyers, economists and so on.

"There is very little basis to the argument that accounting firms offer better skills," he added.

Merchant banks may have excellent skills at the top but they do not

have the depth offered by accounting firms, argued Herbst.

"Accounting firms offer an excellent depth of skills, all of which are highly marketable.

"By contrast many merchant banks have excellent skills at the top end but relatively inexperienced staff at second tier level," she said.

Revenue structures also favoured accountants, added Herbst.

"Merchant banks must have significantly different cost structures, or simply enjoy higher profit margins, because their fees are generally higher than accounting firms," she said.

Said Brown: "Businesses realise the services offered by the two groups are vastly different."

"Accounting firms don't do underwriting, nor do they have much experience in arranging and structuring financing."

Such services were vital in assessing the market positioning of two essentially different players, said Brown.

B/Dy 5/16/90

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B1 Day 5/6/90

## Western donors take tough line over lending

ABIDJAN — Western donors are demanding that greater care be taken with their contributions to the African Development Bank (ADB) after a surge in lending last year. (58)

Meeting here last week, some of the 25 non-African members of the agency accused it of trying to grow too fast and being too liberal in dispersing soft loans in trying to become a key vehicle for modernising Africa. Some delegates from the bank's 50

African members say the new tougher mood among donor countries reflects the West's renewed confidence in the universal benefits of capitalism now communism has collapsed in Eastern Europe.

African appeals for a 75% hike in its budget for soft loans to \$4bn and pleas for relief on Africa's estimated \$226bn debt elicited little more than lectures on the need for sound economic policy.

ADB president Babacar N'diaye, re-elected for another five-year term, urged the bank's members to avoid open conflict and concentrate instead on African trade and economic integration.

To avoid an open split last week the bank withdrew a proposal to give \$55m to its emergency relief fund and accepted curbs on spending \$6.5m to combat crises such as locust plagues or famine. — Reuter.



Thousands face repossession threat

# Homeowners' debt soars to new peak

By Michael Chester

Threats of house repossessions by banks and building societies have reached record levels as more homeowners are overwhelmed by inflation and high interest rate bond repayments.

The Information Trust Corporation, which runs a national network of computer systems to keep track of trends, reports that:

- The number of debt judgments handed down by magistrates' courts over arrears on mortgage payments has almost doubled compared with only a year ago.

The May 1989 total of 872 soared to 1 577 last month, equal to an annual figure of almost 19 000. The mountain of debts to be settled from court actions last month alone climbed from R44 million to more than R82 million.

- Debt judgments in the Supreme Court, the last leg before actual repossession by sales in execution notices, jumped from 260 to a record 892. Amounts to be cleared rose from R16,5 million to R45 million.

ITC chairman Paul Edwards said the toll of repossessions was now the worst on record.

## Black families

"What is becoming of increasing concern," he said, "is the number of black families who purchased homes of their own for the first time in the past couple of years.

"They were encouraged into home ownership and now find they do not have the experience to have allowed elbow-room to cope with changes in interest rates and changes in circumstances with their personal finance."

Black families in the lists of sales in execution announced every week were of particular concern.

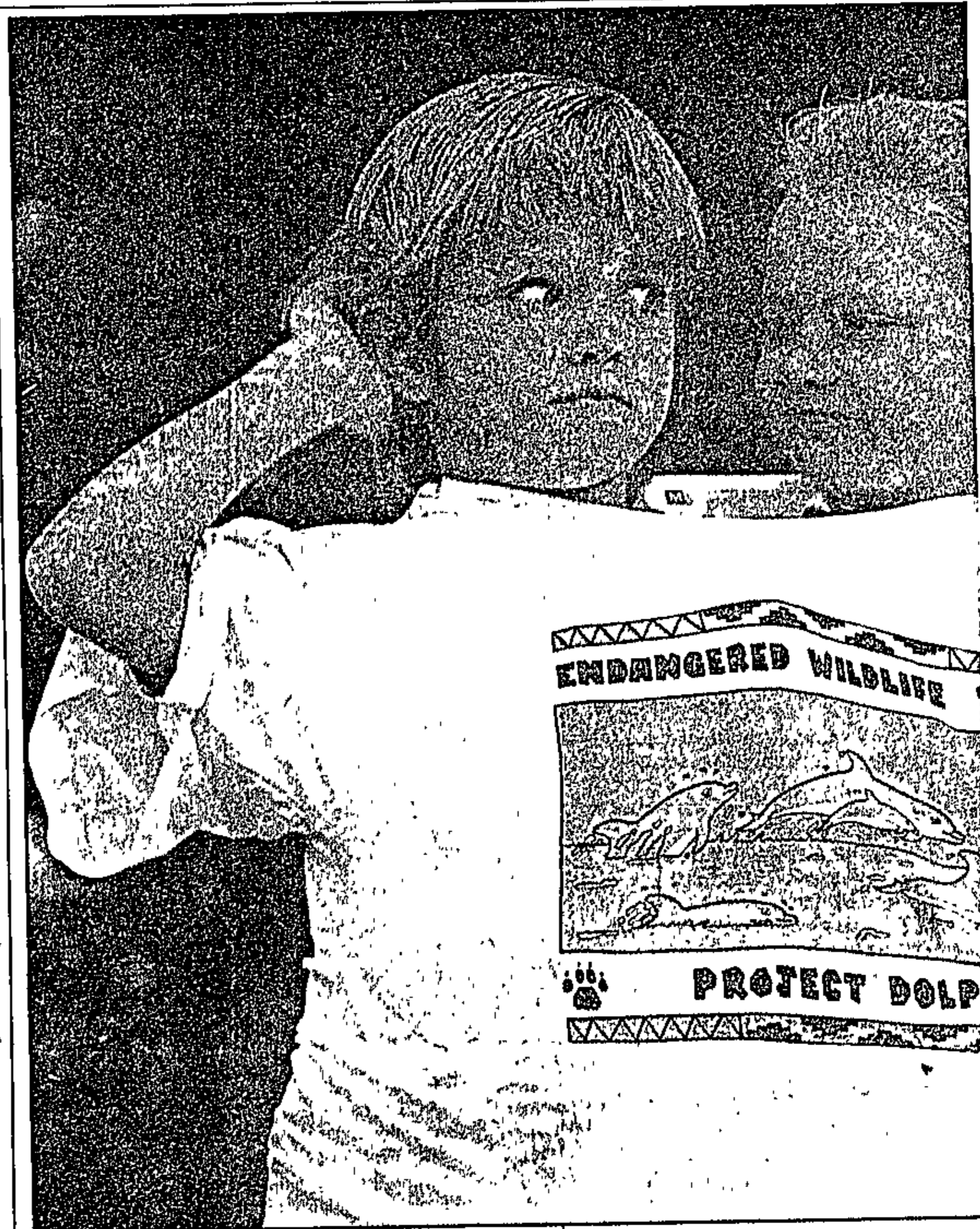
Mortgage Lenders' Association president Bob Tucker said the catastrophe was spread across high and low-income families alike.

The association compiled no precise breakdown of repossession statistics, but there was grave concern about the scale of the problem.

"We are now seeing the tragic aftermath of the house-buying spree in the mid-1980s when thousands of families were tempted by low interest rates to buy houses far beyond their means," he said.

"The casualties are home-buyers who made the mistake of thinking that interest rates were going to stay down at 12,5 percent for the duration of their mortgages. The climb in rates to around 21 percent has crippled many budgets.

"Yet even when a sale in execution goes out, it may still not be too late to mount a rescue operation. Battling homeowners should explain their plight to their bank or building society. It may still be possible to avert catastrophe with a package of compromises," said Mr Tucker.



Endangered species? Justin Wills (6) and his sister Nadine (8), of Sundowner, Randburg, investigate and conserve marine ecosystems.

## Gold's slump puts industry in crisis

By Magnus Heystek and Peter Fabricius

The crisis in the gold mining industry is deepening as the gold price continues its weak performance on international markets.

Gold shares took a hammering on the Johannesburg Stock Exchange yesterday, with the all-gold index dropping by more than 5,7 percent (93 points) to 1 517.

Uncertainty over Soviet gold sales pushed the price down to an eight-month low of \$356,05 yesterday afternoon in London, down from Friday's close of \$363,45.

It recovered slightly in New York to close at \$358 and opened

at \$359,75 in Hong Kong today.

The slide in gold share prices pulled down the overall index by 42 points to 3 126, but the industrial sector held firm as selected buying of blue chip shares pushed the index up 18 points to 2 978.

Gold's slide is placing the gold mining industry in severe jeopardy. Already the Cabinet has to make a decision on whether to increase its aid to the troubled ERPM mine on the East Rand.

An announcement expected last night has been postponed for at least a week while additional contingency plans are considered.

ERPM has made a last-ditch ef-

fort to raise capital, including its slimes dumps Boksburg properties.

Money raised by this however, not reduce R300 million debt, but operating capital for a

Without continued ERPM is faced with plant closure, with abject losses. Once closed, they not be reopened as they rapidly fill with water.

Between 11 and 16 also face uncertainty in price at current level they earned about R1 foreign exchange last



5/6/90 (58)

## Difficult year ahead but W&A is confident

Having seen operating profit increase 2,8 times since it came under the control of FSI Corporation, from R93 million in 1987 to R267 million in 1989, W&A Investment Corporation is looking to achieve a satisfactory performance during the year ending December 1990, shareholders are told in the 1989 annual report.

Chairman Jeff Liebesman says 1990 will be a difficult year, with high interest rates and the preliminary moves in serious negotiations to create a new political dispensation in South Africa.

"The economies of South Africa and those countries which have an impact on the performance of W&A remain depressed, resulting in a continuation of the difficult trading conditions that were evident in the second half of 1989.

"Subject to there being no further significant deterioration in economic conditions, a satisfactory performance is expected during the year ending 31 December 1990."

During 1989, W&A's turnover rose by 44 percent to R2,1 billion, profit attributable to ordinary shareholders by 60 percent to R86,1 million and earnings per share by 20 percent to 114,7 cents.

Dividends on the ordinary shares were increase by 20 percent to 42 cents per share. The expansion initiated by FSI has been achieved in a controlled manner, the annual report shows.

Gearing has remained below the self-imposed ceiling of 60 percent (the figure being 31 percent at end December 1989) during a period when total assets expanded from R529 million (end-1987) to R1,46 billion (end-1989). — Sapa.



### Soldier fit to stand trial for murder

A POTCHEFSTROOM-based South African Defence Force member accused of killing three blacks - a woman and two men - earlier this year is fit to stand trial.

This was disclosed in a psychiatric report this week when Pieter van der Merwe of Leeuwedorinstad, appeared on three counts of murder.

~~CP~~ C/P. 6/5/90

### Bid to end Mamelodi rent boycott

THE Mamelodi People's Delegation (MPD) will meet the TPA in Pretoria on Wednesday in an attempt to solve the continuing rent boycott in the township.

Reports by CP staffers, Sapa

~~CP~~ 58

Star C/P/press 6/5/90

# Apartheid-tainted bank looks for a new development role

58 Star 6/6/90

The Southern African Development Bank never fulfilled its intended role as a regional bank for southern Africa.

Set up by the South African Government in 1983, its central function in the beginning was to pump money into the overcrowded and impoverished homelands where South Africa has forced half of its black people to live.

As a result neighbouring countries wanted nothing to do with the bank.

But, as South Africa moves away from apartheid, SADB chairman Simon Brand believes the change will bring development needs to the fore and allow the bank to fulfil its potential.

"Obviously ... there will be a need to step up the quality of life and that will become more important," he said.

"The type of institution we have tried to create will be very necessary in the future."

## Focus shift

As blacks move into cities and former whites-only areas, the bank has shifted its focus from efforts to lure industry to rural homelands to development in South Africa proper.

Projects carried out include a joint South Africa-Lesotho hydroelectric scheme and small urban improvement, sewerage and irrigation efforts.

Earlier this month the bank ventured onto local capital markets for the first time, raising R175 million to back up a R500 million allocation from the South African government.

Dr Brand plans to raise R300 million privately this year, building up to a total of R1.5 billion by 1993.

"We would have preferred to

The Southern African Development Bank (SADB) is trying to shake off the taint of apartheid and become a key development agency for the region, writes PHILIPPA FLETCHER.

have included foreign funds with a view to establishing ourselves on those markets.

"We do believe that as soon as political circumstances allow it, and (foreign banks) consider lending again, that the bank will be a popular candidate," he said.

Foreign banks cut off all new lending to South Africa in 1985 after a flare-up in black revolt against white rule.

"I would not be surprised if in this financial year some of the remainder of the R300 million we raise will be on overseas markets," he said.

Dr Brand added that foreign funding would be essential if the bank were to expand into southern Africa.

Urging Western nations to resume loans and drop sanctions, Pretoria argues that if its economy were to prosper, South Africa could become the saviour of an ailing region.

Dr Brand sees a future SADB as a local version of the World Bank's soft loan arm, the International Development Agency, with South Africa providing the bulk of capital from which other countries, with a minimal share capital, could draw.

At present South Africa and its four nominally independent tribal homelands are the bank's only members.

Its neighbours have their own organisation, the Southern African Development Coordination Conference (SADCC), set up to re-



Dr Simon Brand ... focus of SA Development Bank will change.

duce members' economic dependence on South Africa.

Dr Brand says there is a lot of room for cooperation with SADCC.

Alec Erwin, an economist associated with the African National Congress (ANC) which hopes to form South Africa's first black government, said the huge inequalities caused by apartheid meant there was a definite need for a development bank, but he had reservations about the SADB.

"Obviously one doesn't want to lose expertise and there's an awful lot of expertise there ... but it's still lurking in the grey mists of the apartheid state," he said.

"The ANC ... envisages a mutually beneficial arrangement with surrounding countries. One wants to avoid any economic domination." — Reuter.

## UAL Merchant Bank in £4-m offshore deal

UAL Merchant Bank has acquired 100 percent of Associated Trust Company Limited (Tatco) in the Isle of Man for £3.6 million.

*Sfor*  
*6/6/90* Tatco provides an extensive range of services for the formation, administration and management of off-shore trusts and companies in low-tax jurisdictions for clients resident throughout the world.

UAL chairman Geoff Richardson says the acquisition provides UAL with an international in-

vestment in a high-growth business area that, inter alia, offers opportunities for the further development of certain aspects of banking which will be useful to UAL's client base.

He says limitations on growth in the Channel Islands have added impetus to the development of the Isle of Man, particularly its financial services sector, which currently accounts for a quarter of the island's economy and is expected to rise to 50 percent within the next five years. — Sapa.



# AAC earnings rise by 20,1%

Cost-Trans 6/6/90  
58

Own Correspondent

JOHANNESBURG. — Anglo American Corporation's (AAC) attributable earnings increased 20,1% for the year ended March 31 in spite of the continuing decline in profitability of its substantial investment in the gold mining industry, chairman Julian Ogilvie Thompson said yesterday.

Earnings from gold mines comprised 24% of a new-record R1,5bn attributable income compared with 30% of R1,3bn (which was also a record) in the previous financial year — a decline of about R18m, he said.

The corporation's performance was "a tribute to the foresight which has built up a broad spread of investments able to provide sound growth despite the poor performance of (the gold) segment of that portfolio".

Total dividend of 325c a share was 20,4% higher than the 270c a share for the previous financial year.

"The immediate future . . . is likely to see a period of consolidation given the necessary economic slow-down coupled with lower price levels for many of the corporation's major commodities, particularly gold," he said.

The only other sector, apart from gold, about which Ogilvie Thompson expressed concern was the industrial sector. In the light of steps taken to dampen the economy and of lower commodity prices, it might prove difficult for this sector to repeat the 12,8% higher earnings of R563m for the year under review.

Earnings from the investment in De Beers Consolidated Mines and the diamond trading companies comprised 28,4% of equity accounted earnings,

increasing 30,9% or R210m to R689m, said Ogilvie Thompson.

"The arrangements between De Beers and De Beers Centenary have also added to the value of our investments in this sector. De Beers is currently looking forward to another satisfactory year."

Anglo American Coal's (Amcoal) contribution to equity accounted earnings increased 65% to R132m as a result of improved export markets and its increased investment in Eskom business, he said.

Rustenburg Platinum, Samancor and Palabora all benefited from strong metal prices, contributing R302m to earnings compared with R200m in the last financial year and R140m the previous before.

Investments in the financial services and property sector, notably First National Bank, Southern Life and Anglo American Properties, contributed R180m or 5,8% of equity accounted earnings and were expected to provide continuing satisfactory growth, he said.

Minorco, JCI and South American Investments, with lesser contributions from Goldfields and Gencor, provided the bulk of the R649m, or 20,7% of the equity accounted earnings contributed by the mining finance sector.

He said R43m more was spent on prospecting, which amounted to R181m, largely on gold in SA and in Europe.

AAC was prospecting a number of shallow gold deposits in Spain, Italy and Turkey, but it remained to be seen whether it could be economically exploited, Ogilvie Thompson said.

JOHANNESBURG. — Anglovaal as well as its parent company — Anglovaal Holdings — have both announced record consolidated earnings and dividends for the year ending June 30, 1990.

Anglovaal's estimated consolidated earnings for the year were 27% higher at R232,4m, compared with the previous financial year's R182,7m.

However, individual share earnings increased by 21% as a result of the additional number of shares in issue following the suc-

cessful rights offer of "N" ordinaries last month.

The company has raised its final dividend by 22% to 62c (1988/89: 51c) on its ordinary and "N" ordinary shares. Combined with the higher interim of 30c (25c) a share, this brings the total for the financial year to 92c, being 21% higher than the previous year's total of 76c a share.

The dividend was cov-

ered an unchanged 5,8 times by the record earnings.

Commenting on the increased earnings, deputy chairman Clive Menell says that these were brought about by significantly higher equity-accounted earnings — mainly from the associated manganese mines — while the forecast earnings from Anglovaal Industries (AVI) is also expected to rise, even though Anglovaal's hold-

ing in AVI is 6% lower at 60% following a change in AVI's structure.

Anglovaal's income from its gold mining investments decreased.

The group's holding company, Anglovaal Holdings — the main revenue source of which is its dividend income from its Anglovaal shareholding — reported an estimated taxed profit that was 22% higher at R8,5m (R7m).

The company has declared a final dividend of 62c (51c) a share, giving a total for the year of 91,5c (75,5c) — a rise of 21,2%.

The group's mining investment company, Middle Witwatersrand (Western Areas), has announced estimated earnings of R26,4m (R30,8m) and declared an unchanged final dividend of 4c a share, making the year's total an unchanged 6c a share. The dividend was covered 1,8 (2,1) times by earnings.

Referring to the reduced earnings figure, Menell — the company's chairman — pointed out that because Midwits issued variable rate redeemable cum preference shares on June 30 last year, its preference dividend payments rose by R7,2m.

He added that dividends from gold mining investments were lower but that the company's equity-accounted earnings were higher, mainly as a result of the cessation of losses related to the company's investment in Klipspruit Colliery, which now has been sold.

With Zandpan Gold Mining Co's main investment being a 19,6% holding in the Hartebeestfontein Gold Mine's equity, its estimated consolidated profit for the year declined to R28,5m (R39,4m), reflecting the lower dividend income from Harties.

Zandpan has therefore reduced its final to 11,5c (17c) a share, making total dividends of 22c (30,3c) a share for the year. — Sapa

# Anglovaal profits soar

CMT Int'l 6/6/90 (58) (47)

## 'Clear strategy' helped Investec

INVESTEC's 25% increase in earnings in the 1989/90 financial year was produced by a resolute focus on a clearly defined strategy, says executive chairman Bas Kardol in the banking and financial services group's annual report.

Each of the group's business units — Investec Bank, Metboard, Investec Merchant Bank and Investec Property Group — are expected to grow in their chosen niches in the coming year.

Kardol said Metboard Property Fund Managers (Metprop) was considering a number of acquisitions and the possibility of a rights issue.

"Developments within the economic environment in SA and the banking sector in particular confirm that Investec's practice of competing only in carefully selected market segments, and of building and maintaining a diversity of revenue sources throughout the group is justified and prudent," Kardol says.

He says Investec will not hesitate to reduce capital to non-performing areas if

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LINDA ENSOR

it will help the group's overall earnings.

In spite of extremely difficult banking conditions, Kardol is confident Investec will maintain its historical growth in both earnings per share and return on shareholders equity in the coming year.

Return on equity was 24,6% (22,4%) in the 1989/90 year and return on total assets 1,6% (1,7%). Total assets grew 37,9% to R1,3bn and at year-end the capital-assets ratio stood at 6%.

MD Stephen Koseff says in his review that while Investec Bank — the major contributor to group earnings — views a growth in the book as an objective, this aim is "tempered by the consistent internal focus on quality of lending and the regulatory environment imposed by the authorities on creation of credit and on capital requirements in the banking industry."

Over the next few months the group is to invest in a marketing campaign to introduce the name of its new subsidiary Investec Merchant Bank (IMB).



Star 6/6/90 (58)

## The equation in detail

The third instalment in our 19-part series by Richard Bucholz of accountants KPMG Aiken and Peat.

Yesterday we introduced the accounting equation (owners' capital — assets — liabilities); we now examine the equation in more detail.

"Assets" is a term that can be, and is used, in several contexts. We probably all own assets of one sort or another, be it a house, a car or a bicycle, or even the most desirable of all, good hard cash.

In an accounting sense, assets usually represent items the company owns — which it could sell for cash. However, a company uses its assets to generate income and to make a profit: its raw materials are converted into goods which, hopefully, are sold for a profit; the machines are the assets that make these goods; and cash is the asset used to pay for the labour and other expenses incurred in the manufacturing process.

We normally classify assets in two broad categories: "fixed" and "current".

The classification basically depends upon the length of time the company wishes to hold the asset. If it is for a year or longer, it is likely to be a fixed asset. If it is to be held for a period shorter than a year, it more than likely will be classified as a current asset.

For example, land and buildings, machinery, motor vehicles and office equipment usually will be classified as fixed assets. Cash, raw materials and finished products would all be "current assets".

Obviously if a company sold motor vehicles or office equipment as part of its business (eg a motor dealer or stationer), motor vehicle and office equipment would form part of those entities' "current" assets.

There is an exception to the "fixed/current" classification. Some assets cannot be classified as current or fixed. These are sometimes called "non-current" assets.

Examples of non-current assets are "investments" (shares held in other companies). They are not "current" since they do not form part of, or result from, day-to-day trading activities. They are not "fixed" because they are usually not held for specified fixed periods and are readily convertible to cash. We shall be looking at such specific assets in more detail later.

### Liabilities

What of "liabilities", the second important part of the accounting equation (remember: owners' capital = assets — liabilities)? In the same way a company can own assets it can sell for cash, so most companies have liabilities. A liability, simply expressed, is money the company owes to other parties.

For example, most companies regularly need to borrow money to pay for their assets. Most companies do not have enormous cash balances on hand from day to day: they use all their cash to pay their suppliers, salaries and wages, and other expenses. Also, a company would hope to earn more by manufacturing and selling its product than by holding cash in the bank and possibly earning interest.

If a company borrows money it becomes "liable" to repay the lender. The amount borrowed and owed is therefore a "liability". Because PTI eventually will be required to pay the suppliers the R2 000 for its raw materials, that amount represents a "liability".

Most suppliers will not insist on cash immediately, but require settlement in only 30 or 60 days. The amounts owed for goods or services that PTI buys on account are all liabilities, and suppliers are called "creditors".

In the same way we have "current" and "fixed" assets so, too, we have "current" liabilities, which is required to repay within a year, and "long-term" liabilities, which it has to repay later than a year hence (for example, a mortgage bond). Specific examples of short- and long-term liabilities will be explained later.

The last item in our equation is "owners' capital". This is a special kind of "long-term liability".

In our first article, we said "owners' capital" arose when 10 people each put R2 000 into PTI. This investment represents money the shareholders lent to it. If PTI sold all its assets and repaid all its liabilities, it would still have to repay the shareholders out of any remaining funds. "Owners' capital" therefore is like a very long-term liability.

PTI's shareholders were each willing to part with R2 000 because they hoped its assets would grow and their investment would be worth more. How do a company's assets "grow"? Quite simply, by the company's making a profit.

**TOMORROW:** profit and the income statement.

Sec 6/6/90

The Star

Finance

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## Investec's 'niche' strategy pays off

By Ann Crotty

Investec is confident that its niche marketing strategy will sustain its historical growth trend in both earnings per share and return on shareholders' equity.

In the group's annual report, chairman Mr Bas Kardol notes that: "Developments within the economic environment in South Africa, and in the banking sector in particular, confirm that Investec's policy of competing only in carefully selected market segments as well as building and maintaining a diversity of sources throughout the group, is justified and prudent."

According to Mr Kardol, Investec's strategy of shedding non-performing assets and building up niche market activity is in line with developments in international markets.

"In the US, UK and Japan, the combined pressures of non-performing Third World debt, real estate devaluation, agricultural and leveraged corporate risks (most notably junk bonds), will undoubtedly bring about a period of severe shrinkage and contraction in financial institutions."

Some institutions have

already folded; "others are perilously balanced with inadequate capital resources and shrinking market opportunities, and are laying off personnel in their thousands."

There is ongoing rationalisation within the industry: "Business which is too high risk, not sufficiently profitable or in any way stretches infrastructure, is being shed."

Mr Kardol believes that SA will inevitably feel the impact of these changes on the international front.

"Here, as overseas, there are signs of stress within the system. Banks are struggling to maintain profitability under the twin forces of government monetary policy and intense competition arising from industry deregulation."

According to Mr Kardol, it therefore becomes increasingly important for financial institutions in SA to undergo the same self-analysis as is taking place overseas.

In his review, MD Stephen Koseff points out that focusing on selected target markets helped to lift the group's total receivables by 50 percent in financial 1990 while maintaining a low bad debt experience.

# Education endowments likely

LINDA ENSOR

ENDOWMENT policies to provide for children's education will become possible if a change to the Insurance Act becomes law.

However, concern has been expressed that the enabling clause could enhance the risk of infanticide by parents wishing to get their hands on the policy proceeds.

The amending clause is contained in the Financial Institutions Amendment Bill which has passed its second reading in Parliament. *6/10am 7/6/90*

The Bill increases the limits contained in the Insurance Act on the sums assured in terms of a child's policy from R250 to R10 000 for children under the age of six years and from R500 to R30 000 for a child over six and under 14 years old.

The limits were originally introduced to protect children from infanticide and are a standard element of international insurance legislation, although there has recent-

ly been a move to reduce these limits in other countries as well.

Old Mutual legal services manager Abri Meiring said while he shared the concern about the dangers of increasing the limits, he also welcomed the amendment as there was a real need in the marketplace to provide for children's education by means of endowment policies.

"Education has become a top priority and endowment policies for this purpose are one of the few policies which are bought and not sold," he said.

"However, if the industry is irresponsible and writes cheap life policies for children, then infanticide will be a problem." Meiring added that given the fact that the SA industry was rated as one of the most

□ To Page 2

## Child policy *6/10am 7/6/90*

sophisticated and responsible in the world, this was highly unlikely.

The amendment was necessary, Meiring said, to overcome tax obstacles placed on writing a child's endowment policy and contained in the Sixth Schedule.

Since 1985, children's endowment policies have been impossible to write, he said, because an amendment to the Sixth Sched-

ule made it mandatory for there to be a minimum element of life cover of at least eight times the premium in any endowment policy. But the Insurance Act's R500 limit on the sum assured meant no policies could be written.

Also, each family unit was limited to R1 500 in premiums paid on pure endowment policies.

□ From Page 1



Units bounce up R115

CM Tmtr 7/6/90

# Anamint shares rocket on split deal

By AUDREY D'ANGELO  
Business Editor

THE price of Anglo American Investment Trust (Anamint) shares rocketed by R115 each to a closing price of R1 365 yesterday after an announcement that the share would be split, 10 for one, to make it more marketable.

But stockbrokers said there was still little chance of the man in the street being able to buy them.

According to the 1989 edition of McGregor's Who Owns Whom, 80,5% of the shares were owned by institutions in 1988 with Anglo American Corporation holding 32,8% of these.

"The split, in theory, makes the

shares more marketable but this is academic since few are likely to be available," said Frank Brewer of Frankel, Kruger, Vinderine.

Yesterday 1 100 of the shares were traded, after chairman Julian Ogilvie-Thompson said at the annual meeting that the share split would probably take effect towards the end of July.

He said this could be expected to reduce the share price to around R125, in line with the share prices of Anamint's holding company Anglo American Corporation of SA, and its main investment, De Beers Consolidated Mines.

Anamint is an investment holding company. Its major asset at the end of its last financial year was a 25,8% interest in De Beers.

Its share price opened at R1 250 on the JSE yesterday, unchanged from its previous close when it last traded on May 30.

"The high level of the company's share price led the JSE to ask the directors to consider subdividing the company's shares as this would carry administrative advantages for the JSE," Ogilvie-Thompson told shareholders. "In response to this, the directors have decided on a 10 one share split."

The company, whose stock has been the highest priced on the JSE, has 10m ordinary 50c shares in issue.

Attributable earnings rose to 3 768c per share in the year ended March 31, from 2 924c the year before. The dividend increased to 3 770c per share from 2 900c.

# Pressure mounts for cut in rates

58 ~~58~~ Stals 7/6/90

By Magnus Heystek,  
Finance Editor

The Reserve Bank is coming under increasing pressure to reduce interest rates, with latest statistics indicating that the economic contraction is far worse than expected.

After negative growth in the first quarter of the year, most economists have revised their economic forecasts sharply downwards with growth of only 0,7 percent forecast for the whole year.

"There is no such thing as a soft landing," says Ron Rundle, managing director of Nedfin Bank. "Business is going to have a rocky ride for the next six to twelve months."

"The slowdown in credit expansion will no doubt continue to dampen the inflation rate but will not, in isolation, bring the rate down dramatically unless demands for wage and salary increases are kept in check," he says.

In its monthly round-up of 28 economic forecasts First National Bank says that the consensus figure for growth this year is now only 0,7 percent compared with one percent in April. At the same time, most economists have adjusted their forecast for inflation up from around 13,1 percent to 13,2 percent.

Both the corporate sector and consumers are under pressure, prompting calls for a cut in interest

rates to prevent an economic "overkill".

Last week Dr Johann du Pisani, economist at Senbank, launched a thinly veiled attack on the Reserve Bank, criticising its policy of maintaining high interest rates.

But Dr Chris Stals, governor of the Reserve Bank, says that interest rates will remain at present levels until the rate of inflation and the growth in the money supply show definite signs of easing.

The prime interest rate has been at 21 percent since last October, but despite a severe drop in economic growth in the first quarter of the year, inflation and growth in the money supply have recorded limited declines.

## Liquidations

Heavily geared companies are now starting to buckle under the strain of high interest rates, with company liquidations soaring in January and February this year.

According to Kreditinform, liquidations increased by 35 percent to 134 in January (compared with January 1989) and by 58 percent to 128 in February.

At the same time, business judgments — normally a precursor to

liquidations — shot up to R13,81 million in January, compared with R9,07 million in January 1989. However, February saw a decline to R7,44 million compared, with judgments valued at R8,38 million a year before.

Says Jack Brownrigg, director of Kreditinform: "The actual number of liquidations is misleading as it does not include sequestrations. The percentage increase clearly shows a decline in liquidity in the economy."

Latest figures from the banking world also reflect a dramatic drop in the demand for money and credit in the first quarter of the year.

According to the most recent BA9 returns of the commercial banks, the growth in hire purchase and lease-credit slowed to a trickle in the three months to end-April, with a further decline predicted for the second quarter.

Although the outstanding debt for all banks rose to R25 billion, the increase of R788 million was the lowest since 1987.

Bankers are predicting that this slowdown in the growth of lending business — and the possibility of a real decrease in the second and third quarters of the year — are posing problems for banks which are already experiencing low margins and artificial restraints on any increase in the prime overdraft rate.

# Rent boycotts 'recipe for disaster'

## Parliamentary Staff

Boycotts of rents, municipal service charges and home loans in the black community could have disastrous results, and leading black organisations like the ANC should tackle this problem, Parliament was told yesterday.

Robin Carlisle (DP Wynberg) said the growing tendency in some communities to refuse to pay for services "creates a mindset that will destroy our economy more certainly than sanctions or disinvestment".

"When the denial of obligations is promoted by civic associations, countenanced by the mass-based organisations and underpinned by the threat of physical violence,

then we are indeed in serious trouble," Mr Carlisle warned.

"It behoves those organisations that claim to have majority black support — ANC, UDF, PAC and Cosatu — to recognise that the problem will not go away when true democratic government comes to South Africa."

## Like mealies

Mr Carlisle argued that the National Party had seriously undermined the social contract by governing on the premise that it had diminished obligations, or none at all, to black citizens.

"Thus, blacks were seen as some sort of resource, like coal or goats or mealies, to be used when necessary," the MP said.

While the NP had changed, it was blacks who were now breaking the social contract in increasing numbers.

"Rent and service-charge boycotts began in 1984 and have extended to over 60 African townships. The Centre for Policy Studies estimated that in 1989, 616 000 households, or about 4 million blacks, were participating in boycotts. Increasingly, the boycotts have extended to home-owners and leaseholders in respect of services and municipal charges.

"The reasons for this are numerous and understandable ... but the consequences are disastrous and could, in the medium term, be terminal to our society."



## Economy looks set to remain sluggish

THE tightening recession has seen credit extended to the private sector almost cease.

Reserve Bank figures show it at 0,15% in February and 0,5% in March.

The bank's latest set of economic indicators — which include share prices, net gold and foreign reserve holdings, the gold price, new vehicle sales, credit extension, unemployment and trade — suggest the economy will be sluggish for the rest of the year, and remain tight a year from now.

High interest rates — which are extracting a toll on vehicle sales and the property market, among others — are hurting both corporate and private clients, banks say, and much of the remaining demand for credit is "distress borrowing" as customers use credit facilities to meet higher interest payments on existing loans.

Credit growth in the first quarter of this year was half of the 5% recorded in the first quarter of last year. *Blom 7/6/90*

In the year to December 1989, all monetary institution claims on the private sector grew by 20%.

February saw an annual rate of 18,6%, well down on that of December last year.

The Reserve Bank figures show financial institutions' credit extended to the private sector grew by only 2,5% in the first quarter of this year, suggesting an annualised growth of just over 10%.

The bank would like to see 11% to 15% growth in money supply (M-3) over the year.

This includes all deposits to banks, building societies and the Post Office, including long-term savings.

Ms 716190

NEWS

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# Anxious wait for everyone at ERPMM

By Juliette du Toit

ERPMM will never close, say white Boksburg miners, knocking back beers in the pub behind the mine's recreation club.

On the other side of the road, nervous shopkeepers who sell exclusively to the migrant workers in the compounds are not renewing their stock.

ERPMM is one of the marginal mines which face possible closure as a dropping gold price causes crippling losses.

Many shopkeepers have spent their lives in this business. They pay no rent for the old corrugated-iron shops near Central

## Compound.

Contents of the shops include laxatives, women's underwear, watches, blankets, raw peanuts, huge bags of sugar, expensive watches and knives.

"I've spent all my life here," said one shopkeeper. A sign at the entrance of his store reads: "Native Shop".

## Awkward

"I don't know another trade, it would be awkward to change. And where would I go? We are just waiting . . ."

None of the shopkeepers

would give their names, as they are not white and own shops in white areas.

They would also not allow photographs.

At the white miners' bar, possible closure is the main topic of conversation.

"Everyone's depressed. There is no discipline, no interest among the workers, black or white," said one of the miners, mulling over a brandy and Coke. "The white miners should strike," said another.

The older miners refuse to believe ERPMM could close. ERPMM chairman Clive

Knobbs was tight-lipped about a rescue plan for the troubled mine, which last made a profit a decade ago.

The mine recently sold its dumps for reprocessing.

A decision from Deputy Finance Minister Org Marais' working committee on marginal mines is due any day now, and ERPMM's 10 000 employees are gloomily awaiting the outcome.

Gold analyst Rob Gillan said the mine's hopes were pinned on a Government subsidy, good grades from the newly sunk Far East Vertical Shaft and a substantial rise in the gold price.

# Appointment of ERPM commission a wise move

The appointment of a commission to investigate whether the ailing ERPM should receive further state assistance is a wise move. Although many may see it as passing the buck, this is an unkind thought.

When one takes into account all the aspects the commission will have to consider, one wonders why such a commission was not appointed a long time ago. ERPM is a particularly difficult case. Most mines making losses are usually old and have only marginal ore remaining.

ERPM, though it has been going for 100 years, is to a great degree a new mine. Its old workings can no longer be mined profitably, but it is opening up a reportedly rich area containing enough ore to keep it going for 50 years.

Its new Far East Vertical Shaft system is expected to produce 20 million tons of ore with a fairly high gold content and to provide access at depth to a further 14 million tons.

The expected grade of this ore is five grams a ton, but in 1988 the recovery grade rose to as high as 6,5 grams.

If these assumptions are correct, the figures should make ERPM a profitable mine even in current conditions of high inflation and a low gold price.

But an unexpected fall in the milling grade in the past year has cast a cloud over expectations.

One of the first tasks of the commission will be to decide whether these tonnage and grade figures are still valid and whether ERPM can get its grade back up to the expected five grams a ton.

This is the key to the mine's future and to whether granting assistance at this stage could lead to a major new mine.

In the three months to December (when gold spurted to \$420) ERPM's working loss was R2,4 million. After including interest payment, the loss climbed to R7 million.

On top of this the mine had R3,1 million in capital expenditure. Altogether it needed R10,1 million to pay its way.

Diagonal  
Street

Stev 7/6/90

DEREK TOMMEY



Unfortunately, this figure doubled in the March quarter. A lower gold price, a drop in grade to 3,19 grams a ton and a lower milling rate, which increased unit costs, combined to give it a working loss of R13,9 million. After adding in interest payments (there was no capital expenditure) the mine required R20,2 million to meet debts.

High though this loss may appear, ERPM could finance it, even at the present gold price, if it could get its grade back to five grams a ton.

If the commission decides this could happen eventually, it would then have to decide what aid paid out before this stage was reached would cost the Treasury.

At the same time it would have to work out the size of the losses that the Treasury and balance of payments would suffer if ERPM did not get aid.

ERPM spent R66,6 million in the March quarter — equal to R270 million a year — and a fair amount of this flows back to the Treasury by way of GST, income tax and company tax.

ERPM produces R200 million worth of gold a year. The commission will have to determine the financial effects the loss of this foreign exchange could have on the balance of payments and economic growth. It should consider what the effect would be on labour and other mining costs industry-wide if ERPM did not receive assistance and had to rationalise and reduce production.

It could also consider what effect a drop in ERPM's gold product could have on the gold price. It is clear from that the Cabinet's decision to appoint a commission was the best thing it could do.



Star 7/6/90

PARLIAMENT

# Rent boycotts 'recipe for disaster'

## Parliamentary Staff

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"The reasons for this are numerous and understandable ... but the consequences are disastrous and could, in the medium term, be terminal to our society."

(58) Dec 7/6/90

# The financial statement

How to read a balance sheet - 4

A 19-PART series by Richard Buchholz of accountants KPMG Aiken & Peat for lay financial report readers.

Yesterday, we looked at assets, liabilities and owners' capital as an equation: Owners' capital = assets - liabilities. All balance sheets can be reduced to these basic components.

If our model company PTI owned only assets and owed liabilities, and nothing else happened, there would be little point in being in existence. Companies, therefore, operate with the express intention of making a profit: by using their assets to make and sell goods at a profit, they hope to increase their own wealth and therefore ultimately the wealth of all the shareholders.

Making a profit is, quite simply, being able to sell your goods or services for more than you paid for them.

Clearly, PTI's objective would be to sell its spades for more than it cost to buy the raw materials and to manufacture them.

Let us assume PTI uses its raw materials of R2 000 to make 20 spades in a month and it cost another R1 000 in workers' wages.

Thus, 20 spades actually cost the company R3 000. The cost of making each spade therefore is R150 (for the moment, ignore rent, electricity, water and other overheads which would normally also become part of the cost of a product).

Assume PTI sells these products for R200 each: there would be a profit of R50 on each spade. If PTI sold all 20 spades in the same month, it would make a gross profit of R1 000. In accounting terms, we can represent this as:

Sales (20 spades at R200 each).....	R	R
		4 000
Less: Cost of sales — raw materials (20 x R100).....	2 000	
— labour (20 x R50).....	1 000	
		<u>3 000</u>
Gross profit .....		1 000

We have now recorded PTI's activity for one month.

But companies also incur costs for water, rent, electricity, tele- phones, stationery and the like, which also need

to be recorded. If we assume these costs incurred by PTI amount to R500 in a month, our final "statement" would be:

Sales.....	R	4 000
Less: Cost of sales.....		<u>3 000</u>
Gross profit .....		1 000
Other costs.....		<u>500</u>
Net profit.....		500

This is a simple income statement. The income statement forms the second part of any set of financial statements. We have already discussed the first part: the balance sheet. Not surprisingly,

the income statement and balance sheet are closely linked.

If we add to our original "accounting equation" the results of the months' transactions, we get:

	Owners' Capital	= machines	+Raw materials	cash	- liabilities
	R	R	R	R	R
	20 000	= 16 000	+ 2 000	+ 4 000	- 2 000
Sold .....			(2 000)		
Paid expense .....				(500)	
Paid labour .....				(1 000)	
Received cash .....				4 000	
Made a profit.....	500				
1st month.....	R20 500	= R16 000	Nil	R6 500	- R2 000

You will see that we add the profit to "owners" capital. This makes sense when you remember that the owners of the company should be entitled to the profits after all the expenses have been paid.

Notice that at the end of the month, we have a completely new balance sheet, representing the company's new position after the month's trading.

Notice too, that the income statement represents the results of the company's activities from one balance sheet to the next — and this is exactly how the balance sheet and income statement are linked.

The balance sheet represents the company's assets and liabilities at a point in time while the income statement represents the transactions in the period from one balance sheet to the next. Finally, you will see that the equation still bal-

ances. Lastly, we can change the above equations at the end of the first month into:

Income statement for 1st month ended January 31 1987:

Sales.....	R	4 000
Cost of sales.....		<u>3 000</u>
Gross profit .....		1 000
Expenses (overheads)...		<u>500</u>
Net profit.....		500

Balance sheet as at January 31 1987:

Owners capital .....	20 500
Fixed assets .....	16 000
Stock.....	
Cash.....	6 500
Liabilities .....	<u>(2 000)</u>
	20 500

This is a simple set of financial statements. All other financial statements are based on these concepts and are set out in a similar manner. We shall be looking at some added complexities in later articles.

Tomorrow: the balance sheet.



BANKORP FIM 8/6/90

## Dr Fred's legacy (58)

More than any banking group, the troubled Bankorp depends on a powerful parent. A series of rescue operations, which required huge injections of capital from shareholders, has left Sanlam with an 87% stake. Before it is adequately capitalised, this will rise substantially, though legislation requires it to be reduced "within a reasonable time" to 49%.

Piet Liebenberg, who took over as executive chairman this week, gives himself "about five years" to ensure other investors will find Sanlam's surplus attractive. "An investor is entitled to a return that at least beats inflation," he says. "The only question is: by what margin?"

His task is complicated because, before worthwhile dividends can be paid, he will have to divert substantial profits to reserves. At last reporting date the ratio of capital and reserves to assets was 2,5%, compared with a more usual 4,5%. So Liebenberg has not only to bring it into line with new capital adequacy ratios in the Deposit-taking Financial Institutions Act, which will soon be passed in parliament; he has to make up ground lost in recent years. An analyst estimates at least R190m will be needed by 1992.

This is the legacy of the late Sanlam chairman, Fred du Plessis. After the 1987 financial year, when assets of subsidiary TrustBank grew only 4,2%, Du Plessis launched the commercial arm on a growth spree. In November 1987, he saw no need to make provision for strengthening capital "in

the foreseeable future." In 1988, assets grew 46% and shareholders' funds only 14,4%.

After Du Plessis' death in March 1989, policy changed. At the close of the 1989 financial year, Bankorp announced a rights issue and the de-listing of Trust. The dividend was cut by 26%, allowing more profits to flow into reserves.

Appropriately, the man who has taken over is known for financial conservatism. The scenario is in many respects a repeat of what faced Liebenberg when he joined Nedcor (then Nedbank) in February 1987. Its assets had been growing at an average 25% for five years, while profitability lagged. It was suffering in the aftermath of the debt standstill and failure of (Triomf-type) high-risk ventures, which combined to trigger a run on the bank in London, New York and Johannesburg.

As the man who restored profitability to and confidence in Nedcor, he is expected to do the same at Bankorp.

He does not see the existing culture as an obstacle. "It's a matter of management style, not culture. Every banking group has had rocky moments — some more than others. It comes down to quality of management."

His first objective is to reduce assets — either by writing them down or disposing of them. He emphasises this will not involve the sale of divisions or subsidiaries, but the elimination of unprofitable operations.

He is seeking a risk manager to identify these areas and take remedial action — and to go on to develop "risk policies and risk parameters for the group."

He hopes that "by January 1993, the bank will have a capital ratio comparable to that of the world's top banks." (He thinks in international terms because he is optimistic about new opportunities internationally.)

Contributing to this will be a reduction of operating costs with rationalisation creating a centralised infrastructure. Previously, separate companies, Santambank, Senbank and TrustBank will become operating divisions. Their treasuries will be merged.

Also a problem is the loss of skilled people and lack of management depth. This too dates back to Du Plessis. One of his failings was that he did not build management succession. His personality did not encourage younger men of talent and he tended to lose those of experience.

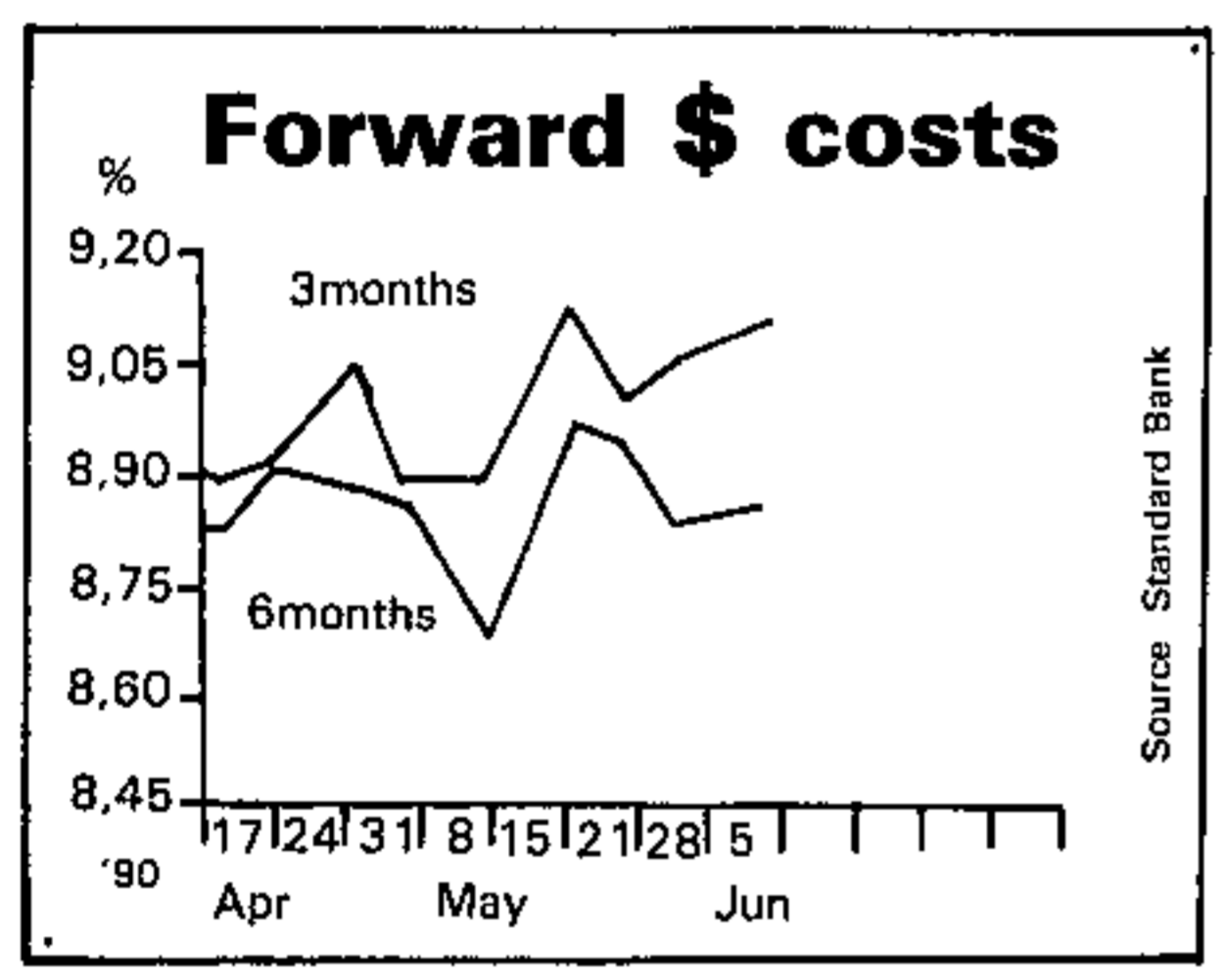
Liebenberg is not concerned. He believes he will be able to replace the recent losses — "Many professionals like a challenge" — and improve existing skills through training.

One strength of the group is its service-marketing orientation and he plans to make the most of this.

Once the operation is in good shape, Liebenberg will consider acquisitions — but only in the financial services sector. However, in view of the identity of its parent, he will not take advantage of changes to the legislation to acquire 49% in an insurer.

What does he have in mind? "Opportunities," says Liebenberg, "will come around."

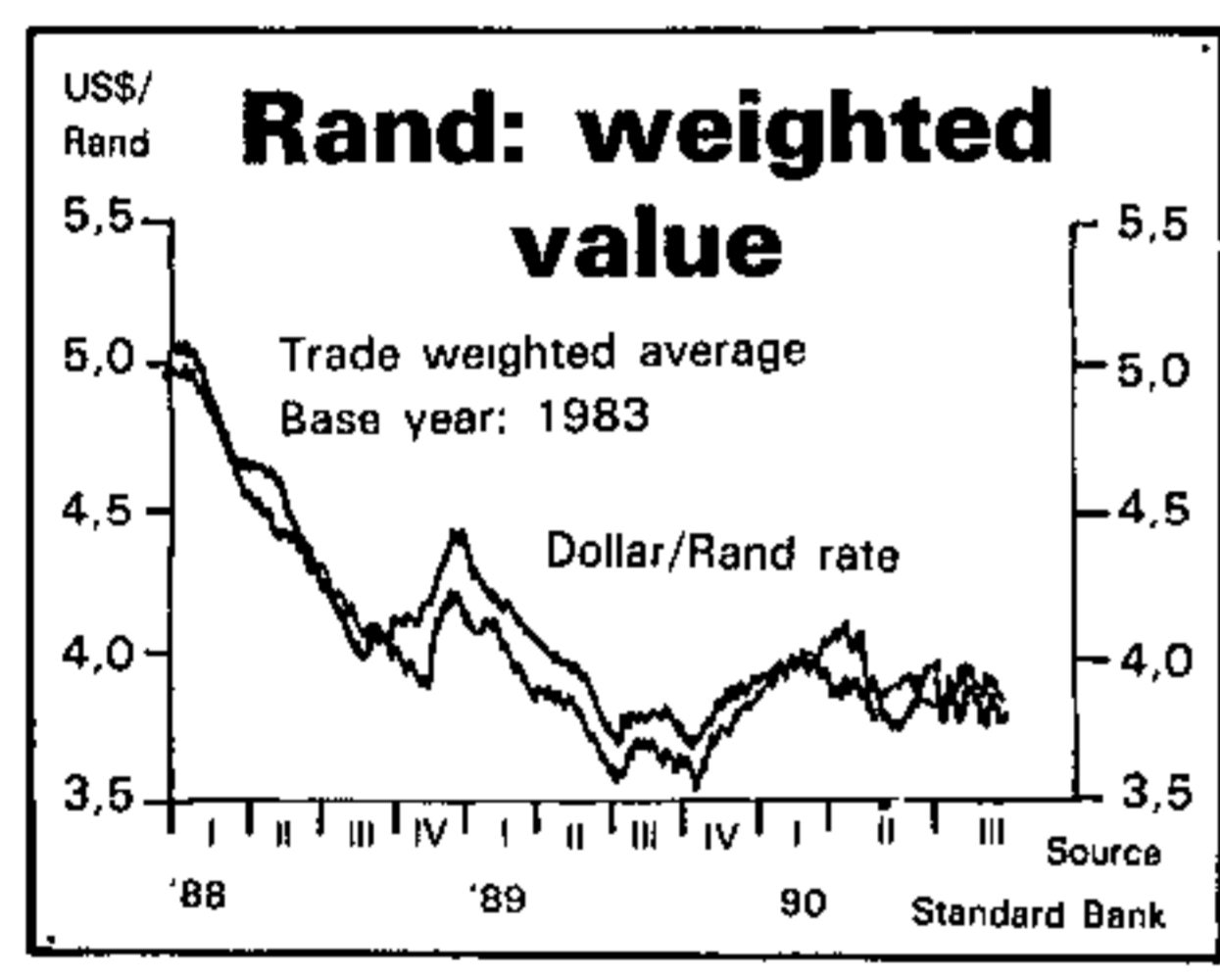
## MARKET INDICATORS



### RAND'S PRICE

Jun 5 1990	R1 equals	One foreign unit equals (R)
SDR .....	0,286	3,491
	0,291	3,437
ECU .....	0,310	3,231
	0,346	2,891
UK £ .....	0,223	4,490
	0,232	4,308
US \$ .....	0,375	2,670
	0,361	2,770
Canada \$ .....	0,438	2,278
	0,436	2,294
Switzerland Fr.....	0,537	1,862
	0,825	1,600
France Fr .....	2,129	0,470
	2,448	0,408
Germany DM .....	0,631	1,585
	0,721	1,387
Japan Yen .....	56,985	0,018
	51,380	0,019
Italy Lira .....	464,240	0,002
	523,690	0,002
Zimbabwe \$ .....	0,923	1,083
	0,747	1,339
Austria Schil .....	4,440	0,225
	5,080	0,197
Holland Guilder .....	0,711	1,406
	0,812	1,232
US \$ value of SDR .....	1,254	1,308
US \$ value of ECU .....	1,048	1,212
Financial Rand		
Cost per US \$	4,185	3,880
Discount (%)	33,795	31,200

Year ago figures in light print.  
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved.  
The above rates are for guidance purposes only



### FINANCIAL FUTURES

	Closing prices June 4 1990			Open interest contracts		Week's volume contracts		Value
	Bid	Offer	M-t-M	25/5	1/6	25/5	1/6	R000's 1/6
<b>All share index: 3 127</b>								
June .....	3 139	3 145	3 142	2 075	2 020	3 062	1 475	46 969
September .....	3 215	3 220	3 218	1 160	1 266	638	1 098	35 818
December .....	3 300	3 340	3 320	0	0	0	0	0
March 1992 .....	3 575	3 650	3 612	110	140	60	0	0
<b>All gold index: 1 517</b>								
June .....	1 525	1 535	1 530	2 276	1 949	5 531	2 207	37 089
September .....	1 600	1 610	1 605	721	731	1 411	970	16 863
December .....	1 695	1 720	1 708	40	40	60	0	0
<b>Industrial index: 2 981</b>								
June .....	2 975	2 980	2 978	463	456	96	263	7 757
September .....	3 000	3 015	3 008	303	343	50	250	7 460
December .....	3 120	3 150	3 135	0	0	0	0	0
<b>Dollar-Gold: 356,95</b>								
June .....	357,50	360,00	358,75	587	577	390	70	2 576
September .....	368,50	370,00	369,25	150	150	180	30	1 140
March 1991 .....	387,00	390,00	388,50	125	125	0	0	0
<b>E168: 15,88%</b>								
August .....	15,79	15,77	15,78	2 170	2 265	270	575	42 880
November .....	15,69	15,66	15,68	80	50	90	200	15 000
<b>3 Month Liquid BA: 18,35%</b>								
August .....	17,85	17,70	17,78	227	236	126	28	26 747
November .....	16,90	16,70	16,80	164	154	60	83	79 515
February 1991 .....	16,05	15,85	15,95	44	48	15	10	9 599

Interest on Initial Margin = 18,26%

Source: SA Futures Exchange



**BARRY SWART**

(58)

Swart was catapulted into the CE's seat at First National Bank (FNB) early last year. He has since steered SA's largest banking group into a costly new phase of technology as bankers have increasingly had to choose between lending quality or quantity.

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My view is based on the realistic assumption that no government will nationalise banks or other major business sectors, and that talk of nationalisation is a political stance.

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(58)

If FNB is nationalised there will be a massive flight of capital out of the banking system as depositors fear for the security of their deposits. That will not only push our 26 000 employees out of jobs but cause the economy to crash as the banking system collapses.

Nationalisation would almost certainly lead to a total drying up of any inflow of foreign funds and snuff out any chance of economic progress. It's as simple as that.

But a future government could try to redirect funds mobilised by the banking system. For example, to emphasise social spending it could direct banks to channel loans towards housing developments by making SA Housing Trust bonds prescribed assets in which banks could invest without any appreciable effect on profits.

But all this has to be seen in the context of

availability of finance. I believe sanctions will gradually be lifted as the political environment changes, but I don't necessarily believe an end to sanctions will lead to a major inflow of foreign capital. So our main task will be to mobilise domestic savings.

Inflation has changed savings patterns. Life insurers can offer better returns than banks or building societies. Trouble is, life insurers are risk-averse and prefer to invest in CBD properties or Top 20 blue chip shares rather than greenfields mining and industrial developments. That's not the way to create jobs. In addition, many companies are sitting astride piles of cash.

If we can redirect those savings flows towards new industrial development we could sustain an economic growth rate of 5%. We managed 3,5% in 1988 despite sanctions, so imagine what we are capable of if we are

not constrained by BoP pressures.

Securitisation is the name of the game — bundling financial instruments to reduce risk and selling them at attractive interest rates to cash-flush institutions. We will also have to come up with innovative financing schemes to make loans available to the growing army of black businessmen.

The other imponderable is whether we will have sufficient skilled people. Staff turnover in banking is tremendous.

Automation helps with the skills problem right down at branch level and technology will make many more services available to clients at automatic teller machines or through their PCs.

When it comes to more complex needs, clients need to be able to talk face to face. Banking competition will be won or lost through service, and that means people.

## Banking on banking

Emphasising profitability rather than scrambling for market share has paid dividends. UBS has lost some of its home-loan market share but return on assets at 1,36% is still the best in the sector. Return on average shareholders' funds rose from 12,3% in fiscal 1989 to 14,3% this past year and enabled the group to lift the total dividend to 32c from 27c.

CE Piet Badenhorst (58) attributes profit growth to more efficient asset and liability management and a low cost structure. While advances grew by 13% narrower lending margins, however, meant that net interest was only 4,6% higher on the year. Nevertheless, pre-tax profit was 16,9% ahead as investment income's advance outpaced the rise in operating costs.

Other institutions have foregone profitability for market share, by offering cheap rates, Badenhorst says UBS is interested only in doing business at rates that make a profit.

In the face of a fight for a share of the home-loan market — and enormous structural change in the banking sector — UBS has chosen to diversify into retail banking. It hopes to place less dependence on the home-loan market but building society operations still contributed the largest percentage to group earnings (50,8% of attributable net income) against 18,5% from banking, 17,4% from insurance and 13,3% from property development and other interests. Badenhorst says the group will build its retail banking operations on the back of the building society before it attacks the corporate banking sec-

F/M 8/6/90 (58)

tor.

In contrast to the building society's trading strategy, the bank is competing head-on with other banks for customers by offering cheaper services. Badenhorst claims his bank's charges are about 30% less than those of competitors but that it is, nonetheless, profitable and that it increased total assets by 127,5% to R1,31bn last year.

With the growing integration of banking and building society business, talk of rationalisation in the banking sector has heated up. Badenhorst says the group will look at anything which poses a good business opportunity but no negotiations are under way — and that includes anything to do with Volkskas. Possible investments might include an operation which could give UBS the necessary experience and client base in the corporate banking sector.

Heather Formby

**Balancing act** (58)

"Securitisation could not have come at a more opportune time," says KPMG Aiken & Peat's John Louw. It will provide some relief from pressures building up on reserves which banks are obliged to hold against both assets and liabilities.

Securitisation will allow banks to sell off assets — thereby providing, up front, the present discounted value of the future income stream. There are two advantages to this:

- First is that assets have been reduced, which lowers the bank's capital adequacy requirement; and
- Second is that the proceeds are not liabilities and, therefore, attract no cash and liquid asset reserves.

Unlike repurchase agreements, this removes risk from the balance sheet so is not an artificial funding mechanism. Says Louw: "Properly structured securitisation schemes can help management achieve the delicate balance of maximising returns to shareholders while still protecting the interests of depositors."

They can achieve what repos set out to do — but with the added benefit that all risks are passed to the investor in the issue. This will be valuable at a time when the local industry is trying to recover from a period of rapid asset accumulation.

Securitisation has been in the US since 1934 but took time to spread. Australia launched its first mortgage-backed issue in 1985, the UK in 1987, France introduced regulatory legislation in 1988 but in Japan restrictions imposed by the Ministry of Finance have stopped securitisation taking off.

FINANCIAL MAIL JUNE 8 1990

According to April's *Euromoney* French authorities have done the most to encourage securitisation in the hope that it will help banks boost their capital ratios.

SA has been looking at the idea for several years. This culminated in the issue of MS101 by UBS and Discount House of SA in February. Though other financial institutions are considering launching schemes, they are taking time to get to market because there is still a minefield of regulations and tax issues.

In addition, allocation of risk is not always clear cut. The Reserve Bank wants no risk remaining with the issuing body. A Bank spokesman says: "UBS may have a moral risk as it retains a shareholding in MS101."

The authorities believe that, if risk can't be passed on, it should be clearly identifiable so a capital requirement can be put against it. Before approving subsequent issues, the Bank will look for a clean break between issuer and the special purpose vehicle (the entity set up for the explicit, limited purpose of issuing asset-backed securities).

*Euromoney* concludes that, if asset securitisation does take off, it will be because banks have no option. There are real concerns for some European banks (particularly in France) in meeting Bank for International Settlements capital adequacy rules. It adds that banks may find securitisation "an attractive alternative to increasing capital."

Jacquie Bullard



# Black and white pupils meet on sports fields <sup>(50)</sup>

The Argus Correspondent <sup>ARGUS 8/6/90</sup>

JOHANNESBURG. — Young boys and girls from the Melville Primary School in Johannesburg and the Winnie Ngwekazi Primary School in Pimville, Soweto, have crossed the racial barrier on the sportsfield.

At the invitation of the Melville school, black pupils travelled to the trendy suburb this week to participate in games of soccer and netball.

Although the two teams were opposing each other during the games, they slowly unwound and sat together on the stands after the matches and shared jokes, oranges and soft drinks.

The unusual activity on the sports field drew the attention of many people who were passing by, including

domestic workers who watched the games through the fence.

Melville principal Mr Leon Venter said the Soweto school was invited at the request of the school management council. "The idea was to build bridges and the afternoon has been a big success".

The principal of the Soweto school, Pindi Hlubi, said it was the first time in her 33 years as principal that she had participated in a sports day with a white school.

"We are already starting to enjoy the feeling of a new South Africa. If young children, who are very naive, come together at an early age, there is hope for a new South Africa. If you leave it till later, racial attitudes have already formed and it is often too late," she said.

# Saflife share price justified by results

6/10/91 8/6/90 58

**EXCELLENT** results from IGI subsidiary Saflife have justified the share being boosted to a new high of 360c in anticipation of a good performance.

The share has shot up 118% from its June 1989 level of 165c and since Monday has moved 30c.

A final dividend of 15c (10c) brought the total to 20c for the year, to end-March, a rise of 60% over the previous 12,5c.

This places the share on a dividend yield of 5,6% (3,4%) compared with the average for the insurance sector of 2,9%.

Dividend cover fell slightly to 1,6% (1,7%).

Chairman Mike Lewis said Saflife had an "excellent year" in every respect. Inroads in selling life policies were made in the blue collar market where disposable incomes are on the increase.

"The budget for 1991 is exciting both from an income and profit point of view and we will be giving our best shot to duplicating last year's performance," Lewis said.

Management and the sales teams were prepared for this:

The enlargement of the

## LINDA ENSOR

company's pension portfolio also contributed to the good performance and the increase in total assets by 70% to R708m (R417m).

The life fund increased by 58% to R563m (R357m). Pension fund business contributed R94m (84%) of single premiums of R112m (R177m).

Lewis said Saflife underwrote a number of

Gross recurring premium income rose 75% to R115m (R66m) and net recurring premium income by 79% to R110m (R61m).

Attributable profits rose 61% to R9,7m (R6m) and earnings per share on an increase in the number of shares in issue by 53% to 32,8c (21,4c).

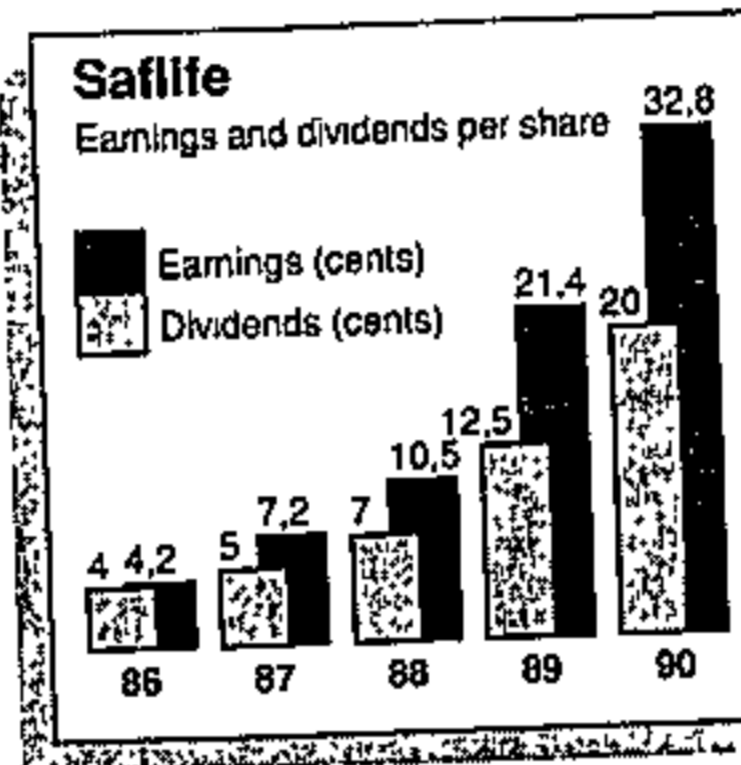
Lewis said the contribution of foreign associated companies was not significant as the stake held was small.

"As a result of the increased profits and a tight control of working capital, the balance sheet has further been strengthened and the company is well positioned to develop opportunities for expansion," Lewis said.

Lewis said Saflife had shown a compound rate of earnings growth of over 40% a year over the last six years.

IGI, which directly holds 41% of Saflife, will be reporting its results on Tuesday.

The IGI share at 650c has recovered from its May low of 550c but has not yet touched the height of 750c achieved in June last year. At present the IGI share is trading on a dividend yield of 4,2% and a price to earnings ratio of four times.



Graphic: FIONA KRISCH Source: SAFLIFE

medium-sized pension funds during the year under review.

Aggressive marketing of Saflife's specialised policies and the launch of new products also played a part.

Gross premium income fell by 6,4% to R227,4m (R242,9m), and net premium income by 6,4% to R221,9m (R238,4m) while investment income rose 53% to R69,2m (R45m).

# Santam MD suggests merger of professional bodies

THE merging of organisations such as the Insurance Institute of SA (IISA) and the Institute of Bankers should be given serious consideration, Santam Insurance MD Oosie Oosthuizen suggested at the IISA annual conference at Sun City yesterday.

Oosthuizen said there recently had been an interesting development in the UK when the Chartered Insurance Institute opened talks with the Chartered Building Societies Institute with a view to a possible merger. *Monday 8/6/90*

As a result, a new body could emerge to provide a complete financial service, rather than one orientated to one aspect of insurance.

However, where in the UK these bodies were moving together, in SA they were

PIERRE DU PREEZ

drifting apart. "I can't help wondering if we at IISA shouldn't be talking to the Institute of Bankers," Oosthuizen said.

Insurance experts at the conference came out strongly in favour of a higher educational standards and a greater awareness of such standards within the industry.

Speaking on the subject Education Today the principal of the Chartered Institute of Secretaries College in the UK, Jack Wheeler, said people and education were the most critical priorities facing the insurance industry internationally.

It was therefore imperative that managers should be aware and encourage staff to

do their insurance exams. (58)

Oosthuizen said there were many people within the industry who felt far more attention should be devoted to training and education than was currently the case.

Wheeler said: "Insurance companies almost always seem to cut back on their educational expenses first when trying to contain their budget."

He felt that this was a very wrong attitude as education was absolutely vital in order to create more a professional environment within the industry.

"Many insurance companies and brokers are still too production-driven rather than consumer-led. One way this shows is in the way the word 'teaching' rather than learning is used," he said.



## Dips and dives

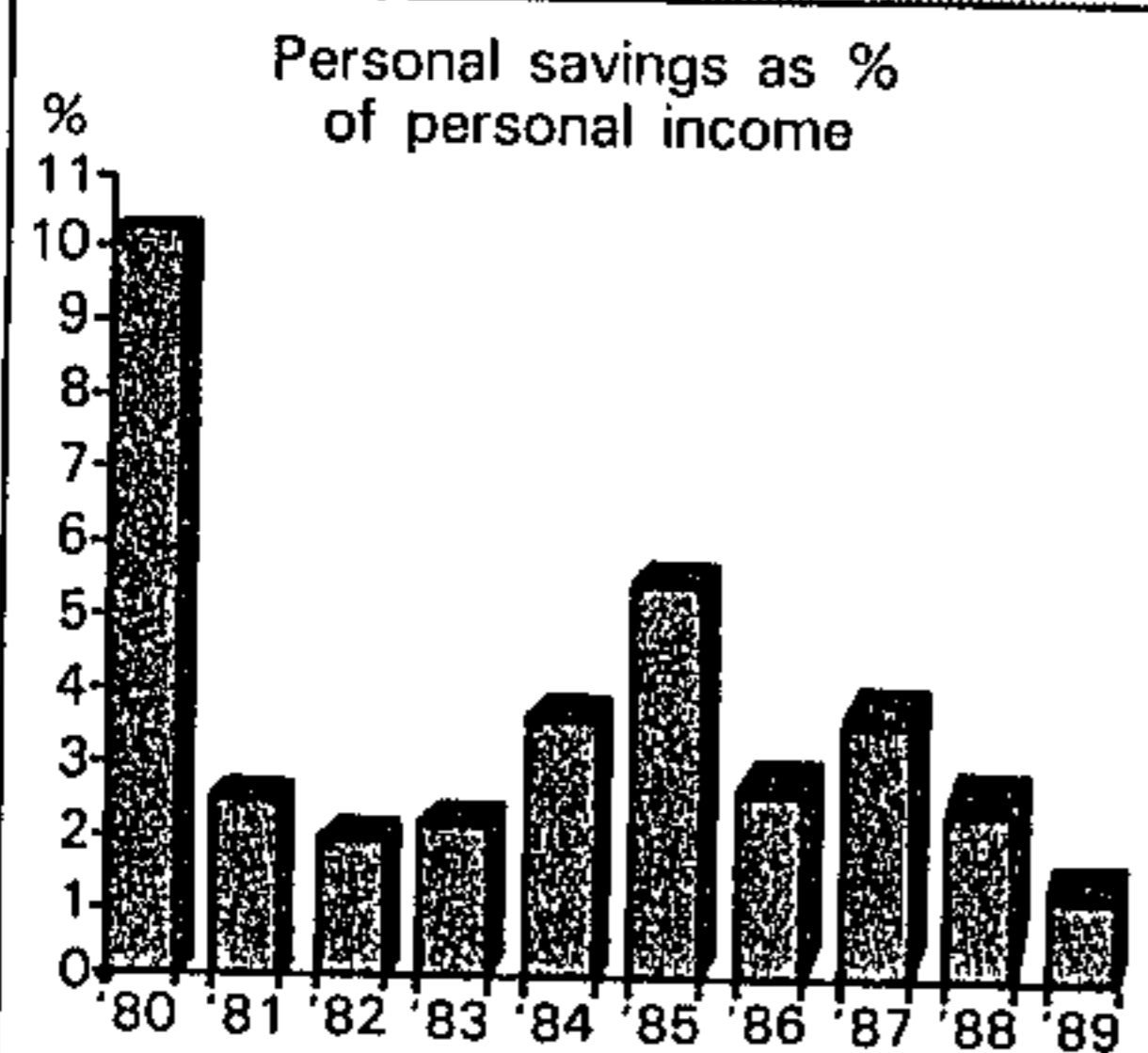
Personal savings deposits plummeted by R600m between end-December and end-March, according to a First National Bank analysis of quarterly returns of major banks, buildings societies and the Post Office.

This follows a decade of decline in personal saving as a percentage of personal income, from 10,3% in 1980 to 1,3% in 1989 (see graph). As a percentage of GDP, savings dropped from 35% in 1980 to 22,9% in 1988 and 22,5% in 1989.

Says TrustBank economist Nick Barnardt: "In the past 10 years, people tried to maintain 1980 living standards with declining real disposable incomes and the casualty has been saving. This is not the only factor, but it's the central one."

As the economy slips into partial recession, the consumer's entire financial position is worse than last year, says Sanlam econo-

### The eighties picture



41

mist Pieter Calitz. But the fundamental reasons for reduced savings have not changed — among them, inflation and high tax rates.

In the past, an important contributor was consumer spending. In 1989, this increased by 17,6%, while personal disposable income rose by 16,2%. Now that consumer spending is slackening, reduced salary increments will continue to make savings a low priority.

Most individual saving is in contractual form (pension and life assurance investments). Contractual saving was 15,1% of gross domestic savings in 1971 and 44% in 1989, when it was some R23,5bn. Discretionary personal saving, 21,1% of gross domestic savings in 1971, fell to -40,1% in 1989.

Net personal saving was R2,1bn or 3,9% of total gross domestic saving of R53,4bn.

As the ratio of personal savings fell, net corporate saving rose, from 52,97% of total net saving in 1980 to 89,44% in 1989 (hitting a decade high of 95,21% in 1987). Making up a growing proportion of gross domestic savings is provision for depreciation which in 1989 was 72,2% or R38,8bn, compared with 1980's 37,8% or R8,2bn.

What does this mean for the economy? "It is a structural problem which basically affects the growth rate," says Calitz. "Investment, essential for growth, is declining because of reduced savings." Also contributing to low savings is dissaving by government, though government saving as a percentage of total net saving has turned around from its trough of -35,92% in 1987 to -3,64% in 1989.

The level of personal savings is not likely to improve. Calitz expects discretionary sav-

ings will continue to fall for a few years and cannot see net personal saving return to the 10% of the Sixties and Seventies.

# How the balance sheet is structured

So far we have presented a simple balance sheet and a simple income statement and shown how they are linked. We have also examined definitions of assets, liabilities and owners' capital.

Remember, the owners hold shares in the company. These represent the portion to which each shareholder is entitled, hence "owners' capital" is better described as share capital in company financial statements.

We saw in Part 4 that the fundamental concept underlying a set of financial statements is the accounting equation: Share capital and profit equals assets minus liabilities.

A balance sheet is structured in a similar fashion. Most company balance sheets begin with their share capital, plus profits which have accumulated to date (called "retained income"), and disclose a total for this (referred to as "capital employed").

The second half of the balance sheet, not surprisingly, is devoted to assets and liabilities. This section is usually called "employment of capital" and shows how the owners' capital and retained profits have been used to buy assets and to incur liabilities.

An example of a balance sheet is shown here. Keep this, as we will be referring to it regularly.

The assets section, by convention, is divided into three main sections: Fixed assets, non-current assets and current assets.

**FIXED ASSETS:** Fixed assets normally consist of land and buildings, plant and machinery, motor vehicles and furniture and fittings, and are the assets the company needs to operate effectively. Few manufacturing companies would be able to operate without them.

These assets are not normally sold until they have fulfilled a specific economic purpose, and they therefore form

the "hard core" of most commercial enterprises. Usually, fixed assets which are sold are immediately replaced by similar assets. Most fixed assets are depreciated over their useful lives.

Many companies do not own all their fixed assets. It is possible, and may be financially advantageous, for a company to lease some or all of its fixed assets. **NON-CURRENT ASSETS:** You will seldom see a heading "Non-current assets" on a balance sheet. This type of asset is disclosed between fixed assets and current assets, and most commonly will be referred to as "Investments" or "Investments in subsidiaries".

**INVESTMENTS:** Some companies may

use some of their spare cash to make certain investments, often shares in a company or companies listed on the Johannesburg Stock Exchange.

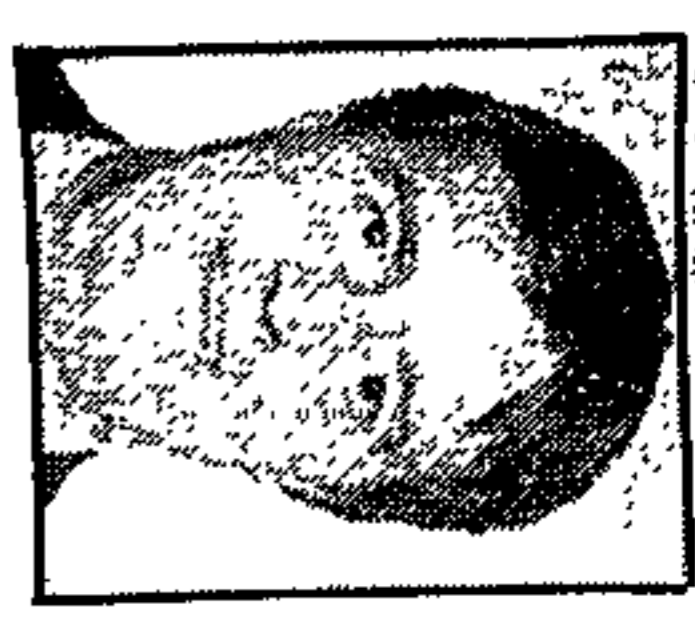
These shares entitle the owner to part of the listed company's profits in the form of dividends, as well as to a share in its assets if it is liquidated.

The advantage of buying shares on the stock exchange is that it is relatively easy to buy and sell the shares and there is always a quoted price.

There is not much difference between a company and an individual buying shares on the exchange, and many companies do trade shares. Such shares are called listed investments in financial

## PTY Limited and its subsidiaries Consolidated balance sheet at 30 June 1990

	1990	1989
<b>CAPITAL EMPLOYED</b>		
Share premium.....	53 578	50 202
Share capital.....	8 181	5 649
Non-distributable reserves.....	8 353	430
Distributable reserves.....	64 531	50 237
Retained income.....	134 643	106 518
Shareholders' equity.....	8 144	6 000
Outside shareholders' interest.....	20 000	28 500
Long-term liabilities.....	1 988	928
Deferred taxation.....	164 755	139 946
<b>EMPLOYMENT OF CAPITAL</b>		
Fixed assets.....	93 539	75 955
Investments.....	17 468	15 930
<b>Current Assets</b>		
Stocks.....	64 535	55 129
Accounts receivable.....	43 579	35 989
Bank balances and cash.....	5 650	5 127
	113 764	96 245
<b>Current Liabilities</b>		
Accounts payable.....	46 813	39 013
Taxation.....	7 844	5 657
Shareholders.....	5 359	3 514
	60 016	48 184
Net current assets.....	53 748	48 061
	164 755	139 946



Part 5 of a 19-part series on "How to read a balance sheet", by Richard Buchholz (right) of accountants KPMG Aiken and Peat.

Sometimes, a company may also hold investments in companies not listed on the exchange. These are called unlisted investments and often there will not be a quoted price for these shares.

There are many other types of investments, but listed and unlisted shares are the most common. **INVESTMENTS IN SUBSIDIARIES:** An investment in a subsidiary is a special type of investment. If our company PTI bought shares in Company A and, in so doing came to own more than 50 per cent of Company A's shares, Company A would become a subsidiary of PTI.

As such, PTI would be able to out-vote other shareholders. It has control of Company A. The reason 'Investments in subsidiaries' is not just shown as 'Investments' is because the shares in subsidiaries are likely to be held for longer — and for different reasons.

Another important reason why 'Investments in subsidiaries' is usually shown separately is that companies usually consolidate the financial results of subsidiaries with their own. This means all the assets and liabilities of all subsidiaries are added to those of the controlling company to give a single conglomerate of assets and liabilities. This consolidation of accounts is known as the "group financial statement". A good many JSE-listed companies are groups of consolidated companies.

**MONDAY:** Some current assets — the most important section of most company balance sheets.



# Saflife's earnings surge

By Sven Lünsche

IGI's life insurance arm, Safrican Life Investment Holdings (Saflife), has reported excellent results in the year to end-March, with the total dividend being lifted by 60 percent.

Saflife declared a final dividend of 15c (10c), bringing the total for the year to 20c, a 60 percent rise on the 12,5c paid out in the 1989/90 financial year.

Attributable earnings rose by a similar margin to R9,7 million (R6,1 million), which translates to earnings per share of 32,8c (21,4c).

Group recurring premium income rose by 75 percent in the financial year to R115 million (R66 million), while net recurring premium income surged by 79 percent to R110 million (R61 million). Single premium income in its pension fund business stood at R94 million at year-end.

The total assets of Saflife now stand at R708 million compared with R417 million last year.

Saflife's share price has risen by 30c to a new high of 360c this week in anticipation of the good results.



# Thumbs up for Safegro unit trust

By JULIE WALKER

SAFEGRO unit trust, launched on Tuesday, has received a pleasing response, says fund manager Kevin Cockroft.

Safegro Holdings, of which the trust is a part, was formed recently as the investment arm of Hosken Consolidated Investments — the major shareholder in IGI.

The general equity fund is aimed at the IGI client base, well represented in rural areas.

Mr Cockroft says the Registrar of Unit Trusts requires that trusts be for the benefit of the public.

Mr Cockroft believes the public will be best served if the investment amounts are affordable to the expected client base. The smallest lump sum will be R100, and the minimum monthly debit order R25.

## High

There have been plenty of inquiries and cheques are arriving. The number of debit orders will take longer to quantify.

Mr Cockroft says the stock market has fallen since February, but because interest rates have probably peaked, share prices should recover when corporate earnings are not reduced by interest bills.

The scrapping of tax on dividends in the hands of individuals is another plus for investing in a unit trust. Unitholders will get a higher income.

Safegro will invest in high-quality shares, although some money will be earmarked for second-line stocks with good earnings records and growth prospects.

# Quick on the draw for credit

S/Times 10/6/90

By IAN SMITH

SOUTH Africans are living up to their "shopaholic" reputation — and their credit limits.

The records of financial institutions and credit information organisations suggest that almost every family in the formal sector uses credit.

Information Trust Corporation, the largest supplier of credit information, has more than 7-million records on its database.

Another measure of the use of credit is the number of references checked by financial institutions and retail groups — more than 4-million a year.

Fortunately, says ITC chairman Paul Edwards, 75% of the records in its database show that South Africans are good for credit.

"I believe the credit bureaus are themselves due for a rerating by the public," says Mr Edwards. "We are not the bogeymen so many people make us out to be."

"By providing good references the bureaus help most customers to obtain credit."

Although credit checking used to take a long time, modern technology has enabled ITC to provide credit granters with on-line computer facilities.

"This enables credit to be approved in minutes."

In the retail sector Dion pioneered on-line credit checking.



Risk

58

Dion credit director Salie Marais says: "We wanted to ensure that buying on credit was easy for the customer and we had to manage the risk."

"Our venture has been so successful that Dion has experienced bad debt of less than 0,6% of turnover — a remarkable achievement for a company entering the credit market for the first time."

Calls for financial records have increased as higher interest rates and the slowdown in the economy have height-

ened business risks. Although demand for many consumer goods has fallen, competition for sales has become fiercer and retailers are fighting to capture business.

"Extensive research shows that many companies face a dilemma," says Mr Edwards. "Should they confirm orders quickly to win business, or should they take the time to have customers thoroughly researched?"

Independent research shows that 90% of businesses want credit reports within two days.

To meet the demand ITC has inaugurated its Express service to provide credit and financial information on prospective customers within 48 hours, and a Super Express service, providing information within 24 hours.

ITC has developed what it claims to be one of the most advanced credit reporting systems in the world. The new services use SPL's CON-NECT software which automatically generates reports and allows editing by ITC specialists.

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S/Times 10/6/90  
By IAN SMITH

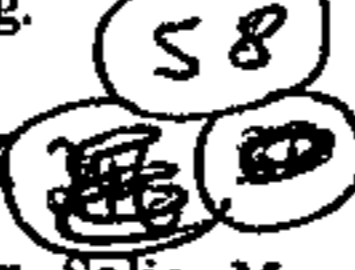
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## FINANCE

# Market shortage dips to its lowest in last seven months

*↓ 1 day 11/6/90 58*

ON Friday the Treasury bill (TB) rate dropped to a ten-week low of 17,96% and the market shortage — the banks' debt to the Reserve Bank — fell to R1,9bn, a seven-month low. But these moves in the money market statistics are not indicators that Bank rate is poised to be reduced.

The marginal easing in the TB rate to 17,96% from 17,99% in a tender which attracted R228m for the R70m bills on offer suggests that there is a private sector demand for TBs as a liquid asset in a market which is palpably short of liquid assets.

Since the beginning of the year, the private sector has been a bidder for TBs on only five occasions, judging by the size of the responses to the tenders. For the other 18 weeks all the bills on offer were bought by the Reserve Bank or one of its satellites.

The week before last the tender was twice oversubscribed and the rate dropped by one point to 17,99% from the 18% at which it had been held by the Bank. Last Friday the three times oversubscription pruned the rate by a further three points.

At the current rate TBs are yielding 18,78%, but better returns are available on other three-month assets for the corporate investor so it is reasonable to assume that the private banking sector supported the tender.



## IN THE MONEY MARKETS

Harold  
Fridjhon

The market shortage fluctuates from day to day, but it can be expected that this week the Reserve Bank will take steps to draw liquidity from the market to the level which the governor deems to be reasonable.

He could revert to selling dollars forward. He might sell RSA stock. The institutions have an open invitation to bid the Reserve Bank for the RSA 12% 2005 and the bond market believes that several hundreds of millions of rands worth of this stock has been sold at rates ranging between 16,25%-16,50%.

Liquidity is certainly entering the market. The Treasury balances at the Reserve Bank have been running down. The gold and foreign exchange reserves have remained relatively steady in spite of debt repayments. It is known that the Bank has entered into gold swaps and has sold gold

forward. This suggests that gold is being withheld from the market in order not to depress the weak gold price further.

Asset trading in the money market was very dull last week. Demand for negotiable certificates of deposit (CDs) was virtually non-existent and the prices shown on the screens were largely nominal.

With the shortage down and the bank-note issue reduced by R550m to R8,3bn, and with some of the major banks reporting that their positions were comfortable, the wholesale deposit rate eased further from around 19% to 18% although 18,5% was bid by some of the smaller banks. This rate could ease still further this week when government salaries and wages are paid — provided that the Reserve Bank does not siphon out too much liquidity.

□□□

THE bears were dominant in the bond market last week, reacting as they were expected to do with the slide in the gold price. Turnover exceeded R5bn with the Eskom 168 dominating the boards as usual as the yield rose by 36 points to peak at 16,16%. Some traders who had offered naked puts at 16% were said to have been somewhat dismayed.

With the Reserve Bank offering RSAs at 16,25%-plus some switching from Eskoms to the premier stock was reported.

## Healthy rise in reserves for EP Building Society

6/10/90 11/6/90  
THE EP Building Society has increased its reserves by 39% to R14,9m (R20,6m) according to the Port Elizabeth-based institution's latest annual report.

58  
"This is particularly gratifying when viewed against a backdrop of R3,3m profit compared

Business Day Reporter

with less than R2m the previous year," says CE Trevor Jennings.

When the Reserve Bank sent out alarm signals on building society reserve levels and pegged new targets for 1996, several institutions proclaimed them "impossible."

Jennings is confident of his society's ability to more than meet the requirements.

"We are reaping the dividends of a well developed asset base and investment in computer technology which places us in the forefront of our industry.

"Our network is so client oriented that several other financial institutions are interested in purchasing our systems," he says.

The society recently opened a Randburg branch — its 20th in the Transvaal and the fifth in the PWV area. The society's recently formed development company has already completed several projects in Randburg and Sandton, where there has been excellent response to its new emphasis on commercial and industrial lending.

Jennings says that in spite of gloomy construction industry forecasts, the portfolio of prospective business is encouraging.

# Sanlam optimistic about investment

Bloom 11/6/90

(58)

SANLAM MD Pierre Steyn is optimistic about the economic future, and the giant assurer has formulated a strategic plan for the investment opportunities it believes will exist in the new SA.

This was revealed at a policyholders' meeting in Johannesburg on Friday — the 72nd birthday of Sanlam.

Steyn said he felt confident the life assurance and pension industries, representing long-term savings, would be encouraged to grow in the new SA to provide capital for the enormous investment opportunities which would exist, "especially if we solve our problems in such a way that we start trading with the rest of the world."

"SA is a developing country blessed with rich mineral resources and creating new opportunities, and no matter what happens on the political front we won't suddenly see a huge inflow of foreign capital coming back into the country," Steyn said.

Capital would be required to create infrastructures, and for development.

In the last financial year to end-September Sanlam earned R6bn in premium income and R2,5bn in investment income — an average daily income of about R34m.

Steyn said in an interview after the meeting that the plummeting gold price was not likely to affect the investment returns of the giant life assurer, which has a controlling stake in Gencor.

He said gold investments represented much less than 10% of about R20bn in assets. Assets held by subsidiary Sankorp amounted to about R50bn.

"The other important point is we are long-term investors and are not overly worried by short term fluctuations. In the long run we believe gold will still be a profitable investment."

However, he admitted Sanlam had recently been selling off gold shares.

"If the price of the share drops far enough and we have an optimistic view of the future, then we will become buyers again. I don't think we are bearish towards

LINDA ENSOR

gold in the long term."

Steyn said Sanlam was not thinking of contributing a large amount to a social upliftment fund of the type established a while ago by Liberty Life.

"Sanlam has been active over the years in channelling substantial amounts into investments related to social upliftment. We are not going to start a special campaign or make a special once-off contribution."

As regards donations, Steyn estimated Sanlam contributed between R5m and R10m a year, mainly to educational bodies, and was also involved in sponsorships.

Steyn fielded several questions on nationalisation put to him by policyholders concerned about the future security of their policies.

He said he was "very positive about the future of SA".

## Protection

The ANC had made no mention of confiscating the assets of companies, and even if life assurers were nationalised, the experience right across the world, including Africa, Steyn said, was that where such nationalisation did take place policies continued to exist without policyholders suffering a loss.

"We have had high taxation of life offices in SA and we have had prescribed investments. Notwithstanding this we have, over the years, been able to provide policyholders with value for their money and protection against inflation.

"I don't believe it will happen, but if life assurers were taxed much more heavily than we have ever been before, life policies will still be beneficial to policyholders," Steyn said.

He anticipated that what would probably occur would be "a slight shift in emphasis and not a drastic and dramatic change in the economy".



Own Correspondent

JOHANNESBURG. — De Beers/Centenary AG joins the list of JSE counters today in the most valuable listing in SA history.

Based on Friday's closing price, the notional market capitalisation of De Beers/Centenary AG will be about R37bn, more than ten times bigger than Iscor's notional market capitalisation when it was listed on the JSE.

Friday marked the last day of trading in De Beers Consolidated, usurped today by De Beers/Centenary AG as SA's most valuable and charismatic share.

New certificates, representing a linked unit in De Beers SA and a depositary receipt in Swiss-based Centenary AG will first change hands today on the JSE.

According to circulars released by De Beers/Centenary AG, Cente-

# De Beers/Centenary AG listing today

*Cap 7-1-75 11/6/90*

nary AG will be centred on diamond marketing and distribution, while De Beers SA will hold the diamond mining business and other domestic interests.

Stock exchange listings for De Beers/Centenary AG have been sought in London, Johannesburg, Zurich, Geneva, Basle, Lausanne, Frankfurt, Paris and Brussels for the De Beers/Centenary AG linked units.

De Beers/Centenary AG chairman Julian Ogilvie Thompson stated in a circular to shareholders:

"The diamond industry operates on a global basis, and it is desirable that the two groups (De Beers and Centenary AG) should co-operate in

the interests of shareholders and of the diamond industry as a whole.

"To this end, it is proposed that as far as possible the two groups will be administered by identical boards of directors, and their securities will be linked so that they will be tradeable only as linked units.

Ogilvie Thompson stressed that the overall capacity of the De Beers/Centenary AG to pay dividends will be unaffected by the rearrangement.

"It is not intended that the rearrangement should result in any reduction in the combined dividend distribution per De Beers/Centenary AG linked unit by the

De Beers and Centenary AG groups from the distribution by De Beers per equity share before the rearrangement.

"The only difference will be that unitholders will now receive dividends directly on their Centenary AG depositary receipts as well as their De Beers equity shares, instead of only from one source.

"It is expected that no less than 80% of the dividends distributed by the Centenary AG group will be paid by the Luxembourg subsidiary, Centenary Holdings, the balance being paid by Centenary AG itself.

It is also intended that dividends will be declared in such a way that

unitholders can expect to continue receiving payment of dividends during or about November and May each year."

Ogilvie Thompson names as reasons for the rearrangement, to:

- Enable equity shareholders better to identify the earnings, dividends and assets attributable to the foreign group and the SA group;
- Provide equity shareholders with linked securities representing interests in, and entitling them to receive dividends from, both the foreign group and the SA group;
- Enable the foreign group and the SA group better to develop their respective businesses overall, with appropriately focused strategies and objectives, and generally to facilitate the conduct of business internationally, and
- Facilitate access to the international markets.

(58) Ste 11/6/90

# Important current assets

Last week we looked at fixed assets and investments. We now begin looking in more detail at some more important current assets first mentioned in our third article.

Current assets are those from which we expect to generate cash within a year, for example, raw materials used in the manufacture of our products which are to be sold in that period.

In fact, since current assets in most cases are only held for a few months, a company continually turns its current assets into cash, either by converting them to products and selling them, or by collecting cash it is owned by its customer.

Conversely it continually needs cash to buy more assets.

This explains why current assets are so important.

Fixed assets, after all, cannot be sold easily or quickly, or even for a profit, and are usually too expensive to replace every year.

Current assets most commonly encountered in company balance sheets are:

**CASH**, which obviously is the most important. No business can expect to operate without cash, or ready access to cash.

Cash on the balance sheet usually reflects one or more accounts with a bank, and some small petty cash "floats".

The bank accounts are used for all the major cash transactions the company makes, including the purchase of raw materials, the payment of salaries and wages, and the settlement of any other accounts, and the inflow of cash received from customers.

**PETTY CASH FLOATS** are small amounts (usually R50 to R500) kept to meet minor incidental expenses as they arise.

**STOCK(S)** usually comprises:

- Finished goods, a stock of (as yet) unsold products.
- Spares, carried to service products.
- All raw materials needed to make products.
- A quantity of raw materials passing through the production process, classified as 'work-in-progress', representing the value of raw material

## How to read a balance sheet: 6

The sixth in a 19-part series by Richard Buchholz of accountants KPMG Aiken & Peat.

(and any labour and overheads) applicable to semi-completed products at a particular time — usually, at the end of the year.

When a company counts all its stock on hand at this time, it usually will have some work-in-progress items, especially if the production process is a slow or complex one, or the company is unable to stop production.

Another category often found under the "stock" caption is "consumable stores" used in manufacture: screws, rivets, labels and the like.

The bulk of stock items in a manufacturing company, however, normally comprises raw materials, work in progress and finished goods.

In PTI, we would expect to find some unsold spades at the end of the year: these would be shown as "finished goods" in the balance sheet.

**DEBTORS** is the next important "current asset" to be found on most balance sheets.

Debtors are often called "accounts receivable", which is a more accurate, self-explanatory term.

Most company transactions hitherto have been discussed as though they were all conducted on a "cash" basis: in other words, when we buy stock, we pay cash for it, and when we sell spades, our customers pay us cash immediately.

Although highly desirable, this is not usually the case in the real world.

Few businesses conduct their affairs on a purely cash basis.

Usually, a company's customers will buy its products "on account", which they will settle within 30 to 60 days, although some privileged customers may even be allowed a longer time.

Thus, at any one time, our PTI company is likely to have many customers who have bought goods

for which they have not paid immediately.

For example, if a customer buys 200 spades at R200 each, he will owe PTI R40 000.

Because we can be pretty sure we will eventually receive this sum in cash in the near future, we can raise the amount in our books as an "asset" captioned "debtors".

"Debtors" therefore represents the amounts owing to the company by all its customers.

These debtors are current assets, because we would not expect a debtor to take longer than a year to repay us.

Most companies employ a credit controller to chase up customers who fail to pay within the required period.

You may ask why it is necessary to operate on this basis when the customer eventually will have to pay the amount anyway — why not pay it at the time the goods are bought?

The reason is that most companies do not have immediate funds to pay for all purchases and therefore need to plan their inflows and outflows of cash, called "cashflow".

It is more than likely that at any one time, maintaining cash flow is a most important priority.

Another type of commonly found debtor is the "inter-company" account.

Sometimes a subsidiary or an associate company in the same "group" may owe us money.

In this case, it is also a "debtor", but because it is a company related to us, its debtor status needs to be shown separately.

You may come across some unusual current assets.

However, these usually will be explained more fully in the financial statements, and should make some sense in the light of our explanations.

Tomorrow: Current liabilities.



# Bill aims to set up financial services board

CAPE TOWN — <sup>B 1 p am 12/6/90</sup> Legislation aimed at privatising the statutory body which supervises the financial activities of the JSE, life offices and pension companies was tabled in Parliament yesterday.

The Financial Services Board Bill emanates from recommendations of the Van der Horst Commission of Inquiry into the Financial Institutions Office (FIO), the government body which has been overseeing the activities of financial institutions other than banks and building societies.

The Bill proposes the replacement of the FIO with a statutorily backed, partially self-funded Financial Services Board, on

LESLEY LAMBERT

which will sit retired members of financial institutions.

It is understood the Bill's main aim is to address problems the FIO faces as a result of staff shortages. The office has had difficulty attracting qualified staff on civil service salaries.

The new board will supervise and control the activities of life assurance companies, pension funds, the JSE, unit trust funds, trust and estate managers, portfolio managers and insurance brokers.

It will include an executive officer

<sup>(58)</sup> whose post is likely to be taken up by Registrar of Financial Institutions Piet Badenhorst, a deputy executive officer, and an actuary. All will be appointed by the State President.

However, to avoid a clash of interests the Bill prohibits people involved in financial institutions from becoming members.

While the board's basic overheads will be financed by government funds approved by Parliament, it is proposed that other expenses will be funded from levies on services to the financial institutions.

An appeal board will be established to hear appeals against decisions.



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IGI <sup>AM-7ins</sup>  
profits <sup>12/6/90</sup>  
drop 11%

By ARI JACOBSON

THE serious deterioration in the rate structure in the short-term insurance industry impacted on IGI Insurance company's year-end results for the year to March, with net premiums up a mere 7% at R362m (R338m).

This rippled through to bottom-line profits down 11% at R26,6m (R29,8m) and translated into earnings a share at 176,4c (196,7c).

Yet dividends declared rose 4c to 42c for the year, supported by the directors' decision to reduce dividend cover marginally.

The company turned an underwriting profit of R19,2m into a R4,6m loss for the current year, which CE Michael Lewis says reflects the serious deterioration in generating underwriting premiums in the current SA insurance industry.

"The public must be made aware of the fact that insurance premiums will have to increase to more acceptable levels."

Lewis says premiums would also have to take account of natural disasters, like the tornado that struck Welkom two weeks before the company's year-end.

And adds that its performance was further affected by R29m worth of theft claims "from an alarming increase in lawlessness".

# Suspects held in R2m fraud

Own Correspondent

JOHANNESBURG. — Two employees of the First National Bank branch at Sandton City were arrested at the weekend in connection with alleged foreign exchange control contraventions and fraud involving about R2 million.

The bank's general manager, Mr Jimmy Mackenzie, said two "back office workers" were held on Saturday and that the police, the Reserve Bank and the bank's internal auditors were involved in investigations.

CHL TH 12/6/90 (58)  
The two employees — L Porter, 26, and Ms René Baba, 31 — will appear in the Randburg Regional Court tomorrow, according to a police spokeswoman.

The amount involved was "in the region" of R2 million, she said.

Mr Mackenzie said the two were arrested as the result of the vigilance of staff members.

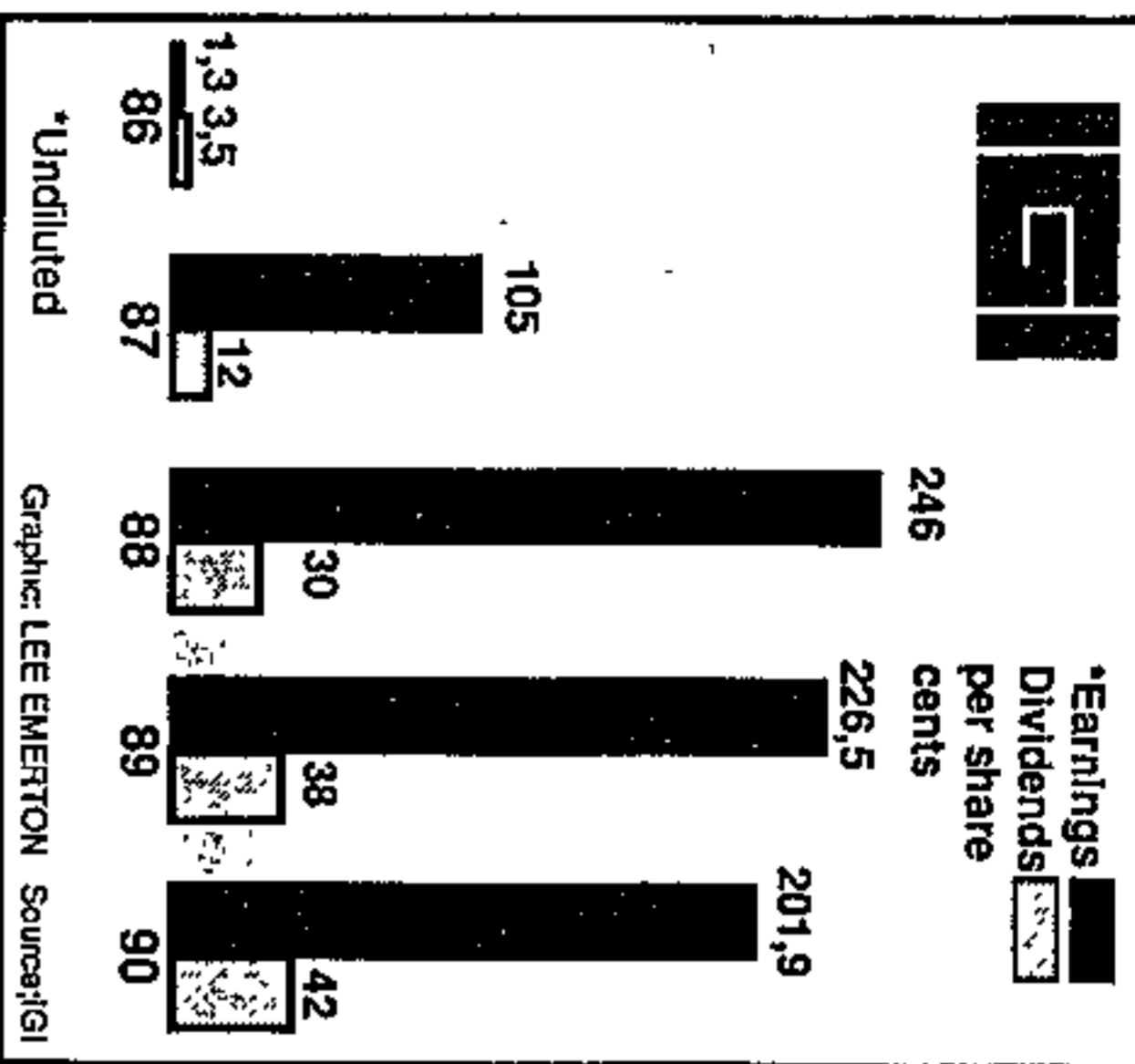
The two had allegedly been working in co-operation with outsiders, he said.

It is not known over what period the alleged crimes were committed.

## COMPANIES

# IGI concern at rating structures deterioration

By Day 12/6/90



THE underwriting loss of R4,6m experienced by IGI Insurance Co in the year to end-March compared with the R19,2m underwriting profit the previous year reflected the 'serious deterioration in rating structures', chairman Michael Lewis said yesterday.

Furthermore, the cost of claims was high. IGI paid R29m in claims for the theft of motor vehicles, "which reflects the alarming increase in lawlessness, which inevitably unfavourably impacts short-term insurance companies' results".

He added that an increase of premiums to more acceptable levels was necessary.

Gross premium income of the short-term insurance company rose 8% to

LINDA ENSOR

R456m (R422m), a modest rate of growth which Lewis attributed to the insurer's not having lowered its underwriting standards. Net premium income increased by 7,2% to R362m (R338m).

Investment income increased by 51% to R32,4m (R21,5m), attributable income before an extraordinary item fell by 7,7% to R26,6m (R28,8m) and diluted earnings per share by 10,3% to 176,4c (196,7c).

A final dividend of 25c was declared. A reduction in group dividend cover from 7,1 to 4,8 times saw the total dividend rising 4c to 42c (38c). The increase applies to the

20% capitalisation issue in September of 2,5-million shares, giving a rise in dividends of 36% if this is taken into account.

IGI has maintained a high dividend cover over the years to increase its capital base. Lewis said the reduction in cover was made possible by the fact that shareholders' funds now stood at R126m (R99m), giving an international solvency margin of 48,4%. IGI's asset base had enabled it to transfer the full 10% contingency reserve.

IGI Group, the listed company that includes subsidiary Safife and the foreign short-term interests in the UK, Zimbabwe and Botswana, recorded diluted earnings of 200,1c (222,8c).



## Insurance (58) gripes mostly car-related

LINDA ENSOR

THE majority, 54.1%, of the 168 complaints dealt with by short-term insurance ombudsman Advocate Bill Schreiner SC in the period August 1 1989 to mid-March were concerned with motor insurance. *Bylan 21/6/90*

A total of 125 complaints had been disposed of, according to his first report. Schreiner said the volume of work was increasing fairly rapidly.

Complaints about householders' policies were also numerous at 18.9%; houseowners' at 10.7%; AA liquidations 3.8%; hospitalisations 3.1%; all risks 1.9%; transit 1.3%; and miscellaneous 6.3%.

Schreiner wrote: "With exceptions I have found insurers and brokers who, after all, are the target of the complaints, both helpful and reasonable. Where the complaint concerns repudiation of the claim the approach seems to vary. Some companies seem to be more tolerant of the human failings of lack of understanding and downright carelessness than others."

Ste 12/6/90



## Vacancy rate 3 pc as Liberty boosts letting

In the first quarter of the year, Liberty Life Properties let 15 000 sq m in the Transvaal, made up of 10 000 sq m office and 5 000 sq m shopping centre space.

With a total area of 1,5 million sq m in all categories, spaced leased countrywide in the same period was 30 000 sq m, with a total vacancy factor being quoted at only three percent.

The figures include new space, renewals and some space taken additional to existing leases.

"This success," says Mr Russell Inggs, director,

leasing and acquisitions, "is attributed to our well-balance portfolio which offers tenants a choice of up-market prestige offices in Braamfontein and Sandton, principally, to a variety of office space in the Johannesburg CBD.

Joining Liberty's portfolio within the next two years will be 171 Katherine Street, a 12 500 sq m office park opposite Barlow Park in Sandton, and Jorissen Place, Braamfontein, which will provide 30 000 sq m in a classically proportioned building on the city's skyline.

# Bank staffers held on forex allegations

Two First National Bank employees based in Sandton have been arrested in connection with foreign exchange fraud involving almost R2 million.

Police said the suspects worked in the bank's foreign exchange division.

Bank staffers uncovered the fraud and police are investigating allegations of false declarations and falsified forms used to assist people to take money out of South Africa illegally. — Crime Reporter.



# Central banks 'must be free of political pressure'

BASLE — Central banks must be freed from political pressure if they are to succeed in bringing down inflation, the president of the Bank for International Settlements (BIS) said yesterday.

"The central bank will be best able to carry out its main task effectively if there is a clear division of responsibilities between it and the government," Wim Duisenberg told the annual meeting of the BIS, which acts as a central bank to the world's central banks.

Duisenberg, who is governor of the Dutch central bank, said the long-term aim of monetary policy should be to get as near to zero inflation as possible, but the immediate task was to reverse an upward drift of inflation in industrial nations.

The average rate of consumer price inflation in such states had crept up from about four to five percent during 1989, and in April this year was still at last December's level, he added.

Duisenberg said the question of a central bank's political position demanded attention in both Eastern and West-

ern Europe.

European Community countries working towards economic and monetary union were generally agreed that a planned EC central bank should have price stability as its main goal, he added.

In the view of central bank governors from the 12 EC members "the central bank will be best placed to achieve this objective if it is not subject to political directives," he said.

His remarks touched a sensitive issue as EC states are split over whether a future central bank should have responsibility for foreign ex-

change intervention on world currency markets.

European monetary officials said recently that both Britain and France, where central banks are subject to Treasury control, objected to a new pan-European central bank winning independence from political control in this key area.

On Eastern Europe, Duisenberg said confidence in currencies of the region did not matter while the countries there had centrally planned economies but it would do so as they moved towards a free market system.— Sapa Reuter.

## Excellent response to retail exhibition

A major retail exhibition is to be held at the National Exhibition Centre in Johannesburg from tomorrow to June 17.

Tim Reilly, chief executive of Exib-It, the company organising 'The Retailers Exhibition', says response has exceeded expectations with companies coming from as

far afield as Durban and Cape Town to show their wares.

"The show will have a wide representation of goods and services from all sectors of the retailing industry and particularly from consumer orientated products," he said.

Retail technology and support systems will also be well represented with accent

(58) str 12/6/90

How to read a balance sheet — 7

# Some common current liabilities

Yesterday we looked at current assets in some detail. This week, we examine some common current liabilities.

Remember, a liability is an amount the company owes to an outside party for goods or services provided. "Current" means that we will need to repay these liabilities later, because their treatment is slightly different.

Current liabilities usually comprise:

Accounts payable (also known as creditors). In the previous article, we described an asset called "debtors" (accounts receivable), which represented the amounts owing by PTI customers for goods bought on account.

In the same way, PTI usually also buys its raw materials on account and only pays for them in 30, 60 or 90 days' time. Thus, at any point, PTI is likely to owe its suppliers a certain amount of cash, which it will be liable to pay within the short term.

As such, these sums are classified as "current liabilities", and the companies or people to whom the money is owed are called "creditors".

Creditors or "accounts payable" may also comprise amounts owing to other parties. Examples are:

- wages or salaries owed to employees, but not paid at the date of the balance sheet;
- pay-as-you-earn (PAYE) tax due to the Receiver of Revenue for employees;
- GST payable to the Receiver of Revenue on goods sold to customers;

Invariably, you will find a caption for

Continuing the popular series on reading a balance sheet by Richard Buchholz of accountants KPMG Aiken & Peat.



'taxation' under current liabilities. This represents what the company owes the Receiver of Revenue for the tax payable on its profits for the year.

One way the owners (shareholders) are compensated for investing, or buying shares, in PTI is for it to pay them a dividend from time to time. For example, if PTI makes a profit, it can either retain the profit, or it can pay out a portion to its shareholders as a dividend.

The decision to pay a dividend is usually made by the directors, the people running the company on behalf of the shareholders. This decision usually will be based upon the company's needs and possibly the shareholders' expectations.

It would be pointless to pay out all the profit every year since the company would then be unable to grow. It needs to keep some profits to be able to expand its business and replace its assets. When the directors decide to pay a dividend, this is called "declaring a dividend". This is the usual way of informing shareholders and prospective shareholders that a dividend payment is in the offing.

The pay-out of dividends occurs some time after the dividend declaration. Once a dividend has been declared, the company is committed to paying it, and therefore it technically "owes" the shareholders the amount of that dividend until it is paid.

A company therefore very often declares a final dividend only once it is sure what its profit will be, which is naturally at the year end. It is therefore not unusual to find at the date of the balance sheet (the company's year-end) that a dividend has been declared, but not yet paid. Logically, therefore, this amount, which must be paid shortly, will be classified as a 'current liability'.

## Overdraft

If the company has a bank overdraft, you will find it under "current liabilities". It is not unusual for companies to run overdrafts although hopefully these are only temporary measures since these are quite expensive to run. Overdrafts generally are repayable on demand, and therefore are regarded as being a "current" liability.

We have now addressed the most commonly found current assets and liabilities. The only creditor not dealt with specifically, which often crops up, is the "inter-company creditor". This is the opposite of the "inter-company debtor" which was dealt with in the previous article.

TOMORROW: more assets and liabilities.

# IGI lifts dividend

By Derek Tommey

IGI Insurance has increased its dividend from 38c to 42c for the year ended March, although earnings on the increased capital declined from 226,5c to 201,9c (undiluted) and from 222,8c to 200,1c (diluted) a share.

The directors say that the higher dividend reflects the company's increased solvency margin which is standing at 48,4 percent. The strength of the asset base has enabled the company immediately to transfer the full 10 percent contingency reserve required by the Insurance Act, instead of adopting the option of reserving 2 percent a year for the next five years.

Gross premium income rose 8 percent to R456 million and net premium income rose 12 percent to R366 million.

IGI had an underwriting loss of R4,6 million (profit of R19,2 million). Investment income rose to R32,4 million (R21,5 million) and attributable profits were R30,2 million (R32,6 million).



# Argus growth slows in second half

12/6/90 By Ann Crotty (58)

A disappointing performance by subsidiary CTP Holdings aggravated the impact of generally weaker trading conditions in the second half and reduced Argus's full-year taxed profit growth to 15 percent, compared with the 36 percent recorded in the first half.

The rate of increase in attributable earnings was further held back by the reduced contribution from TML, whose earnings were knocked by a full tax charge.

Earnings per share were up 8,6 percent to R27,69 (R25,50). A final dividend of 600c (530c) has been declared, bringing the total to 875c (750c).

Highlights for the 12 months to end-March were a 17,6 percent hike in turnover; a 15,6 percent increase in trading income; interest charges up 15 percent; income from investments up 63 percent and pre-tax income advancing 19 percent.

Share of retained earnings from associates — composed chiefly of TML — was down 12,1 percent to R11,7 million (R13,3 million).

Attributable earnings for the group were up 9,9 percent to R56,5 million (R51,4 million).

Group profits derive from four major sources: Argus Newspapers, CNA-Gallo, CTP (all of which are consolidated) and TML, which only comes in at the associate level.

The approximate percentage

contribution to earnings from these sources were: Argus Newspapers 35 percent (up from 31 percent), CNA-Gallo 27 percent (from 23 percent), and CTP 16 percent (18 percent).

"Other" investments make up the outstanding three percent.

The change in year-on-year percentage contributions highlights CTP as the laggard in the group (allowing that tax was the reason behind TML's earnings cut). CTP suffered knocks on two fronts.

## Fincord losses

Although first-half growth looked reasonably strong, second-half performance was hit by the need to absorb Fincord losses (Fincord was sold during the year) and by the need to provide for deferred tax at subsidiary Hortors because assessed losses were used up.

The combination of these two factors resulted in a standstill profit performance at CTP.

By contrast, Argus Newspapers and CNA-Gallo managed to sustain a reasonably strong performance for the full year.

The former lifted turnover by 18,3 percent and pre-tax profit by 28 percent.

Management attributes the increase in margins to "tight expense control and efficient working capital management".

At CNA-Gallo attributable earn-

ings for the year showed a 26 percent increase.

The group's balance sheet shows the benefits of the tight asset management — working capital is up by only 15 percent, compared with the 17,6 percent increase in turnover.

In addition, borrowings are down to R76,6 million (R100,8 million), which has meant a reduction in gearing to 18 percent from 28 percent.

According to the balance sheet the book net asset value per share is R120,87, which is a considerable discount on the current share price of R172.

But as analysts point out on the basis of the current market value of the underlying assets, NAV is probably at a premium to the share price.

Despite the strong performance from the newspaper division, chief executive Doug Band is emphatic that a separate listing is not on the cards "in this climate".

And the rumoured share split has not even been considered at board level.

Looking to financial 1991, Mr Band is understandably reticent about a forecast: "Group budgets have been set to achieve growth in earnings. Achievement of this target does, however, rely on stability in the prevailing business climate."

He refuses to be drawn on whether he is looking for a nominal or a real earnings increase.

## Sage and Allied in row over directors

Star 13/6/90

By Derek Tommey (58)

A fierce row broke out at the annual meeting of the Allied Group yesterday between managing director Kevin de Villiers and Sage Holdings chairman Louis Shill. Sage is Allied's biggest individual shareholder with 10 percent of its shares.

The row led to three directors, who had recently joined the Allied board, failing to have their appointments confirmed. The appointments therefore fell away.

● See Page 14.

## HCI raises (58) final payout <sup>for</sup>

By Jabulani Sikhakhane <sup>13/3/90</sup>  
Hosken Consolidated Investment (HCI) has lifted its final dividend 28,5 percent to 36c for the year to March.

Attributable income was up to R18,0 million (R15,4 million), while earnings rose from 148,7c to 116,3 per share. Group assets exceeded the R1 billion for the first time from R778 882 million.

Executive chairman Michael Lewis says the life assurance and broking companies did well.

Although the competitive nature of the SA insurance market clipped IGI SA's underwriting results, foreign subsidiaries (IGI UK, IGI Botswana and IGI Zimbabwe) showed strong growth.

IGI SA had an underwriting loss of R4,6 million.

With the disposal of R McCarthy Construction, HCI is now fully focused on its core business of insurance, Mr Lewis says.



# CIBG scores in Corbank deal

13/6/90 By Ann Crotty

After a delay of 10 months Investec has acquired Corbank and, according to Investec, for about the same price it was ready to pay last August.

Investec has acquired the Corporate Merchant Banking division of Corbank for about R28 million from Corporate Investment Bank Group (CIBG — formerly Cape Investment Bank).

The corporate merchant bank division of Corbank is its major asset, but because Investec is buying a division and not the listed entity, it does not have to make an offer to Corbank's minorities.

These minority shareholders are currently considering an offer from CIBG comprising 60 new shares in CIBG plus R35 cash for every 100 Corbank shares held.

Yesterday CIBG was trading at 230c and Corbank at 155c, which means the CIBG offer is valued at R173 for 100 Corbank shares valued at R155.

But now Corbank's main asset is the R28 million cash that has come from Investec plus some trading activities (chiefly forex-related). The cash alone is equal to about 200c per Corbank share.

If the bulk of the Corbank minorities accept the CIBG offer, Corbank will be delisted on June 22.

CIBG acquired control of Corbank early this year. It is paying R4,83 million cash and issuing 8,27 million new CIBG shares for Corbank.

This suggests CIBG's fairly brief involvement with Corbank has significantly enhanced CIBG's balance sheet. It has resulted in a stronger equity base and produced a hefty cash injection.

## R2-m forex fraud: bank staff in court

Two First National Bank employees yesterday appeared in a Randburg Magistrate's Court in connection with charges of foreign exchange fraud involving R2 million.

Mrs Renee Baba (31) and Mr Lance Gavin Porter (26) were granted bail of R5 000 each. They will appear again on June 29.

Mr Porter, of Fifth Road, Randburg, and Mrs Baba of Rosebank, were employed at a Sandton branch and were arrested on Saturday. —  
Crime Reporter.

(58) (52)

Sta 13/6/90

In a R28m transaction . . .

CMT Times 13/6/90

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# Investec acquires Corbank

By **AUDREY D'ANGELO**  
Business Editor

**INVESTEC BANK** has bought Corbank from Cape Town-based Corporate Investment Bank Group (CIBG) in a R28m deal. An announcement last night said it would be paid for "through the issue of shares and/or cash".

Investec executive chairman Bas Kardol — who tried unsuccessfully to buy Corbank 10 months ago — explained that the details of payment still had to be worked out.

CIBG will ask the Reserve Bank to allow it to keep Corbank's foreign exchange dealing licence and will retain Corbank's Johannesburg dealing room.

"That was what they were after in the first place," said Kardol.

"And we do not need it because we already have our own."

He said the terms of the deal were very much in line with those in the original offer Investec made for Corbank last September.

The acquisition would put Investec a year ahead in growth projection. It meant that assets under Investec's administration would grow to more than R5bn. And it further positioned Investec as "a major player in its niche markets".

Kardol said there was considerable synergy between Investec and Corbank and the benefits would be significant. The acquisition would add about 8% to earnings per share on an annualised basis.

"Our stated policy is to grow organically and by acquisition. The rationalisation of the financial services industry is a major trend."

"This deal further strengthens Investec's already sound position and brings together very compatible forces."

The deal, which has still to be approved by shareholders, was facilitated by Errol Grolman, a founding director of Investec, who joined Corbank a month ago.

"I was asked by CIBG to reassess Corbank's asset structure and align this with the strategic objectives of the group. We identified Investec as the best candidate to deal with."

"Synergies were the greatest and the potential to maximise the utilisation of assets the highest."

Last night's announcement said that "management takeover is immediate and there will be no suspension of shares".

Andy Swartz, MD of CIBG, said the deal would give his group surplus cash for substantial asset and organic growth without the need of a rights issue. It would also ensure "that we comfortably comply with the provisions of the proposed Deposit Taking Institutions Act".

It would also mean a 20% rise in projected earnings for the period from July 20, 1990, to June 1991, from 44c a share to 53c.

CIBG chairman Jan Pickard junior said: "We believe the rationalisation of Corbank operations resulting from the transaction will greatly enhance our future earnings and our ability to service our client base."

● A separate announcement last night stated that a consortium consisting of Investec, CIBG, Errol Grolman and others would launch an investment banking fund. It would be managed by Grolman.



# Three Allied board members voted out of office

CAP 110/15 13/6/90

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## Own Correspondents

**JOHANNESBURG.** — The power struggle on the Allied Group board over the Allied/Sage co-operation agreement became acrimonious at a marathon general meeting yesterday when three prominent board members were voted out of office.

Hostilities bared, Allied MD Kevin De Villiers unsuccessfully proposed the non-re-election of 10% shareholder Sage's chairman and MD Louis Shill.

The outcome of the meeting could result in a new direction being taken by the group.

The appointments of Blue Circle chairman Trevor Coulson, Allied Building Society MD Don Hunter, and retired Commissioner of Inland Revenue Micky van der Walt, which were made during the year, were not confirmed by the meeting which lasted about four hours.

These three are believed to have adopted a "cautious" approach to the implementation of the agreement. Sage's position on the board was maintained by the re-election of Sage director Noel Mills.

One source said the bone of contention between the Allied and Sage managements revolved around the extent of implementation of the agreement which Allied claims costs the group R6m-R12m in lost profits annually and boosts the ailing profits of Sage. Sage fiercely rejects this allegation.

The agreement emerged out of the listing of Allied when Sage underwrote the issue of shares to the tune of R500m and there was a cross exchange of shares



Carol Scott has been appointed an executive director of Imphold.



Alan Jacobson has been appointed an alternate director of Mathieson & Ashley Holdings Ltd and Vestacor Ltd.



Michael McMahon has been appointed MD of Impala Platinum Holdings.

and directors with Allied. Sage took the maximum 10% stake in Allied allowed by law and Allied got a 20% interest in Sage.

De Villiers claimed yesterday that Shill had canvassed proxy votes to boost his 10% stake to 18%, giving him an overwhelming majority of the 25% of the shareholders present — and the power to remove the three directors.

The offensive had taken Allied management by surprise, he said.

Explaining his actions, Shill said: "We exercised our vote for the first time in the three years since Allied was listed on the JSE."

"Our action was prompted by the fact that Allied was not performing satisfactorily

and was not conforming to the substantial agreement and forms of co-operation we entered into in spite of our repeated requests for the situation to be rectified.

"Allied management did not take cognisance of the views of non-executive directors and we were not getting anywhere. So we decided to exercise our vote.

"We are aiming at establishing a stronger executive committee of the board and the appointment of a new chairman. The first meeting of the new board will hopefully reflect the shake up", Shill said.

De Villiers said he had opposed the re-appointment of Shill on the grounds that he could not deal objectively with

Allied's interests regarding the agreement and that Sage's results were uninspiring and no credit to Shill.

Furthermore, De Villiers gave the meeting details on Shill's "behaviour" regarding the agreement over a long period of time.

Shill was re-elected to the board with 57m votes for and 38m against. De Villiers also unsuccessfully opposed the re-election of Hugh Boonzaier, a stockbroker and former president of the JSE.

De Villiers said he was disappointed that the dispute over the agreement had deteriorated to such an extent, emphasising that over the last eight months Allied's management had been involved in the for-

mulation of two alternatives to the agreement, one of which involved the inclusion of several third parties. The response from Sage had not been negative, he said.

"Management, who are also shareholders, have been looking for a positive way out of the agreement which would not involve washing our laundry in public and not involve giving notice to end it. We were not prepared to unilaterally end the agreement and believed the chances for a solution were quite high," said De Villiers.

But Shill said last night that Sage was unaware of any such proposals regarding the agreement and that it had been "more than patient in waiting three

costly years for Allied management to honour the undertakings in the agreement."

A director's meeting today could be a last minute attempt to resolve the issue.

Another possibility is for directors or shareholders to call a special general meeting in the next two months to air the dispute. De Villiers is confident that were this to occur, the Shill block of votes would be outvoted.

Chairman Dennis Paxton compulsorily retired yesterday and will have to be replaced at the next Allied board meeting, scheduled for June 25.

The Allied share price rose 2c to 132c in heavy trade yesterday.

## Business sector must power growth — Volkskas economist

By Sven Lünsche

The business sector and individuals must put their houses in order and become the engine of economic growth, says Volkskas economist Adam Jacobs.

In the bank's Economic Spotlight Mr Jacobs warns that for the foreseeable future the authorities will not take the lead in promoting growth.

"Economic policy is formulated to address structural problems over a period of time, for

example, by bringing about greater economic stability.

"In our opinion, this is the correct approach and we support it. The business sector and individuals must take note of this and put their house in order," warns Mr Jacobs.

"Priority must now be given to increased efficiency, sound business principles, better financial management, lower debt and greater saving, as well as maintaining, modernising and

extending the economic infrastructure and production capacity with a view to more effective production and rendering of services."

Mr Jacobs feels the authorities are justified in not promoting growth at present.

"In the light of the current low level of foreign exchange reserves, the high inflation rate and still relatively low savings, to list but a few examples, it would be unwise to propagate

deliberate growth-stimulating actions.

"If this happens, the country will experience a typical mini-upswing and even greater economic headaches will be in store," he says.

Mr Jacobs adds, however, that while growth will not be promoted through fiscal and monetary policy, he sees no reason at all further to tighten economic policy at present.



How to read a balance sheet — 8

# Expanding the equation

Remember the accounting equation:

$$\text{Share capital} + \text{Profit} = \text{Assets} - \text{Liabilities.}$$

We can now expand this on what we now know to be:

$$\text{Share Capital} + \text{Profit} = \text{Fixed assets} + \text{Non-Current assets} + \text{Current assets} - \text{Current liabilities} - \text{Long-term liabilities.}$$

As we mentioned previously, 'Long-term liabilities' is regarded as a special type of liability and is explained in the next article. If we take this equation (your mathematics skills are required here) and place long-term liabilities on the left-hand side of the equation, we get:

$$\text{Share capital} + \text{Profit} + \text{Long-term liabilities} = \text{Fixed assets} + \text{Non-current assets} + \text{Current assets} - \text{Current liabilities.}$$

or

$$\text{Share capital} + \text{Profit} + \text{Long-term liabilities} = \text{Fixed assets} + \text{Non-current assets} + (\text{Current assets} - \text{Current liabilities})$$

(The items placed between brackets represent 'net current assets'.)

As you will appreciate, we have previously dealt fully with the right-hand side of this accounting equation.

We need now to turn our attention to the left-hand side. Remember, we called the left-hand side 'capital employed' and the right-hand side 'employment of capital' — and this is exactly how you will find most balance sheets are structured.

We will now look at the 'capital employed' of our model company, PTI Ltd.

The first thing likely to be found in a balance sheet under 'capital employed' is a caption called **SHARE CAPITAL**.

In Parts 1 and 2, we described how the 10 owners who, in return for their investment of R2 000

Continuing the popular series by Richard Buchholz of accountants KPMG Aiken & Peat.



each, received 'shares' in PTI representing the amounts they had contributed.

In effect, PTI issued 2 000 'shares' of R1 each, indicating that it 'owed' each shareholder R2 000. We called this amount 'owners' capital'.

The face value or issue value of each share is called its 'par value'. The par value of the PTI shares was set at R1 (you will always be able to ascertain the par value of a company's shares by looking at its financial statements). In our example balance sheet (Article 5), share capital is R53 578.

**SHARE PREMIUM:** You are likely to come across this caption in a number of financial statements.

One of the advantages of holding shares in a company is that if you wish to withdraw, you can sell your share(s) to someone else.

Remember, too, that if the company is profitable, the shareholders will be entitled to a share of its profits.

Finally, should the company be liquidated (only under very unusual circumstances would a profitable company be liquidated), the shareholders would be entitled to their share of the company's assets and liabilities.

Because the expectation is that the value of your shares is likely to increase as profitability grows, should you decide to sell your shares, they will usually be worth more than the face (or par) value of the share certificate.

This is what happens on the Johannesburg Stock Exchange. People buy and sell shares well in excess of their par values, because the companies whose shares they

are buying are generally (one hopes) worth a lot more than the face value of those shares. As the company makes profits, so the value of its shares should increase.

On the balance sheet, the share premium account is simply a special type of share capital account, and represents funds that shareholders have invested over and above the par value of the share certificate.

Let us assume a well-established, profitable company decides to 'issue' additional shares to prospective shareholders, and the 'par' value of its shares is R1.

Let us also assume that its shares are priced at R10 (the company would be foolish to issue new shares for R1, because anyone who bought a share for R1 could immediately sell it for R10).

In such a case, the company would issue its shares at a 'premium'. In our example, the company would issue its R1 face value shares at a 'premium' of R9.

The share buyer would pay R10 but would still receive a share certificate with a face value of R1 (don't forget, however, the real worth is R10, so a shareholder could sell it for R10 and would be none the poorer).

From the company's viewpoint, it will have received R10 in return for issuing a certificate with a face value of only R1. It calls the R1 'share capital' and the R9 'share premium'.

Finally (if your head isn't spinning by now), you may sometimes find a balance sheet without the 'share' capital or 'share' premium captions; in their places you may see a caption entitled 'Stated capital'.

Some companies choose to issue shares with no par (or face) value. In this case there is no such thing as a 'premium'. The full amount the shareholders have invested goes into 'stated capital'.

Share capital, share premium and stated capital all represent the same thing: Money the shareholders have invested in the company.

**TOMORROW:** The concept of 'reserves'.



# Remgro matches earnings forecasts

13/6/90 By Sven Lünsche (58)

Rembrandt Group's (Remgro) earnings showed an improvement very much in line with expectations, rising by 25 percent to R751,9 million (R600,9 million) in the year to March.

This translates into earnings a share of 144c (115,1c). The final dividend has been lifted to 16,25c (12,5c), bringing the total to 25c (20c).

While little is revealed in the income statement about the contribution of various divisions, Davis Borkum Hare analyst Pierre Greyvenstein believes Gencor's strong performance has had a profound effect on Remgro's investment portfolio evaluation.

GFSA's contribution to earnings is estimated to have risen from 5,4 percent to 7,1 percent after Rembrandt doubled its stake in GFSA to 20 percent following the sale by Hanson of the UK.

However, the group's tobacco interests, which represent just over 30 percent of earnings, are only growing at about 17 percent per annum, in line with the downturn in consumer spending, says Mr Greyvenstein.

Other group companies performed in line with Remgro.

Rembrandt Controlling Investments' net income rose to R384,1 million (R307 million), while a total dividend of 18,51c (14,81c) was declared.

Technical Investment Corporation improved net income to R155,9 million (R124,5 million). The total dividend was lifted to 16,24c (13c).

Technical and Industrial Investments' net income rose to R131,1 million (R104,7 million), the total dividend rising to 17,22c (13,78c).

# Three of Allied's directors sacked at stormy AGM

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Sage 13/3/90

By Derek Tommey

Shareholders attending the annual general meeting of the Allied Group in Johannesburg yesterday were surprised and shocked when a number of dissident shareholders led by Lous Shill, chairman of Sage Holdings, refused to confirm the election of three directors to Allied's board.

Sage Holdings is the largest single investor in Allied with 28 million shares, or 10 percent of the share capital.

Sage paid R1,62 for the shares, which were trading at R1,32 yesterday.

Allied, in turn, has a substantial stake in Sage Holdings, which originally cost it R70 million. Today that investment is worth about R40 million.

Shock was felt when Kevin de Villiers, Allied's group managing director, opposed the re-election of Mr Shill as a director.

Mr de Villiers said after the meeting that while there had been a disagreement with Mr Shill recently, he had not expected the appointments to be attacked in this way.

He was considering calling an

extraordinary general meeting at which he could put his case to all the shareholders.

The directors whose appointments were not confirmed were Trevor Coulson of Blue Circle Cement, Don Hunter, a senior Allied official and WJH (Micky) van der Walt, a former Commissioner of Inland Revenue.

The three had been appointed to the board in the past year.

The directors who were re-elected or confirmed were stockbroker Hugh Boonzair, Noel Mills of Sage Holdings, Louis Shill, Normal Alborough of Allied and Joe Pamensky, a business consultant.

The confirmation or re-election of each director was subject to a share poll.

As a result, the annual meeting which began at 9am was not concluded until 1pm.

Mr Shill and his supporters commanded the support of about 53 million shares.

Another three million shares were voted at the meeting, while holders of 13 million shares who were present abstained from voting.

Bernard Näckan, alternate

director to Mr Shill, said Sage Holdings believed there was a need for greater participation by Allied's directors in the group's affairs and that a restructuring of the board would achieve this.

Mr de Villiers said his relations with Mr Shill had not been too cordial of late.

He had criticised the running of the company and had even threatened to sue Allied over what he considered a breach of Allied's agreement with Sage.

Industry sources said yesterday the disagreement between Mr Shill and Allied appeared to stem from Allied's failure to push Sage's products.

Asked about this, Mr de Villiers said that Allied had two major schemes in hand to increase its co-operation with Sage Holdings.

"However, after yesterday's 'declaration of war', I'm not sure what our plans will be," he said.

The Allied Group recently reported a 30 percent increase in earnings to 23,3c a share in the year to March and declared a dividend of 11,5c a share — an increase of 9,5 percent over last year's payout.



# SOWETAN BUSINESS

Building the Nation



Dennis Marriller

## Opening the doors to the stock exchange

Steve from 14/6/90

THE Johannesburg Stock Exchange is a closed book to most people, but this must now stop. For the next four weeks, starting today, Southern Life's Denis Marriller will be giving us an insight into the exciting world of investment and the stock exchange.

IS there a difference between saving and investing? Not really.

Saving is usually used in connection with many of the products which banks and building societies provide. A savings account is an obvious example. Whenever you have spare cash, you put it in

the savings account, and when you need money, you draw it out again.

An investment suggests that there is more to it than simply putting your money in and drawing it out again. Investment means making your money work for you - and it could involve some risk

as well.

Buying and selling stock market shares could be referred to as investing rather than saving.

But there are other questions which are probably more important. Where should I invest my money? Which company should I use? And which

savings or investment plan will be best for me?

What I would like to do in this and subsequent articles, is give you, the reader, answers to some of your questions. Please remember, however, that savings and investment is a personal matter.

You will need to dis-

cuss your personal position with a trusted adviser in order to make the right decisions to suit your circumstances.

1. What do you want from your investment plan?

Most investment plans only do one of two things for you.

On the one hand, you could invest in a scheme or plan which will make your money grow - or, to put it another way, build up capital. Whether you pay in a single amount or

\* To Page 20

## Opening the doors to the Stock Exchange

Steve from 14/6/90

\* From Page 18  
save regularly (each month) the idea is to increase your wealth by building up capital.

Normally, you would use this type of investment for a specific reason and when completed, you will be able to satisfy that reason.

In this and future articles, I will concentrate on this type of investment.

On the other hand, you may want your money to work for you by providing you with a regular payment. To do this, you would already have a sum of money and you now require to draw from this amount to live on.

### Annuities

Banks and building societies have a number of investment plans which allow you to draw money on a regular basis. Life insurance companies offer an investment known as an annuity.

This investment pays a monthly income (also known as a pension). When discussing this type of investment, be sure to ask about the income tax implications. In most cases, you will be required to pay income tax on some of the money you receive.

2. Why do you want to save money?

Are you simply saving money for a rainy day or do you have a specific target in mind? The im-

portant point is that the time that you will take to save your money makes a difference to the type of investment plan you should be considering.

### Your goal

If you want to achieve your goal in less than one year, you should be talking to a bank or building society. They offer savings plans and deposits where you can put your hands on your money immediately or at short notice.

So, if - for example - you are planning a holiday at the end of a year, or saving for the deposit on a car next year, visit your bank or building society.

Now, consider saving money to educate your children. If you are only going to need the money in 10 years - or later - several insurance companies offer attractive policies designed to provide for children's education.

An advantage of these policies is that many of them offer other benefits as well - such as providing protection if, say, the father dies before the plan has been completed.

Because of inflation (increasing cost of living) it could happen that the amount payable at the end is not sufficient to cover the full costs of educating your child. Be prepared, therefore, to supplement

your child's education programme by using other investment at a later stage.

If you are going to need money for your child's education before 10 years are up then you should not be considering an insurance policy - which must run for 10 years or more.

You could consider one of the plans offered by the banks or building societies but if you are going to invest for 3 to 10 years, I would strongly suggest you consider unit trusts.

### Advisor

Remember, though, that unit trusts are stock market investments and it is in your interest to have your advisor explain what is involved - including the risks that may be incurred.

Saving the deposit on your own home is another important reason for wanting to build up capital. It might well take some time before you can actually go out and buy the house you want, where you want. But do not be caught napping. Start your investment plan today so that when the time is ripe, you have the deposit.

Again, the question of how long you are prepared to wait before you put down the deposit on your own home will influence the type of investment you need to con-

If you want to make the purchase within three years, pay a visit to your bank or building society.

If you need to invest for 3 or more years to build up the deposit, think about unit trusts.

Should you believe it will take 10 years or longer, you could use an endowment policy from an insurance company.

### Retirement

What about saving for your retirement? Usually, saving for investment involves long-term investment. Insurance companies offer two products which are ideal for retirement saving.

Firstly, they sell endowment policies. An endowment policy requires that you invest a fixed amount (which can increase each year) until the policy pays out. You then receive a lump sum which is full tax free.

Should you die before the policy is due to pay out, a sum of money is payable to your beneficiaries.

### Options

It is also possible to include disability protection benefits with an endowment policy.

Another policy marketed by insurance companies for retirement savings is called a retirement annuity.

Retirement annuities (RA's) can be bought to

years (less than 10 if required) but you cannot draw benefits before you are 55 years old.

When an RA becomes payable, you can draw about one third of your capital in cash and the balance will be paid to you in the form of an annuity (pension).

When discussing retirement annuities, be sure to ask about the income tax consideration.

Another very useful investment for retirement benefits is a unit trust. This, too, can provide a tax free lump sum on retirement and there are no restrictions on when you can make withdrawals.

3. What sort of risks are you prepared to take?

If there is a chance that you could lose your money in an investment they you are looking at a high risk investment. Investing with a reputable institution will result in you carrying very little risk at all.

Short term investments - such as those offered by banks and building societies - usually carry guarantees, making them risk free.

### Insurance

Insurance policies also carry guarantees although these are much lower than the potential payout figures.

Some investments,

no guarantee and you need to rely on the expertise of the investment company to achieve your returns for you.

But why is taking some risk - even if the risk is very low - necessary? Inflation - that is the simple answer.

If you invest at 10 percent and the inflation rate is 15 percent then, at the end, your money is worth less than it was when you started. So, even if you have more money in your hands, you cannot buy as much as with it as you used to be able to do. Therefore, you need to look at investments which can beat inflation.

### Investment

Stock market investments, which include unit trusts and certain insurance policies, have a record of beating inflation but, because of low or no guarantees they can be seen as more risky than bank or building society investments.

4. Are you committed to your savings goal?

If not, then why save - you may well ask? Surprisingly, many people start a savings programme and then let it fall by the wayside.

In some cases - insurance policies, for example - this could mean that you lose money.

Before you decide on

plan, make sure you can afford it. If necessary, rather start with a smaller amount and increase it when you can afford to.

When making enquiries about the type of plan you are interested in, be sure to ask whether the amount can be increased from time to time, because certain investment plans do not allow for this.

Whatever your reason for wanting to invest, you should always try to stick to your plan. Make sure, at the beginning, that you can afford to meet your commitment and then do so.

If possible, invest in a plan which allows you to pay a set amount each month and then put in an extra amount when you can.

### Hints

Hopefully, I have been able to give you some hints on planning your savings but you should still speak to a qualified advisor.

Banks, building societies and insurance companies employ people who are trained to give advice to people like you and me. And remember, not only is their information free, your call or visit will not place you under any obligation.

Next week I will tell you something about the Johannesburg Stock Exchange - how it works and what it stands for.



# Sage seizes control of Allied group

B/Dam 14/6/90

SAGE has effectively seized control of banking group Allied, after the appointment of chairman and MD Louis Shill to the chair of Allied's board executive committee yesterday.

At a hastily convened meeting of directors yesterday, Shill emerged as the victor in his clash with Allied MD Kevin de Villiers.

Shill said his aim was to strengthen the executive committee to enable it to take necessary strategic decisions on a long-term basis.

After yesterday's meeting, De Villiers said he was certain his job was on firm ground, despite the hostilities which emerged at the Allied AGM on Tuesday.

Sources said that with Shill now in a dominant position on the board — a position normally occupied by the group's chairman — De Villiers might well be rendered ineffectual on any debate on the contentious co-operation agreement between Sage and Allied.

Senior general manager computers

### BRENT MELVILLE

Fritz Rieseberg confirmed there was still a dispute over the financial terms of the group's shared computer services.

However, De Villiers said both parties had undertaken to resolve conflicts or disputes which might exist regarding those agreements.

He said all disputes should be ironed out within about two months, adding that it was "unlikely" directors would now call a special general meeting to air the disputes.

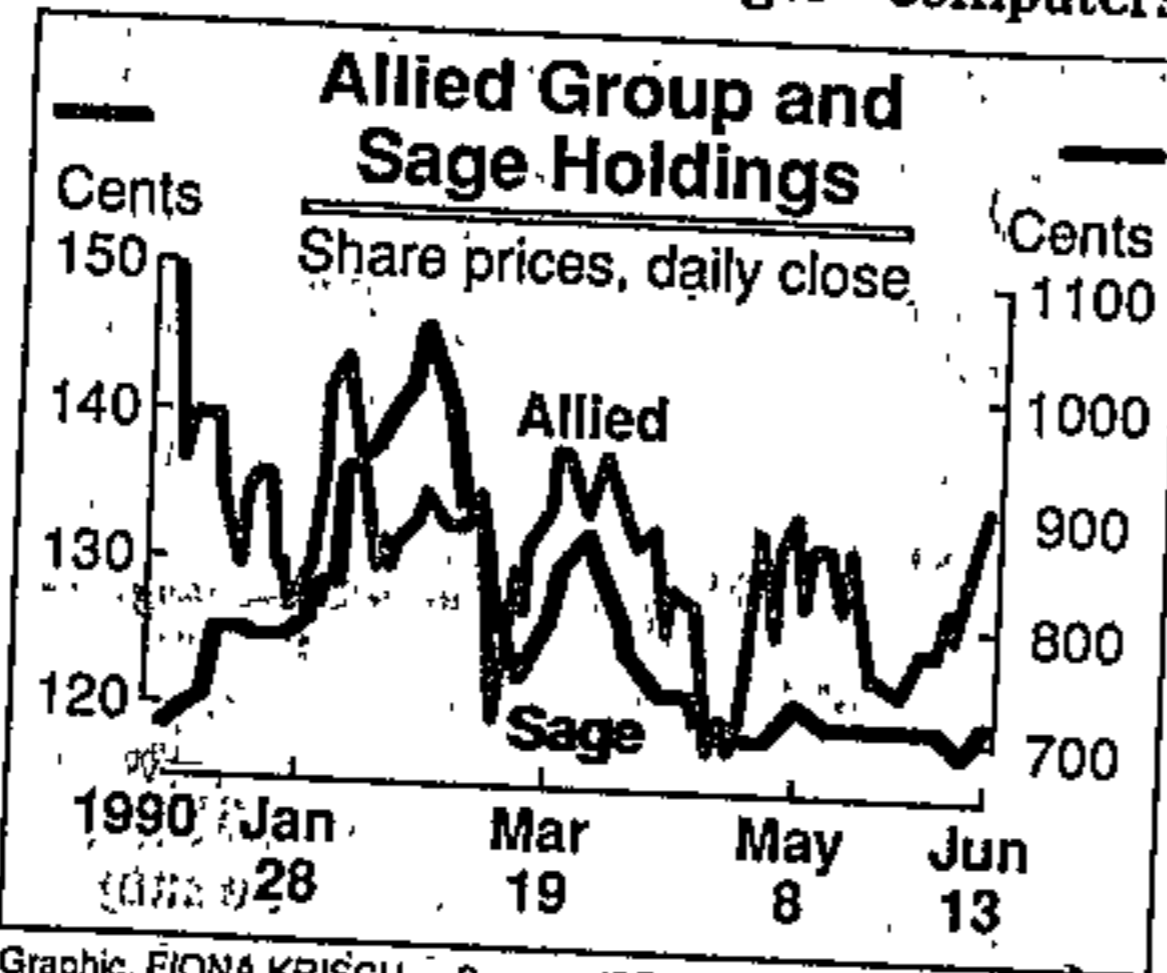
Shill now heads an executive committee consisting of De Villiers, banker Norman Alborough, lawyer Jeff Bortz, industrialist Rob Monthe and independent business consultant Joe Pamensky. Alborough, Monthe and Pamensky were appointed chairman, senior deputy chairman and deputy chairman respectively of the Allied board.

Yesterday's meeting, which lasted over two hours, was called after Tuesday's acrimonious AGM at which three directors were voted out of office. At issue was the implementation of the Allied/Sage co-operation agreement.

At the AGM Shill led a majority of the 25% of shareholders present to move Blue Circle chairman Trevor Coulson, Allied Building Society MD Don Hunter and retired Commissioner of Inland Revenue Mickey van der Walt off the board.

Hunter, who arrived back in SA from Europe yesterday, said it came as a surprise to find he had not been confirmed on the board, "especially in view of the fact that Sage had voted in favour of my ap-

□ To Page 2



Graphic: FIONA KRISCH Source: JSE

## Allied

B/Dam 14/6/90

pointment three months ago". Coulson and Van der Walt declined to comment.

Yesterday, De Villiers said: "All I can say is that I am happy with the decisions and appointments and feel they will have a positive impact on the conduct of the affairs of the group."

□ From Page 1

Allied shares yesterday gained 3c to close at 135c.

Sage climbed 30c to 720c a share, however analysts said they doubted that the boardroom drama would have any effect on the share price, due to the diversity of its holdings.

● See Pages 3 and 9

## Benefits to be reaped in changing Bank's policy

ANDREW GILL

MODIFYING the Reserve Bank's current forward exchange arrangements would reap benefits in the form of more effective control over domestic money supply, the Bank of Lisbon said in its latest Economic Focus.

Other benefits would be more realistic exchange and interest rates, which, it added, could become exceedingly volatile if the Reserve Bank did not disengage from the forward cover market.

Real domestic interest rates were not unduly high by the standards of major industrial countries, and keeping them at suitably high rates would lead to the reduction of forward cover losses.

It said the "other assets" item on the Reserve Bank's balance sheet, which stood at R17,5bn in October 1989, mainly reflected losses incurred from forward exchange operations, which had increased from 21% of total assets in 1981 to 60% in October.

This was a major reason for the increase in the money supply last year, which in turn boosted the inflation rate and further depreciated the rand.

A "pernicious spiral of forward cover losses and currency depreciation" could be set in motion unless the Bank drained liquidity from the banking system, the report said. Bloom 14/6/90

The Bank's withdrawal from the market would lead to higher interest rates and stricter monetary policy. A combination of these would lead to successful control of the money supply and an improved budgetary position for government, the report said.

The rationale behind the Bank's present policy of gradually withdrawing from the forward market was that an abrupt withdrawal would lead to a sharp fall in the rand's external value, complicating the lowering of the rate of inflation. However, losses incurred by the Bank under present arrangements had inflationary implications, "and this impetus to inflation would be removed if the bank withdrew from the forward market".

**IES**

B10 a 14/6/90

(58)

## Efficiency focus for Quorum

QUORUM Holdings will have to place substantial emphasis on operating efficiencies and stringent financial controls to maintain the growth pattern achieved to date, chairman Harry Haralambous says in his annual report for 1990.

Quorum, which finances high technology equipment, recently moved from the DCM to the main board.

"In the latter part of the 1989/90 year the hardening of interest rates exerted a concomitant pressure on margins,"

**PIERRE DU PREEZ**

However, it is anticipated that during the current year, with greater "market visibility", Quorum Insurance Company (QIC) will continue to grow.

Quorum Holdings consists of Quorum Leasing Services (QLS), Quorum Insurance Company (QIC) and Quorum Managed Portfolios (QMP).

Haralambous says the coming financial year should see the beginning of new business.



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How to read a balance sheet - 9

# Reserves — profit kept for future use

We now turn our attention to the next item found on the balance sheet, entitled "Reserves". Our accounting equation:

$$\text{Share capital} + \text{profit} + \text{long-term liabilities} = \text{Fixed assets} + \text{non-current assets} + \text{net current assets}$$

includes "Profit". Reserves on a company balance sheet are synonymous with the profit item.

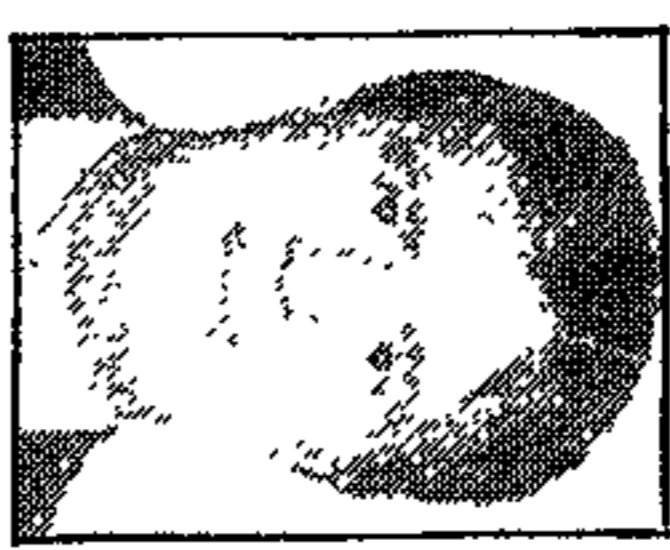
There are two basic types of reserves: Distributable and non-distributable reserves.

**DISTRIBUTABLE RESERVES:** Distributable reserves are the profits of the company after payment of the dividends, which have accumulated over the years.

They therefore represent the accumulated profit which could be distributed to shareholders if the directors so wished. They are called reserves, because we are effectively keeping profit in reserve for some future use. Some companies call these reserves retained income.

**NON-DISTRIBUTABLE RESERVES:** Some of the retained profits

Continuing the popular 19-part series by Richard Buchholz of accountants KPMG Aiken & Peat.



will not immediately be distributable to the shareholders. There are a number of reasons why not.

Suffice it to say that accounting convention and company law usually dictate which reserves will be regarded as being distributable as opposed to 'non-distributable' reserves. There will nearly always be a note in the financial statements explaining what the non-distributable reserves are.

A common type of non-distributable reserve is the "surplus arising from revaluation" of an asset.

Sometimes, a company will decide to revalue an asset (usually land and buildings). The reason is that in inflationary times the true (or market)

value of land and buildings rises fairly steadily from year to year. To show these assets at their original cost would be misleading.

On the balance sheet, the revaluation amount is usually taken to a non-distributable reserve, because what we are saying is that we have increased the value of these assets, but the amounts will not be distributed to the shareholders until those assets are sold.

The final major item on the left-hand (capital employed) side of our accounting equation is

**LONG-TERM LIABILITIES:** Remember that a short-term or current liability is an amount the company must repay within a year. By definition, therefore, a long-term liability is an amount the company has borrowed, but only has to repay beyond the period of a year.

An example would be a large bank loan which it promised to repay at the end of five years. A common reason why companies seek such large loans is to be able to buy property or expensive new machinery for which they do not have such large amounts of money at

their immediate disposal.

For example, if our model company PTI wished to buy land for a new factory it would quite likely approach a bank or building society for funds. In return, the building society or bank would pass a mortgage bond over the property as security.

This loan would be shown as a long-term liability in PTI's books, as it is only repayable over a long period.

It is more accurate to treat long-term loans needed to run the business as "capital employed" rather than as "employment of capital" because these loans are so long term in nature. We therefore keep long-term liabilities on the left hand side of the accounting equation.

There are a few other items on the left-hand side of the equation we have not yet considered. These could be unusual reserves or unusual types of long-term liability, and will be explained when we deal with the notes to the financial statements. The most commonly encountered special cases are deferred taxation and outside shareholders' interest. Tomorrow: The income statement.

# CM1-7145 14/6/90 (58) Allied/Sage groups reach agreement

By ARI JACOBSON

PEACE descended on the Allied/Sage camps yesterday when an Allied Group's board meeting acknowledged the co-operative agreement struck between the two parties, and "an undertaking to work positively to remove any conflicts that existed," a joint statement said.

The outcome of the meeting, a follow-on from the hostilities the previous day, saw Norman Alborough appointed chairman in place of Dennis Paxton, who was retiring; Rob Monthe shifting up from deputy to senior deputy chairman and director Joe Pamensky ascending to deputy chairman.

Another significant appointment was that of Sage's chair-

man, Louis Shill, to head the executive committee's board.

Market sources said this should entrench Sage's position within the Allied group — supported by the departure of Blue Circle chairman Trevor Coulson, Allied Building Society MD Don Hunter and retired commissioner of Inland Revenue Micky Van Der Walt, from the board at the AGM the previous day.

The battle at Allied's AGM centred around Sage's claim that Allied had failed to market its products as part of a contractual agreement struck three years ago with the full Allied board.

Louis Shill said the contract was a "total composite agree-

ment" spanning all basic areas of service co-operation.

The alliance was solidified with Sage's 10% legally permissible stake in Allied, at the time of listing, with Allied reciprocating by holding 20% of Sage.

Sage underwrote the issue of shares amounting to R500m which Shill said underscored the risks attached to holding shares at a premium to the market price.

"The arrangement also involved the sharing of Allied's excess hardware facilities, which had cost benefits for both parties."

But the deal was broader than mere shared facilities said Shill, with the groups expected

to focus on separate terrains to avoid duplications.

"Sage occupied the non-banking post, with its products, which included life assurance and unit trusts, to be marketed by the Allied."

Shill said Allied's MD Kevin De Villiers failed to honour the agreement — demanding a user charge on computer facilities to recover what De Villiers claimed was an estimated R6m to R12m in underpayments.

A banking analyst said the eruptions had stemmed from the desire, of both institutions, to survive under the strains dominating the banking sector.

"De Villiers and Shill are two strong personalities each wanting to do things their way."

# Allied and Sage patch up quarrel

St 14/6/90 (S)

By Derek Tommey.  
Louis Shill, chairman of Sage Holdings, and Kevin de Villiers, managing director of the Allied Group, appear to have settled amicably their disagreement about the implementation of the Allied-Sage co-operation agreement.

The row over the agreement came into the open on Tuesday when Mr Shill voted against the confirmation of three Allied directors.

The Allied board said last night that both parties had undertaken to work positively to resolve any conflicts or disputes which might exist in regard to the Allied-Sage co-operation agreement.

## APPOINTMENTS

The board announced a number of appointments. It said it was satisfied that these decisions and appointments would have a positive impact on the conduct of the group's affairs. This was the unanimous view of the directors.

Norman Alborough has been appointed chairman of Allied. RW Monthe, formerly deputy chairman, becomes senior deputy chairman. Joe Pamensky becomes deputy chairman.

## EXECUTIVE

The board of directors' executive committee will consist of Mr Shill (chairman), Mr Alborough, JM Bortz, Mr de Villiers, Mr Monthe and Mr Pamensky.

Mr Pamensky will be chairman of the Audit Committee.

Other members will be Mr Alborough, Hugh Boonzaier and Mr Bortz.



Black, yellow and green for 'ANC' bank

Capt Nika 14/6/90

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Staff Reporter

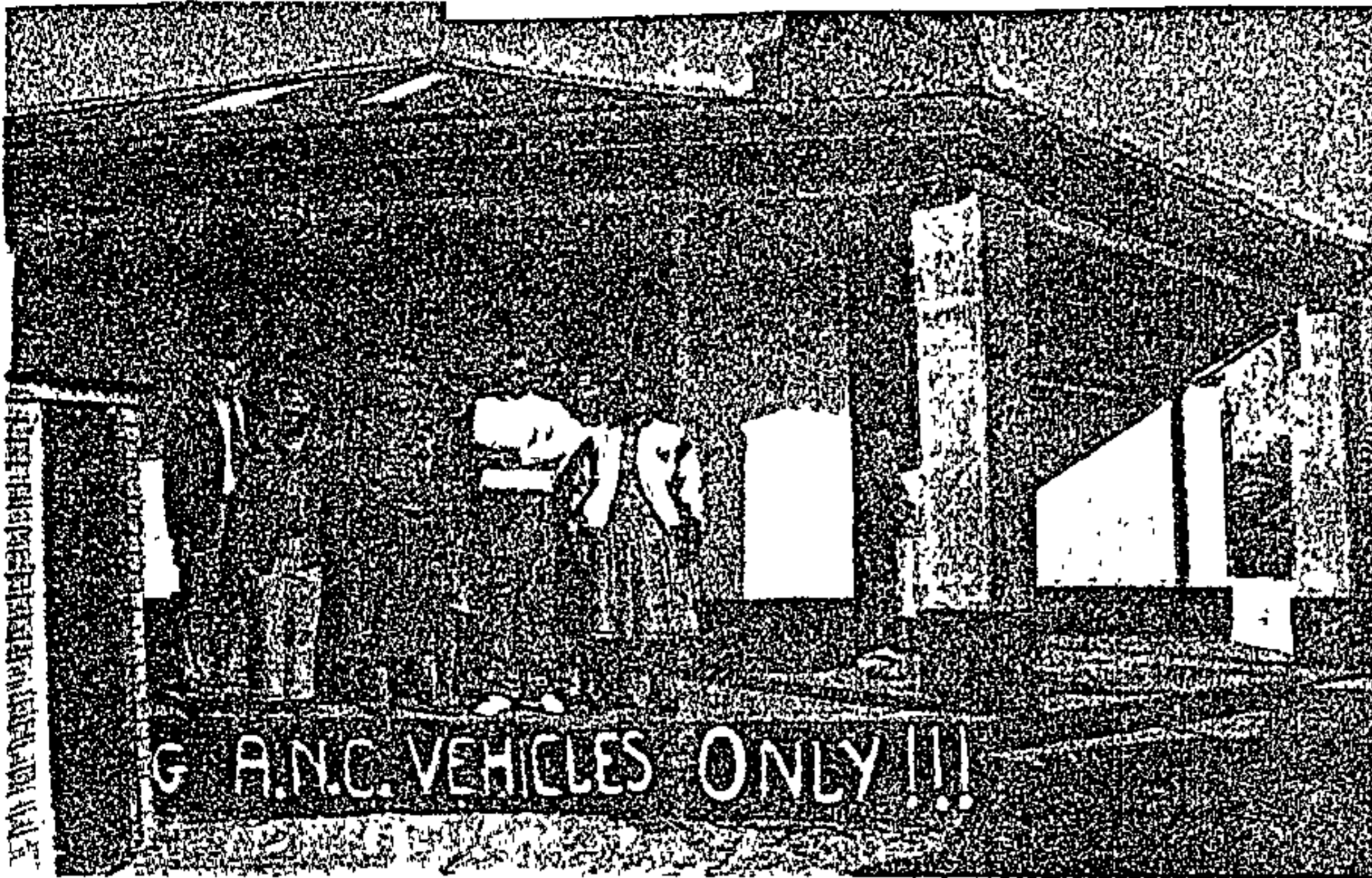
THE ANC has started operating as a financial institution in Athlone, from a building sporting the liberation movement's colours.

But the "African National Co-operation" is not part of the African National Congress nor is it trying to pass itself off as an "ANC bank", the co-op's director, Mr Victor Nika, said yesterday.

The ANC colour scheme seems to have gone down well with the community, with 30 agents busily signing up African National Co-operation members who pay a R5 membership and R50 security fee to qualify for co-op aid. Mr Nika said he had had no opposition from the ANC.

Mr Nika said the co-op had repeatedly applied to be registered by the registrar of financial institutions, but was advised to register as a welfare organisation, which it was now in the process of doing.

The African National Co-operation did not have much capital at present but was hoping the state would make good its promise of state aid to the underdeveloped sector, Mr Nika said.



WE'RE YOUR (B)ANC ... African National Co-operation director Mr Victor Nika, front row, second from the right, with members of his staff outside the co-op's offices in Athlone yesterday.

Picture: OBED ZILWA

# Shill's influence over Allied questioned

DISAGREEMENT exists between Sage chairman and MD Louis Shill — now also chairman of Allied's board executive committee — and Allied MD Kevin de Villiers as to the extent of Shill's power over the group.

At question is whether Shill has effective control over the banking and building society. Shill seems to think so. He pegs the committee as "the ultimate decision-making body to which management reports".

However, De Villiers said the board of directors had ultimate control — positioning ex-Nedbank director and newly appointed chairman Rob Alborough as the

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BRENT MELVILLE

man pulling the strings. De Villiers pointed to Business Day's assertion yesterday that Sage had effectively seized control of Allied as misleading. "In fact, Sage is prohibited by law from owning more than 10%."

Shill, now in the committee driver's seat, believed the committee's "expanded powers" would enable it to make strategic and long-term decisions necessary to implement the co-operation agreement — the centre of the De Villiers/Shill boardroom storm on Tuesday. "It is a step forward."

BIDEN 15/6/70

● See Page 8



## STOCKBROKERS' RATINGS

# Bringing home the bacon

■ The leaders still innovate — and now political analysis helps their focus

Stockbrokers' analysts have a reputation for earning high salaries — but the business is highly competitive. There are dozens of analysts seeking to impress a limited number of institutional investment managers.

Only the best and most determined manage to make a real impact. And it helps to work for a firm which is conscious of the need to market the research.

That may be one way of interpreting the results of the latest *FM* survey of brokers' research. Of course, another view may be that some firms simply are not getting their money's worth. On the whole, the rankings remain dominated by familiar names. Some firms which deploy sizeable resources on research are not greatly conspicuous in the sectoral rankings.

However, it should be emphasised that institutions which participate in this survey are simply asked to name the best analysts and firms in each sector — and in many cases there are a lot of names to choose from.

For the past couple of years, before sending questionnaires out to institutions, we have asked the stockbroking firms to supply a list of their analysts and sectors covered; the resulting list with questionnaires was sent to institutions.

When the latest list was compiled in March, there were no less than 51 analysts covering industrial companies, 58 covering the mining board, 19 producing research on economic trends and 15 researching insurance, banking, and financial services.

There was some overlap, with a few researching both mining and industrial companies, for example, but each analyst would have been considered for the sectors he or she was covering.

Given those num-

bers, it is a considerable achievement to attain sufficient support to be ranked in the first four — irrespective of the actual ranking.

In gaining that support, the experienced analysts must have a considerable advantage. Usually, though certainly not without exception, it takes time to overtake those who are well established.

From the firms' standpoint, the need to replace analysts who have moved to competitors or emigrated may be a disadvantage for a while.

Notably, firms with more stable and experienced teams, particularly Martin and Ivor Jones, continue to lead the overall ranking for research while the Fergusson Bros team is closing the gap. Davis Borkum leads the

dealing ranking, as it has done since 1984, and Ivor Jones is ranked first for administration.

When asked whether the general standard of research had improved, 65% of the respondents thought it had remained the same; only 26% thought it had got better; while 8% felt there had been a deterioration.

Reasons given by those who saw an improvement included: greater professionalism and accuracy, with timeous production and research supportive to portfolio management; better coverage and marketing; more attention to extraneous factors influencing market direction and sentiment; more topical work and better quality presentation with more qualitative recommendations; and more consistency, with research seen as more

to the point, accompanied by better summaries and conclusions and clearer graphics.

Those who saw no improvement cited "job hopping" and "new analysts with limited experience." One of the largest assurance companies noted: "The quantum and quality of mining research appears to be disproportionately low relative to the number of analysts covering the sector."

Another commented that analysts "should give thought to specialising and avoid being mediocre generalists."

The basic approach to the survey remains the same as in previous years. Results are based entirely on the opinions of financial institutions which use stockbrokers' services. Their judgments refer to work done specifically for institutional investors, which is often quite different from the services — especially research — offered to individual clients.

Questionnaires were sent to essentially the same list of in-

## FIRMS RANKED BY SECTOR

### Industrials — Consumer-based

1. Martin
2. Simpson McKie
3. Fergusson Bros
4. Ed Hern

### Industrials — Other

1. Martin
2. Ivor Jones, Roy
3. Fergusson Bros
4. Simpson McKie

### Most Improved Industrial Research

1. Ed Hern
2. Fergusson Bros
3. Irish

### Coal

1. Martin
2. J D Anderson
3. Davis Borkum
4. Frankel Kruger

### Diamonds

1. Martin
2. Fergusson Bros
3. Frankel Kruger
4. Ivor Jones, Roy

### Gold

1. Martin
2. Ed Hern
3. Ivor Jones, Roy
4. Silvis Barnard/EW Balderson

### Other Mining

1. Martin
2. Fergusson Bros/J D Anderson
3. Ivor Jones

### Mining Financials

1. Martin
2. Fergusson Bros
3. Frankel Kruger
4. Ivor Jones, Roy

### Banks, Building Soc, Fin Services

1. Martin
2. Ed Hern
3. Fergusson Bros
4. Edey Rogers

### Insurance

1. Mathison & Hollidge
2. Martin
3. Edey Rogers/Fergusson Bros

### Property & Property Trusts

1. Max Pollak
2. Martin

### Property & Property Trusts continued

3. Ivor Jones, Roy
4. Ed Hern

### Small Companies & DCM

1. Frankel Kruger
2. Davis Borkum
3. Simpson McKie

### Market Movements & Timing

1. Ivor Jones
2. Martin
3. Mathison & Hollidge
4. Simpson McKie

### Investment Strategy

1. Martin
2. Simpson McKie
3. Frankel Kruger
4. Ivor Jones, Roy/J D Anderson

### Technical Analysis

1. Ivor Jones
2. Mathison & Hollidge
3. Frankel Kruger
4. Davis Borkum

### Gifts Research

1. Martin
2. Ivor Jones
3. Frankel Kruger
4. Mathison & Hollidge

### Labour/Industrial Relations

1. Kaplan & Stewart
2. Mathison & Hollidge
3. Ed Hern

### Economic Trends

1. Ivor Jones, Roy
2. Martin
3. Frankel Kruger
4. Mathison & Hollidge

### Overseas Markets & Economies

1. Ivor Jones, Roy
2. Martin
3. Frankel Kruger
4. Mathison & Hollidge

### Computer Service

1. Ivor Jones, Roy
2. J D Anderson
3. Frankel Kruger

### Innovation

1. Ivor Jones, Roy
2. Fergusson Bros
3. Ed Hern
4. Frankel Kruger





**Research leaders Martin (L to R): Richard Stuart, Richard Jesse, Janet Mills, Philippe Tison, Carmen Maynard, Nick Fredericksz**

stitutions, largely insurance companies, pension funds, mining houses and banks, as last year. About 48 questionnaires were sent out in late March and of these we selected an "A" group of 10 and a "B" group of 10. Weightings were attached to the returns from these two groups, with the "A" group carrying a larger weighting than the "B" group.

It is worth noting again that the selection of these groups is one of several aspects of the survey where some subjectivity is unavoidable — though value of assets managed is a major consideration. However, 10 brokers were earlier asked who they thought should be weighted and their responses substantially determined the selection.

The return rate for all questionnaires this year was 52%, about the same as last year, though again the response was higher from the weighted institutions; there was an 80% response from the "A" group and a 60% response from the "B" group.

In previous years, various changes have been made to the questionnaires, usually by adding sectors. In the interest of consistency, this time there were no changes at all.

For each of the sectors listed in the accompanying tables, institutions were asked to rank broking firms or analysts down to three and, in some cases, to four places. Firms and analysts are ranked in separate sections. Individuals who shine in particular sectors can thus gain recognition for their performances,



**Dealing leaders Davis Borkum (L to R): Max Borkum, Fred Wilensky, Dave Fell, Syd Rebe, Carl Figge**

while firms can gain credit for effective teamwork even though members of the team may not be ranked as individuals. Final rankings are based on points accumulated.

Naturally, the *FM* does not stipulate how the research should be evaluated — institutions have different requirements and each is left to form its own judgment on that. We suggest credit

should be given for such aspects as timeous research and quality of presentation, but avoid indicating precise criteria.

The firms' overall ranking for research is another area where an element of subjectivity is difficult to avoid. That is because each firm's sectoral performances have in the past been weighted when compiling the overall result.

Points gained in the equity sectors are weighted according to market capitalisation, but a judgment has to be taken when weighting the nine sectors which are not listed on the JSE.

As a move towards resolving that, this year's table shows three rankings. There is an overall ranking, which shows the effect when all sectors are weighted; it is assumed that equities account for two-thirds of the total and the remaining sectors are accorded estimated weightings.

A second ranking is based only on equities, ranked by market cap. And the third is based on total points accumulated, with no weightings.

There are some interesting effects. While Martin firmly retains its all-round lead, Fergusson Bros is ranked third in the overall and points rankings, but has moved past Ivor Jones into second place when ranked only on equities.

Frankel Kruger, ranked third last year, is now placed third on points, but has slipped in the overall and equities rankings.

Placed joint fifth overall are Simpson McKie and Ed Hern, with the latter's analysts gaining ground rapidly, particularly in gold and certain industrial sectors.

Though Martin's analysts lead nine of the 15 sectors in the individuals' rankings, there are a number of changes elsewhere. Janet Mills remains first in the consumer-based industrials sector, for example, but Ed Hern's Sydney

Vianello has climbed from fourth to second, followed by Simpson's Niall Brown and Fergusson's Anne Yates. Mills and Vianello

## INDIVIDUAL RANKINGS

### Industrials — Consumer-Based

- |                    |                |
|--------------------|----------------|
| 1. Janet Mills     | Martin         |
| 2. Sydney Vianello | Ed Hern        |
| 3. Niall Brown     | Simpson McKie  |
| 4. Anne Yates      | Fergusson Bros |

### Industrials — Other

- |                     |                 |
|---------------------|-----------------|
| 1. Richard Stuart   | Martin          |
| 2. Ted Woods        | Ivor Jones, Roy |
| 3. Steve Rubenstein | Fergusson Bros  |
| 4. Philippe Tison   | Martin          |

### Most Improved Industrial Analyst

- |                        |                |
|------------------------|----------------|
| 1. Steve Rubenstein    | Fergusson Bros |
| 2. Sydney Vianello     | Ed Hern        |
| 3. Pierre Greyvenstein | Davis Borkum   |
| 4. Heidi Vollmer       | Irish          |

### Overall Best Industrial Analyst

- |                   |            |
|-------------------|------------|
| 1. Richard Stuart | Martin     |
| 2. Ted Woods      | Ivor Jones |

### Coal

- |                   |                |
|-------------------|----------------|
| 1. Eric von Glehn | Martin         |
| 2. Dave Russell   | JD Anderson    |
| 3. Derek Ritchie  | Fergusson Bros |
| 4. Mannie Pohl    | Davis Borkum   |

### Diamonds

- |                   |                |
|-------------------|----------------|
| 1. James Picton   | Max Pollak     |
| 2. William Bowler | Fergusson Bros |
| 3. Keith Bright   | Frankel Kruger |
| 4. Richard Stuart | Martin         |

### Gold

- |  |                                |
|--|--------------------------------|
| 1. Lloyd Pengilly                      | Martin                         |
| 2. Tom Dale                            | Ed Hern                        |
| 3. Bobby Craig                         | Ivor Jones, Roy                |
| 4. Robbin Kearney/<br>Bruce Williamson | Silvis Barnard/<br>JD Anderson |

### Other Mining

- |                   |                |
|-------------------|----------------|
| 1. Eric von Glehn | Martin         |
| 2. Derek Ritchie  | Fergusson Bros |
| 3. Dave Russell   | JD Anderson    |
| 4. Mike Wuth      | Rice, Rinaldi  |

### Mining Financials

- |                   |                 |
|-------------------|-----------------|
| 1. Richard Stuart | Martin          |
| 2. William Bowler | Fergusson Bros  |
| 3. Peter Davey    | Frankel Kruger  |
| 4. Doug Brooking  | Ivor Jones, Roy |

### Bank, Building Societies & Fin Services

- |                     |                |
|---------------------|----------------|
| 1. Richard Jesse    | Martin         |
| 2. Alan McConnochie | Ed Hern        |
| 3. Steve Rubenstein | Fergusson Bros |
| 4. David Southey    | Edey Rogers    |

### Insurance

- |                     |                     |
|---------------------|---------------------|
| 1. Ian Christison   | Mathison & Hollidge |
| 2. Richard Jesse    | Martin              |
| 3. Steve Rubenstein | Fergusson Bros      |
| 4. David Southey    | Edey Rogers         |

### Property & Property Trusts

- |                 |                 |
|-----------------|-----------------|
| 1. John Rayner  | Max Pollak      |
| 2. Janet Mills  | Martin          |
| 3. Robin Washer | Ed Hern         |
| 4. Ted Woods    | Ivor Jones, Roy |

### Technical Analysis

- |                   |                     |
|-------------------|---------------------|
| 1. Doug Clelland  | Ivor Jones, Roy     |
| 2. Dea Ashton     | Mathison & Hollidge |
| 3. Tony Henfrey   | Frankel Kruger      |
| 4. Dana Wakefield | Davis Borkum        |

### Gilts Research

- |                     |                 |
|---------------------|-----------------|
| 1. Nick Fredericksz | Martin          |
| 2. James Greener    | Ivor Jones, Roy |
| 3. Andrew Beaven    | Frankel Kruger  |
| 4. Graham Bell      | Ivor Jones, Roy |

### Economic Trends

- |                     |                     |
|---------------------|---------------------|
| 1. Graham Bell      | Ivor Jones, Roy     |
| 2. Mike Brown       | Frankel Kruger      |
| 3. Louis Geldenhuys | George Huysamer     |
| 4. Jos Gerson       | Mathison & Hollidge |





**Ivor Jones's Bell ... foremost trend-spotter again**

were both cited for their work in SA Breweries. Moving closer to the top four was Max Pollak's Martine Hickman.

Vianello also featured strongly in the sector for most improved industrial analysts, appearing in second place. But this sector is led by Fergusson's Steve Rubenstein, who also appears third in the "other industrials" category, where he is followed by Martin's Philippe Tison. Rubenstein was noted for "more incisive" analysis and one institution commented that he had become more forceful in his opinions.

The laurels in the category for overall best industrial analyst were closely contested by two of the JSE's most experienced analysts, Martin's Richard Stuart and Ivor Jones's Ted Woods. Stuart, who again gained plaudits for being "controversial and thought-provoking," this year edged into the lead.

These two analysts dominated the voting

**OVERALL RANKINGS**

(Research only)

Ranked by	Overall Equities	Points	Firm
1	1	1	Martin
2	3	2	Ivor Jones, Roy
3	2	4	Fergusson Bros
4	6	3	Frankel Kruger
5	4	5	Ed Hern/
	5	7	Simpson McKie
6	11	6	Mathison & Hollidge
7	8	7	JD Anderson
8	9	8	Max Pollak
9	—	11	George Huysamer
10	10	10	Edey Rogers

Note: Overall ranking includes all sectors listed in firms' sectoral rankings table, with all sectors weighted. Equities ranking includes only equity sectors, weighted by market capitalisation. The points ranking is based on total points accumulated, with no weightings.

for the sector. "Essential to have his view — highly respected," a leading assurance company said of Stuart and commented that Woods is "technically the best analyst but lacks the volume to be in number one place."

Another leading institution, which placed Woods first, referred to his "disciplined style of research combining well-researched fundamentals with technicals."

Martin's Eric von Glehn held his lead in coal, as well as in the "other mining" sector, which includes platinum counters, whose market capitalisation has risen substantially and perhaps merits a separate category.

Stuart held a strong lead in the mining financials category, where Fergusson's William Bowler has entered the listing in second place, jumping past Frankel Kruger's Peter Davey and Ivor Jones's Doug Brooking. Significant support was also garnered by JD Anderson's Charles Booth, described by one respondent as "probably the most perceptive analyst in the sector."

In diamonds, James Picton held a substantial lead, followed by Bowler — who also enters this category for the first time — and then Frankel Kruger's Keith Bright. Picton recently joined Max Pollak after spending most of the period at Martin, which is placed first in the firms' ranking for diamonds.

An interesting tussle is shaping up in the gold category. Martin's Lloyd Pengilly retains first place, but he is being chased very strongly by second-ranked Tom Dale, a former mine manager who was lured to the broking business by Ed Hern only three years ago.

Respondents noted the quality and frequency of Pengilly's reports, as well as his overseas contacts and coverage of macro trends in the industry. They also commented on Dale's original and relevant research at industry level; one described his relative value ranking as the best for the sector. Interestingly, one institution noted that none of the gold analysts gave a buy on gold shares in 1989.

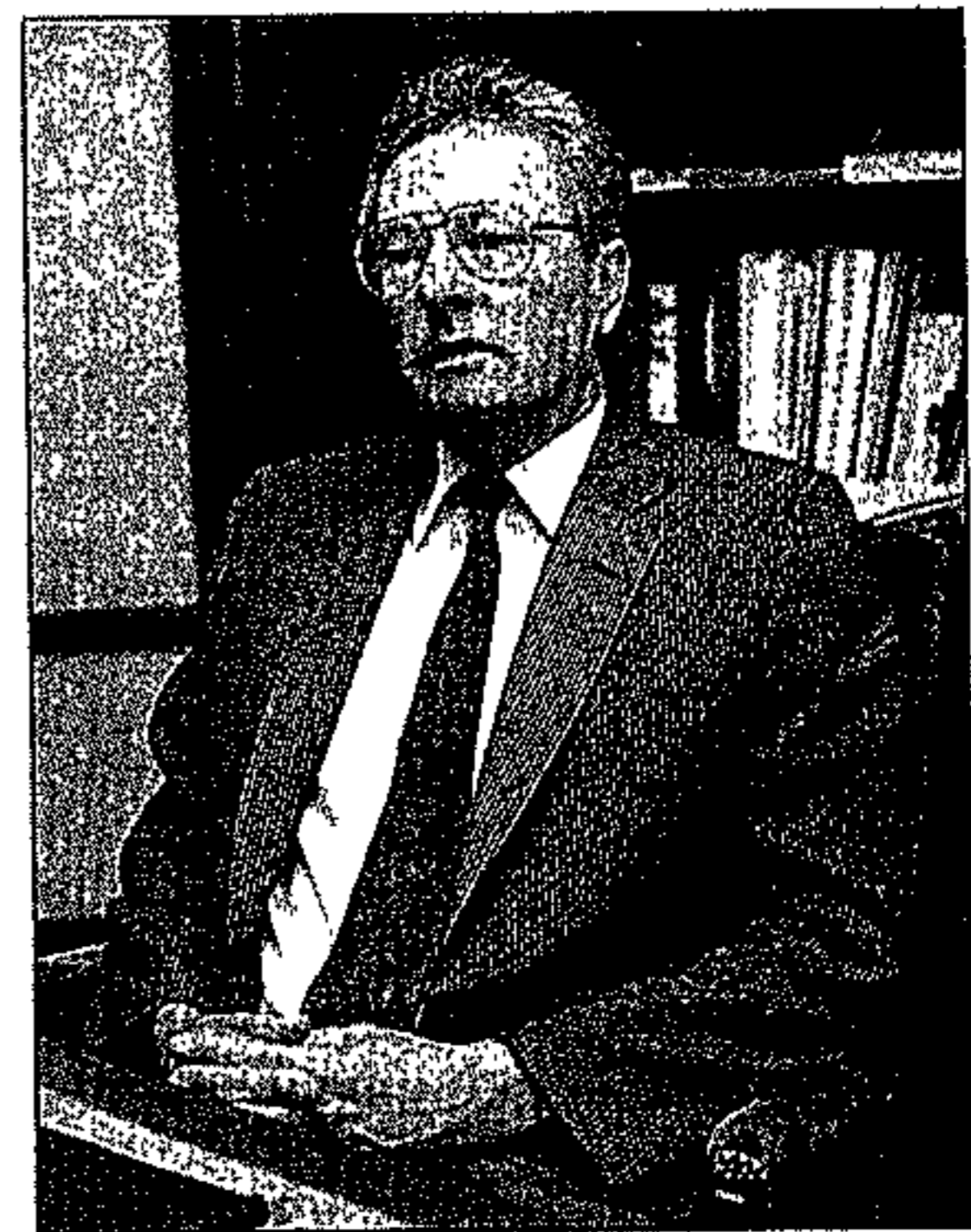
Economic trends remains a duel between Ivor Jones's Graham Bell and Frankel Kruger's Mike Brown. Bell led the sector for a couple of years, but last year Brown nudged past him; this year Bell is again placed first.

Included in the firms' sectoral ranking is a category intended to give credit for innovative thinking — it is described as "innovative topics and approaches resulting in useful research."

A number of institutions stated that innovation is generally lacking, despite the number of analysts deployed. Others singled out specific work, including Dale on the gold industry; Ed Hern's Richemont report; Frankel Kruger's study on privatisation; Ed Hern's selective client services; Ivor Jones's value guide; the over-undervalued model produced by Fergusson economist Gad Arivovich; Martin's De Beers report; and Rice Rinaldi's exploration company valuation method.

Again this year, the institutions men-

**BARRY SWART**



In last week's cover story on businessmen's views of SA's future we inadvertently used a picture of FNB's senior general manager Jimmy McKenzie instead of the bank's MD Barry Swart. This is the real Barry Swart. Apologies to both men.

tioned areas which they felt need more attention. These included:

- Overseas markets;
- Effects of inflation on companies;
- Commodity markets;
- Detailed analysis of the effects of macro developments such as export allowances and the Budget on companies;
- More innovative research focusing on the attractiveness and potential of good quality "second-line" stocks. One felt too much research is duplicated by concentrating excessively on 30 first-line blue chips; and
- More political analysis focused on market trends.

Perhaps half a dozen firms are now producing research on political developments, an area that has not yet been accorded a separate category in this survey. Judging by the numerous comments from institutions, political research is attracting increasing interest. That underscores how comprehensive a view the Diagonal Street investment analyst needs to take.

**DEALING**

1. Davis Borkum
2. Ivor Jones, Roy
3. Martin
4. Ed Hern/Simpson McKie

**ADMINISTRATION**

1. Ivor Jones, Roy
2. Davis Borkim
3. Martin
4. Frankel Kruger



**Uptight** (58)

This week's invitation to the market from the Reserve Bank to tender for a R200m special issue of Treasury Bills, dated June 12-18, is an established technique used by the Bank to manage money market liquidity. For months the Bank has used other measures to keep liquidity low, more recently forward exchange swaps.

This is the first special issue since R300m was offered in August 1989.

First National Bank's Mike Law says the banking sector thinks the issue of additional TBs will be as effective in keeping the market short, but will be cheaper, as banks will bid at a lower price for TBs because of their liquid asset status.

A foreign debt repayment scheduled for June 15 will drain the market further. The amount is 1,5% of the remaining US\$12bn (R32bn), which works out at about \$180m (R480m). Also, about \$200m (R533m) interest on the remaining debt will be paid. ■



# Assurers sit in judgment

W/Ment 15/6 - 21/6/90

58

IF you die from Aids life insurers won't pay out your dependants because, they argue, the fatal disease decreases their ability to predict life expectancy — and so affects their profits and stability.

Hence the Life Offices Association (LOA) has caused an agreement to be entrenched between its members excluding the payment of claims believed to be Aids related. It applies to individual and group policies under the terms of which a sum assured of R200 000 is payable in the event of death or, in the case of income insurance plans, payable in the event of disability, the monthly benefit exceeds R2 000. Companies can and do apply the agreement at lower levels of sums insured. Insurers may ditch the exclusion clause if the applicant can produce a recent negative HIV test.

The association's motivation in introducing an Aids agreement is reasonable and equitable but its setting up of a commercial body, acting in cartel, as a moral arbiter is not defensible.

The exclusion clause states that:

"... in the opinion of the insurer, (if the claim) is in any way due to or arising directly or indirectly, entirely or partially from the Acquired Immuno-deficiency Syndrome or infection from any Human Innumodeficiency Virus, this policy shall immediately terminate and the proceeds thereof restricted to the surrender value or a refund of premiums whichever is greater ..."

(The phrases, "opinion of the insurer"

**Life insurers have reacted to Aids with near paranoid expediency to protect their interests, argues a life insurer industry insider**

and "arising directly or indirectly, entirely or partially" indicate the width of the exclusion.

The effect of the clause is mollified by the following exemptions: blood transfusions or blood products, those registered with the South African Medical and Dental or Nursing Councils during execution of medical duties and members of the police force, fire service or defence force or any recognised medical auxiliary body who, in the course of their duties, are requested to assist an infected casualty.

Insurers have made practical and moral decisions about who is an innocent victim. The following could not be classed as innocent: a rape victim, a dental patient, a child to whom the disease is transmitted in the womb, a member of the public who assists a carrier or the sexual partner of one of the exempted groups.

Conversely, the following would be innocent should they contract Aids: a policeman who assaults a carrier, a drunken driver who after a car crash needs a blood transfusion or someone undergoing elective cosmetic surgery.

These distinctions are arbitrary and have the potential for gross inequity but it should be asked whether a commercial operation should be expected

.....



# US firm pulls out seeds, despite reform

DESPITE reforms and hopes that the political and economic situation in the country will improve, yet another American company has disinvested.

This week Upjohn Limited announced that it was selling its South African seed operation, Asgrow South Africa, to the local management.

However, Upjohn will continue to operate its South African human pharmaceutical and animal health business.

Asgrow's managing director, Pieter Jansen, said the change of ownership was prompted by "constraints experienced by American companies operating in South Africa".

He mentioned two laws which made it difficult for American companies to operate efficiently in this country.

*w/ Mail 15/6 - 21/6/90*

**Although South African is nurturing reform, there isn't always growth — an American company has just withdrawn its seed operation from the country, reports MZIMKULU MALUNGA**

One was the Rangel Amendment to repatriation of earnings and dividend (no tax benefit — which means the investor is taxed both in South Africa and the United States). The other was the comprehensive Anti-Apartheid Act which prohibited American companies from investing in South Africa.

Jansen said the fact that Asgrow's products were banned in the US also contributed to change of ownership.

He said the company will continue operating as Asgrow and will not stop serving its clients, who are mainly farmers in South Africa. "Nothing has changed, we will still carry on operating as Asgrow."

As a local company, Asgrow will now be in a position to borrow money from local banks.

The executive director of the American Chamber of Commerce, Wayne Mitchell, says there are still 130 American companies in this country.

The bigger ones included: Caltex, Johnson & Johnson, Caterpillar, Mas-onite, Colgate/Palmolive and SA Cyanamid.

## on people with Aids

to carry the burden of acting fairly to any one except those who have an existing interest in it, those being its shareholders and policy holders.

By entrenching an agreement, the LOA creates a unified approach to a matter, and there are good reasons why a cartel should be required to show greater circumspection towards individuals than a single company operating in a freely competitive market.

The exclusion clause gives rise to the possibility of injustice of such a type that should not be permitted of organisations which enjoy economic power and favourable tax treatment.

The alternative of requiring a negative HIV test is fairer but presents different problems. The test is only one part of the process of assessing the risk the insurer is undertaking. You will be asked if your lifestyle, past or present, puts you in a high risk category.

If your answer is negative and it is discovered that you did fall into such category, then the insurer may be entitled to declare the contract void. The application you sign will contain a declaration permitting a doctor, medical institution or any other person to disclose information relevant to your health and which permission will remain in force after your death.

Three positive HIV tests using the same blood sample must be recorded before an applicant will be declined on the grounds of Aids. Such a person's name will be entered on a register along with those of anyone who refus-

*w/ Mail 15/6 - 21/6/90*

es to take a test. In its pre-test information leaflet, the LOA disingenuously fails to mention that latter fact. It is a cornerstone of the agreement that confidentiality must be maintained. Where group schemes are involved this could prove impractical.

When a person is declined for reasons other than a positive HIV test it must be recorded on the acceptance form that the test was negative. Insurers should be able to enter into contracts with the knowledge that the risk they accept is the risk it appears to be.

Some blame lies with the government in allowing such monopolistic action but what is at fault is the insurers' laziness in meeting the challenge. They have survived two world wars, an influenza epidemic and civil unrest, each of which has presented unquantifiable mortality experience.

The exclusion clause demonstrates a primitive approach to underwriting whereas the requirement for a negative HIV test and anti-homosexual underwriting present something more insidious. If you test positive it may take 10 years for full blown Aids to develop. In that time you may die from a motor accident, heart disease, a stroke or cancer. You will not be able to insure your life against these risks with any insurer in this country and, if the insurers' approach is logically extended, all high risk groups will be excluded until life insurance is the privilege of married, middle aged whites.

## Get off our case, stokvel body tells the police

*w/ Mail 15/6 - 21/6/90*

By MZIMKULU MALUNGA

THE National Association of Stokvels (Nassa) of South Africa is demanding that police stop "harassing" its members for selling beer at stokvel parties.

Nassa president Kehla Lukhele said while government and big business were putting emphasis on the informal sector, calling it the market of the future, participants were still being harassed.

A recent study by Markinor indicated there were an estimated 2 400 stokvels in major metropolitan areas, generating more than R52-million a month.

Were stokvel members arguing for the legalisation of their liquor sales?

Lukhele said: "It depends how that legalisation is enacted. If it interferes with the culture of stokvels, then it is out."

"The authorities have to recognise the existence of stokvels and accept the role they have to play."

Police representative Captain Peet Bothma said squads would continue to raid stokvel members because it was illegal to sell liquor without a licence.

He said the only way stokvel members could evade arrest was to apply for temporary licences at the offices of the local police commissioner.



**More niches** (58)

**Activities:** Financial group involved in banking, corporate investment, export trading, trade finance and factoring.

**Control:** SA Bias 77,5%.

**Chairman:** C S Seabrooke.

**Capital structure:** 18,3m ords. Market capitalisation: R45,75m.

**Share market:** Price: 250c. Yields: 6,8% on dividend; 18,56% on earnings; p:e ratio, 5,39; cover, 2,73. 12-month high, 250c; low, 200c. Trading volume last quarter, 26 043 shares.

Year to Dec 31	'86	'87	'88	'89
Debt:equity .....	6,5	5,4	3,8	4,3
Gross assets (Rm) ..	157,2	207,3	268,1	340,6
Adv-trade fin (Rm) ..	n/a	181,9	226,3	283,4
Return on equity (%) ..	24,5	23,8	20,7	22,1
Return on assets (%) ..	2,2	2,8	2,8	2,8
Taxed profit (Rm) ....	n/a	5,9	7,4	10,9
Earnings (c) .....	24,2	32,0	36,5	46,4
Dividends (c) .....	8,0	11,0	14,0	17,0
Net worth (c) .....	102,7	158,3	194,6	225,6

**Financial group** Merhold's emphasis on developing niche markets continues to pay off. That's the main conclusion to be drawn from the past year's performance, with 1989's gross operating income 29% ahead of 1988's and pre-tax profit notching up an advance of almost 46%.

Trade finance continues to provide the main thrust of the business but diversification into export trading, corporate investment and banking is steadily growing. A fifth, undisclosed, area is being planned.

There is no disclosure of divisional performances "for competitive reasons." So it is impossible to tell just how the 27% earnings

FINANCIAL MAIL JUNE 15 1990

increase was achieved. But reading between the lines of the annual report, contributions were uneven. Originally, only a trade finance operation, Merhold has been diversifying into niche areas since 1985. Director Robert Taylor says this is part of a strategy to make the group less vulnerable to a single business.

But wholly owned subsidiary Merchant Trade Finance is still the largest contributor to group profits. Most of the working capital it finances is with 180-day bills, which provided some initial rate advantages last year while interest rates were rising. Advances increased 25% to R286,7m. Of these R134,8m are still made to the clothing, textiles and footwear industries.

All overseas letters of credit and payments for imports requiring offshore banking lines are procured at Merhold's Isle of Man office. Half of the equity of the merchant trade division is held abroad, which provides something of a rand hedge for shareholders, particularly as most of the division's income derives from dividends remitted from subsidiaries abroad.

Mertrade, the export trading division, trades mostly primary exports, though executive chairman Christopher Seabrooke hopes to increase trade in processed goods.

Merhold is also placing more emphasis on its investment activities. It already has commercial and industrial interests — it acquired 1m shares in listed Trabild and a 50% stake in Nutritional Foods, a producer of powdered food and drinks, during the year.

"We are looking for opportunities to invest in smallish, established businesses which need a capital injection and provide good growth," says Taylor.

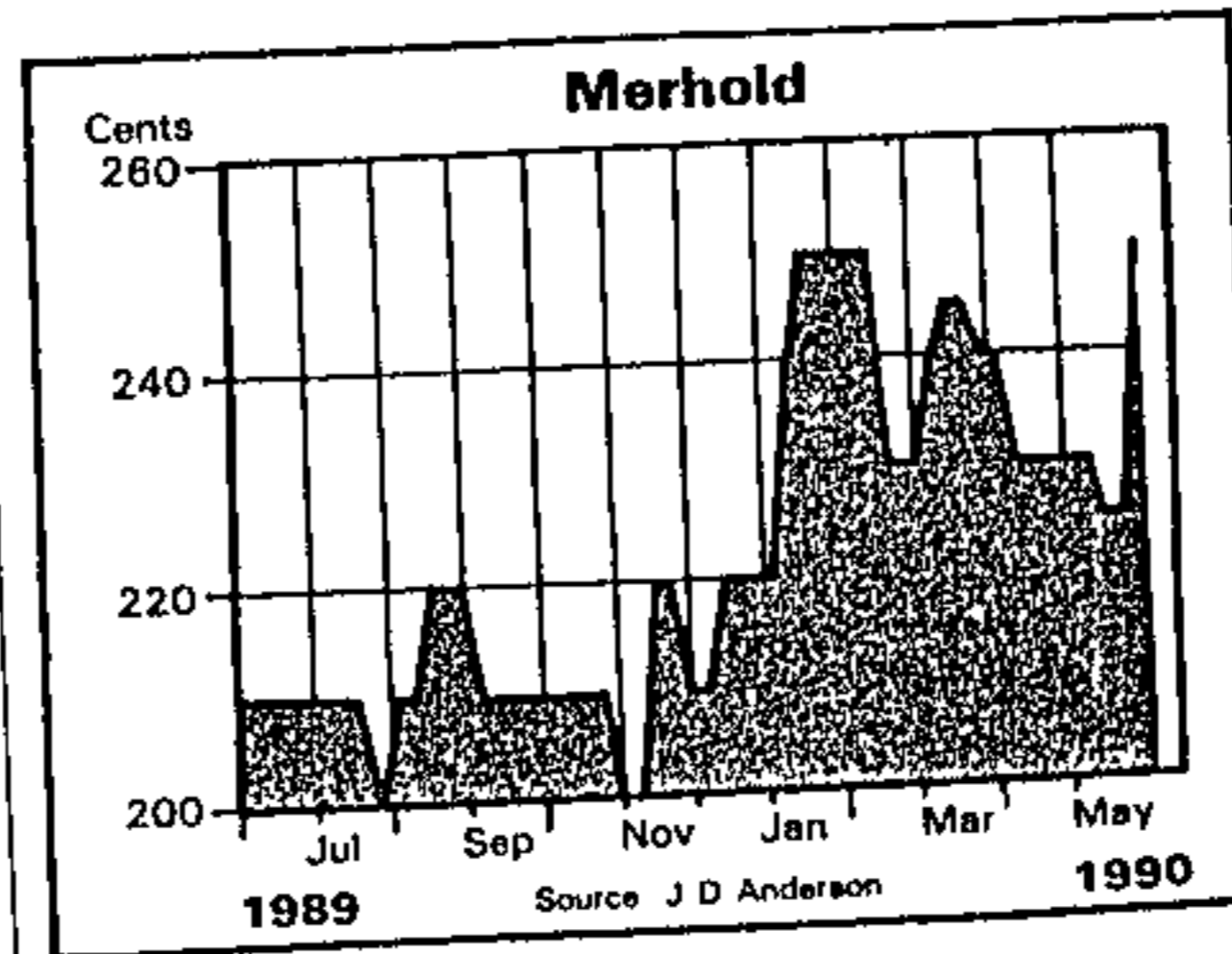
Merhold Corporate Services monitors the industrial investment portfolio as well as providing similar services to clients as a merchant bank's corporate division. The group plans to expand these services during 1990 and add a research arm.

The 30% investment in the New Republic Bank made late in 1988 seems to be paying off. Its attributable profit more than doubled to R2,61m in the year to March 31 1990 from the previous fiscal period's R1,28m, and EPS rose 44% to 47,5c. New Republic is a niche operator serving the Indian community but is gradually broadening its client base. "And it has embarked on secured lending on properties at more profitable differentials than in the past," Taylor adds. Expansion presupposes a further capital-raising

exercise which, Taylor hopes, will allow Merhold to increase its percentage holding in the bank.

Seabrooke is refreshingly precise when it comes to forecasting and reckons Merhold's attributable profit will rise by at least 18% to R10m this year. If it does, and if the advance is matched by a 20c dividend, the share yields a not unattractive prospective 8%.

Heather Formby



FINANCIAL MAIL JUNE 15 1990



EXPERT SYSTEMS FIM 15/6/90

## NBS gets smart (58)

The next time you apply for a loan from the Natal Building Society (NBS), make sure you are polite to the personal computers in the branch.

The building society plans to use personal computers running sophisticated software known as "expert systems" to assist staff in the assessment of personal loan applications. It has been testing the software at its Durban head office for the past three months and is confident the system will be able to make recommendations on a large proportion of its loan applications.

Applications deemed borderline will be referred to traditional credit assessors.

The introduction of expert systems will not only ease the staff workload at NBS branches but should hasten the granting of loans and help the society achieve a uniform standard of credit approval. With most applications, the computer system will take less than 10 seconds to indicate the degree of risk involved in the transaction.

NBS GM public affairs Brian Short says the expert system will provide the reasoning behind its recommendations. If it believes the applicant cannot afford the loan being sought it may recommend different repayment schedules or lower levels of borrowing.

The NBS will soon begin installing the loan application system on personal computers at its 28 main branches. The machines

will be linked to the mainframe computers at the society's head office.

An expert system is a collection of software programs that can be instructed to assess specific problems logically and make a judgment.

Rather than develop these systems from scratch, most users buy a general purpose software "shell" which is then tailored for a specific application.

### Software shell (58)

The shell used by the NBS was developed by Johannesburg software house Decision Management Software (DMB).

The expert knowledge that was programmed into it was supplied by the NBS's consumer finance division.

Application of expert systems in SA, as in most countries, is still in its infancy. Sales in the US only reached US\$130m in 1989, but the market is forecast to grow by 40%-50% a year in the next few years.

DMS MD Marc Pienaar claims the lion's share of the local market, with about 20 installations of its dmX software. Users include Afrox, Santambank, National Chemical Products and Aquachlor. Applications include the selection of welding materials, monitoring the performance of manufacturing equipment and gauging quality control.

The company hopes to start exporting its dmX expert system shell next year.

Expert systems are well suited to diagnostic applications where informed decisions often have to be made quickly.

However, they are no good in applications where the knowledge required to solve a problem changes very quickly, says Pienaar. This would require constant changes to the software. ■

15/01/90

# R130 000 for grand nosh with Nelson

By David Braun,  
The Star Bureau

WASHINGTON — Guests at exclusive formal dinners with Nelson Mandela throughout the United States will pay up to \$50 000 (about R133 000) for the privilege of dining with him.

Glittering fund-raising dinners at \$25 000 (R67 000) a plate are being arranged for the deputy president of the African National Congress in New York, Boston and Los Angeles.

At a reception in Los Angeles, tickets will cost between \$1 000 (R2 700) and \$50 000 (R133 000).

## Main goal

The dinners and receptions, mostly hosted by big-name stars of the entertainment world, are intended to raise money for the Mandela Freedom Fund, the kitty established by US anti-apartheid activists for the ANC.

The African National Congress in the US has appealed for between \$100 million and \$200 million from the international community to help the ANC settle in South Africa.

It is clear that one of the primary goals of Mr Mandela's US tour is to raise as much money as possible.

The organisers of the 10-day Mandela tour have declined to say what their fund-raising objectives are, but American newspapers have reported that each of the eight cities to be

visited by Mr Mandela has been asked to collect upwards of \$1 million (R2,66 million).

Fund-raising activities range from charging a small fee to hear Mr Mandela at a mass rally to the sale of authorised Mandela tee-shirts, bronze busts, buttons, pins, posters and hats.

Several American entertainment stars have also pledged generous donations, including actor Bill Cosby, comedian Eddie Murphy, who has promised \$20 000 (R53 000) and Robert DeNiro, who is trying to raise \$250 000 (R665 000).

In Boston, 150 couples with deep pockets have been invited to a black-tie dinner at \$5 000 (R13 300) a plate, and another 150 couples at the same function will be charged only \$5 (R13,30) a plate.

## Sponsored

Among the corporate sponsors of the tour are Reebok, which will donate thousands of tee-shirts for sale at Boston rallies, Ackerly Communications, which will donate \$100 000 in billboard space for greetings along Mr Mandela's motorcade route in Boston, and the Copley Plaza Hotel in Boston which is donating \$70 000 in accommodation to the delegation.

Mr Mandela is being flown from Europe to the United States in a Boeing 727 belonging to Mr Marvin Davis, a former movie tycoon.

58

# Gold fall

Carl Tink  
15/4/90

# 'bloodbath'

Own Correspondent

**JOHANNESBURG.** — Gold plunged through the crucial \$350 level yesterday, causing a "bloodbath" on the Stock Exchange yesterday as panic sellers off-loaded shares.

The fall has also led to at least 22 South African mines now operating at a loss, among them Anglo American's Freegold, the world's biggest mining complex, employing 110 000 workers.

Late yesterday the met recovered from a four-year low of \$339,50 to close in London at \$346,25. In New York last night it closed down \$5 at \$346,25.

Talk on bullion markets of heavy sales from the Middle East caused gold's drop in hectic trading. The sales, however, were not confirmed.

A leading stockbroker said said: "There was a lot of bloodletting which was reflected in JSE market capitalisation declining by R16 billion yesterday."

● Full report — Page 8





ALLIED GROUP

FIM 15/6/90 (58)

# Drawing the battle lines

Problems which have been simmering within the Allied Group for three years erupted in a squabble at the annual general meeting this week. Recriminations were exchanged between director Louis Shill, CE and representative of largest shareholder Sage Life, and MD Kevin de Villiers.

About 50 shareholders (most of them Allied staff), representing or holding 79m shares — amounting to 26% of issued capital — were present.

At Shill's request, rotating directors and those whose appointments had still to be confirmed were not re-elected *en bloc* as is normal procedure. They were voted on individually and three were not asked to serve another term: Blue Circle's Trevor Coulson, Allied's Don Hunter and Micky van der Walt, ex-Commissioner of Inland Revenue.

Now at issue, is who will succeed the retiring Dennis Paxton (70) as chairman and implementation of an Allied-Sage agreement, including use of Allied's computer system. As the FM went to press on Tuesday night, attempts were being made to convene a special board meeting for Wednesday.

The implication is the choice of chairman will decide the battle between the Sage group and De Villiers. Troubles between the two emerged soon after De Villiers was elevated from MD of the fledgling Allied Bank to MD of merged bank and building society operations, renamed Allied Group.

Says Shill: "We had an excellent relationship with then CE (Alan Tindall). With the advent of a new management structure, the relationship started deteriorating." Shill says he wished to ensure a sound influential executive committee. The former directors



De Villiers



Shill

are, in fact, people he would like to see back on the board later.

While one solution to the underlying problems could be to "disentangle" Sage's 10% in Allied and Allied's 20% stake in Sage, this would "not be Sage's choice."

Sage would prefer De Villiers to "knuckle down to what the board reasonably requires. If not, there would be doubt about a continu-

ing relationship." De Villiers, who holds 0,76% of Allied's equity, opposed Shill's re-election to the board — "His own company results are not very good."

He says he put two "very positive alternatives to Sage" and believes they represent "possible solutions." Shill says he is "unaware of these alternatives."

Though he expected opposition at the meeting, he refrained from lobbying for proxies "because we would have been striking the first blow. We were philosophical about losing votes on Tuesday but remain confident we will be able to resolve the situation — within two months."

After De Villiers' defeat on Tuesday, the board's weighting shifted in favour of Shill. So De Villiers' job could be on the line.

Ethel Hazelhurst & Detmar Schwichtenberg

THE RAND FIM 15/6/90

## Keeping cool

There are usually two reasons why the rand depreciates when the gold price falls. The first is because, as export revenues shrink, there are fewer dollars to be converted into rands — which tips the demand-supply situation. The second is because authorities have often helped the unit to fall to protect marginal gold mines.

By holding up the rand price of the metal a depreciating currency cushions the industry from falling dollar revenues.

If gold continues to fall, the rand will eventually have to follow. It will be a few months before this happens but, meanwhile, the Reserve Bank is not anticipating nor precipitating a depreciation in the rand.

Since gold started its brief but heady climb from US\$355,75 in September to \$423 in February, before plunging to a low of \$350 in London last week, the Bank has intervened "on both sides of the rate," says First National Bank's Rob Wade, to moderate its influence on the rand and eliminate short-term fluctuations.

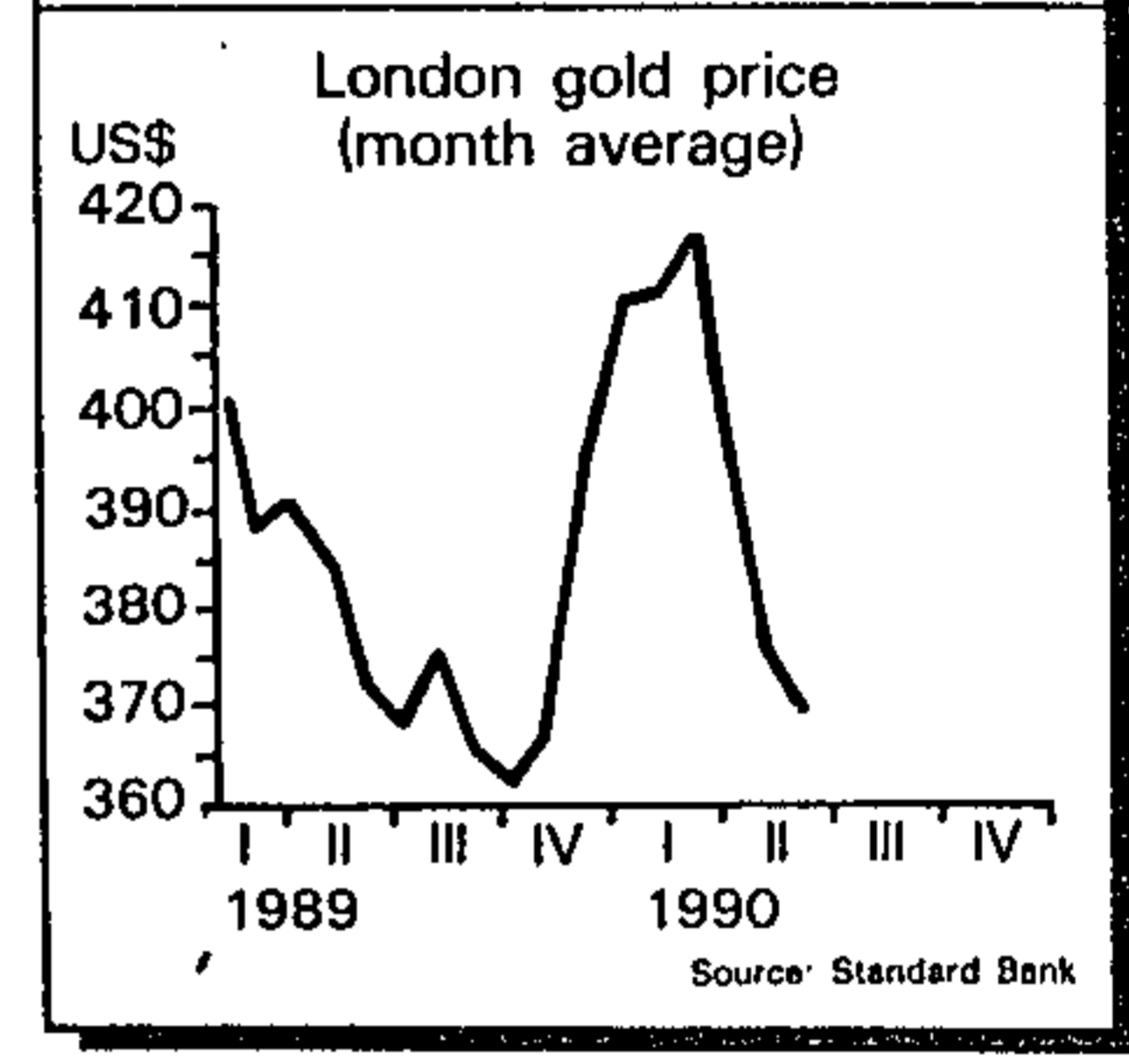
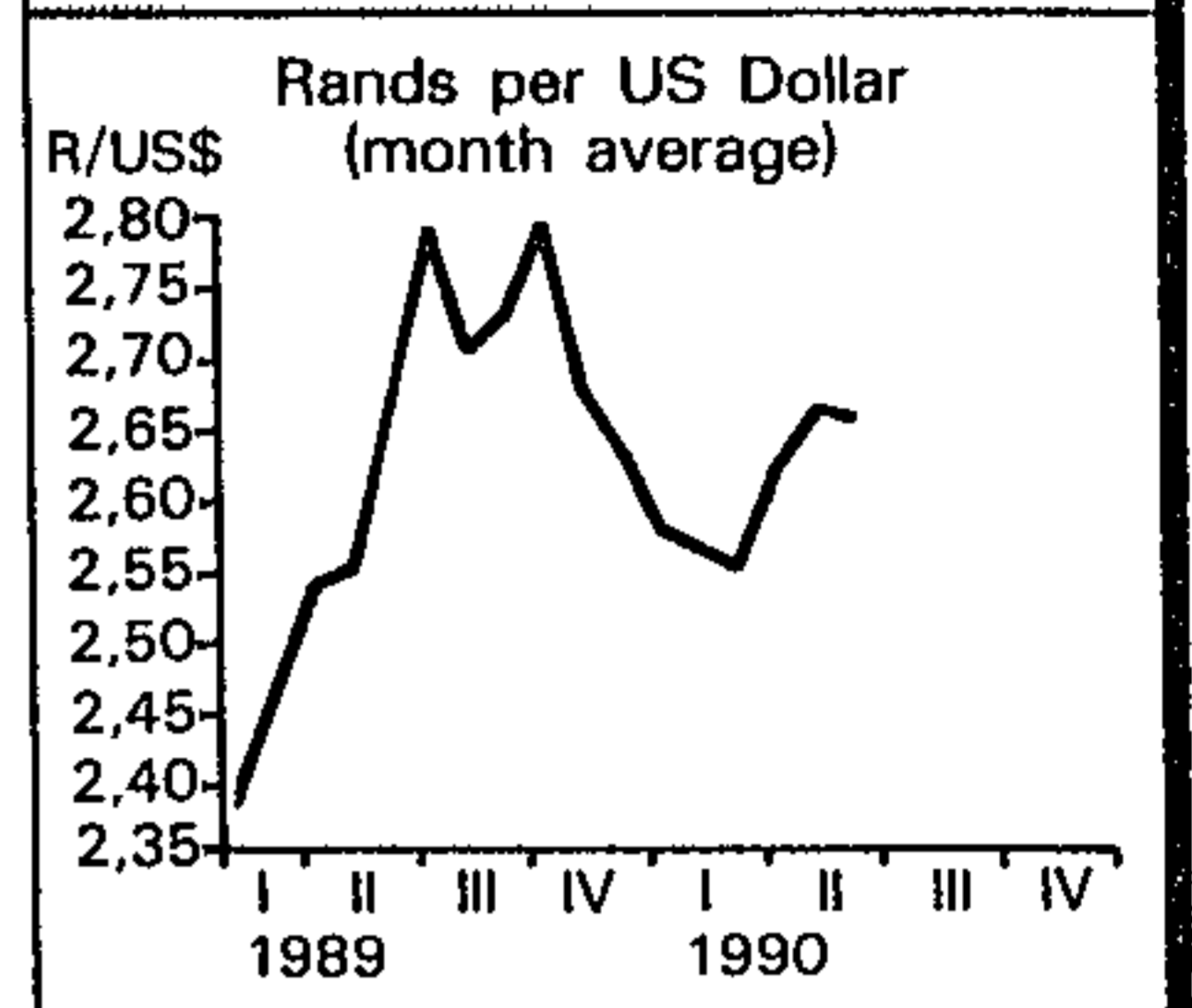
So the rand/dollar exchange rate has deteriorated by only about 13c since the peak in the gold price. And, says Wade, it has even appreciated slightly against the D-mark.

This has kept down the contribution to inflation of imported prices (see "Monthly jump"). Though the comparatively higher exchange rate cannot and should not be maintained if fundamentals are against it, SA has at least not had to experience the adverse consequences prematurely.

Wade says: "The drop in export proceeds of the gold mines has not filtered through

FIM 15/6/90

## Currency cushion



yet, though it will in the next few months." If the Bank had attempted to nudge the exchange rate down it would have had to sell rands, putting liquidity into the market and relieving interest rate pressures.

That the authorities have not, is a testimony to Governor Chris Stals's determination to keep down inflationary pressures despite pressure from various quarters to let interest and exchange rates fall — as his predecessor Gerhard de Kock did after the debt standstill. But SA no longer needs to make a growth-orientated BoP adjustment, which dictated De Kock's policy.

Old Mutual economist Rian le Roux says: "The authorities now realise that 15 years of intermittently negative real rates of interest have made the business cycle more volatile. Stable but high real rates should help create more certainty for business."

To attract investment, despite the political upheaval, SA must show it has inflation under control. Higher interest rates rather than a lower exchange rate is an appropriate price in the circumstances. If the consequent recessionary impact on sections of the com-

# Cracks in Allied, Sage relationship fairly recent

8.10am 15/6/90

**BRENT MELVILLE**

THE relationship between Sage and Allied dates back several years, but it was only recently that conflicts emerged between the two.

Allied has traditionally been Sage subsidiary Schachat Cullum's major source of mortgage lending, and Sage has provided personal finance planning for Allied clients.

Sage director Bernard Nackan said problems started following the change in management from Allen Tindall to Kevin de Villiers in 1988. De Villiers felt the co-operation agreement, the signing of which he was not party to, unduly favoured Sage.

"Support since then has slowly been disappearing, and Allied has not been honouring certain facets of the agreement," said Nackan.

In 1987, when Allied decided to demutualise and go public, Sage underwrote the listing to the tune of R500m, and in April the

same year entered into a major grouping agreement designed to "jointly develop expertise and rationalise various facets of services".

As part of the underwriting agreement and further share purchases, Sage picked up its maximum 10% shareholding in Allied allowed by law, and Allied paid R71,5m for what in effect will be 20% of Sage once its holding of 5,5-million preference shares have been fully converted.

## Transfer

In addition each group has two directors on the other's board.

The agreement to rationalise computer activities is now becoming a separate issue. In terms of the agreement Sage was to transfer its entire assurance computer facilities to Allied.

"De Villiers apparently

believes we are not paying enough for our computer services," said Nackan.

De Villiers claimed at Tuesday's AGM that Sage was costing Allied "between R6m and R12m before tax" a year, mostly attributed to losses on the computer agreement.

Allied computers senior GM Fritz Rieseberg did not confirm the losses, but said while there were no operational problems with the system, "our services have expanded and Sage's payments have not".

De Villiers has now dropped his threat to call an emergency AGM of all shareholders, and is hoping the disagreements will be ironed out within two months. While the debate rages, his personal financial position is improving. With Allied up 7c since Tuesday, De Villiers's 0,8% stake in Allied has increased in value by R175 420.



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# The income statement

Continuing our popular series by Richard Buchholz of accountants KPMG Aiken & Peat.

We have concentrated on the company balance sheet, which represents its financial position in terms of assets, liabilities, (share) capital and retained profits at a particular time.

Theoretically a company could draw up a balance sheet as often as it liked but the position changes so little from day to day that this would be a waste of time.

Usually companies produce monthly balance sheets for management's information and a full set of financial statements at the end of their financial year. A year is chosen by convention because it represents a useful, practical period on which to report to shareholders.

The cycle of the buying and selling activities that take place between each balance sheet date is recorded on the company's "income statement".

As we saw in Part 4, the income statement represents the link between the balance sheets for one period and another.

For our purposes we shall assume that our model company PTI is reporting on a full year's activities. When referring to an item in the income statement, we shall assume that it relates to a full year.

If you study a set of financial statements you will notice that there are usually very few items shown in the income statement.

A comprehensive income statement is included below. This should be retained, as we will refer to it from time to time.

Most of the details of the income statement are provided in the notes to the financial statements. These will be considered later. In the typical example which follows, note also how we disclose comparative figures.

Typically, the first item in the company's income statement will be **TURNOVER**, which represents total sales. In the case of our model company PTI this would be the total value of all spades sold in a year. In a manufacturing company, turnover is likely to be the largest figure in the financial statements.

Sometimes you will not actually see a rand figure under this caption — companies are legally obliged to disclose only the percentage increase over the previous year's turnover and they may choose not to disclose actual figures for strate-

gic or competitive reasons.

You will notice also, when you look at an income statement, that the turnover figure is always underlined. This is intended to show that turnover does not fit into the actual calculations on the income statement and it is shown for information only.

The next important item in an income statement is **OPERATING INCOME**, which is a derived figure representing the income generated by the normal operating activities of the company.

This figure therefore will vary directly with the sales and purchasing activity, as well as other costs for marketing, distribution and administration which the company has to incur to operate normally.

Operating income, by definition, is the profit generated before items such as interest and investment income are taken into account.

Interest is paid or earned on amounts borrowed or lent, and investment income is income earned from investments the company holds; neither usually arises from the normal operating activities of a typical manufacturing company.

A simple example illustrates how operating income is derived (for a refresher, refer to article 4):

	R
Sales (turnover)	10 000
Less:	
Cost of sales	<u>7 500</u>
Gross profit	2 500
Less:	
Selling expenses	500
Admin expenses	500
Distribution expenses	500
	<u>1 500</u>
Operating Income	1 000

As you can see, this is very similar to the mini-income statement we considered in Part 4.

It is important to note we have not yet deducted the interest expense (nor added investment income) as these will be considered later.

The selling, administration and distribution expenses are also known as "overheads" and represent all such expenses that have not previously been included in the "cost of sales".

Cost of sales usually represents

some or all of:

- \* The cost of raw materials used in products sold to customers during the year.
- \* The cost of labour used to make products sold to customers during the year.
- \* The costs of items such as factory rent, electricity, water and the like, which are incorporated where possible in the cost of the products sold to customers during the year.

The company would aim to be able to say with accuracy that the full cost of the product it sold would include the cost of all of these elements.

The way in which these costs are applied to cost of sales (to products), and which costs actually are included in the cost of a product, varies from company to company, but the principles are the same.

Cost accountants are typically responsible for these allocations.

From our income statement example, we can see that operating income equals gross profit less overheads (excluding interest and investment income and any other non-operating costs of income).

In this simple example, we have disclosed the full breakdown of operating income, but companies are not legally required to do so.

All they are required to disclose are some of the important operating costs, such as depreciation and lease charges, but these are usually shown in the notes to the financial statements to keep the income statement brief and neat.

The next items usually found in an income statement are the non-operating items such as interest paid and investment income.

Interest paid represents all interest paid on overdrafts, loans and other borrowed amounts, and investment income would include interest and dividends the company received during the year from the investments, if any, that it holds.

These are important to consider separately from operating income as they are normally not a product of the company's operating activities, and analysts need to remove all such items when they analyse the company's true performance. We will look at this later.

**MONDAY:** Taxation, an expense that probably rings alarm bells for all.



# Bank <sup>Call</sup> 'won't <sup>10/6/40</sup> allow <sup>(S)</sup> rand to slump'

Own Correspondent

JOHANNESBURG. —

The Reserve Bank will not alter monetary policy in the wake of yesterday's sharp fall in the gold price, Reserve Bank senior deputy governor Jan Lombard said yesterday.

He said SA would have to "weather this particular storm" because the Bank had no intention of allowing the rand to depreciate in order to realise a higher rand gold price. Depreciation would have inflationary implications, he said.

Foreign exchange dealers said the Reserve Bank sold dollars on the market yesterday morning. The rand was slightly stronger against the dollar at 2,6648 (2,6608).

Capital market rates were sharply up, the Eskom 168 reaching an eight-month high of 16,41% before falling back to 16,32%.

The Reserve Bank had the facilities to manage its mixed portfolio of gold and foreign exchange and the Bank had been buying as well as selling gold yesterday, Lombard said.

Reacting to economists who predicted that the lower gold price would create a liquidity crisis by devaluing SA's foreign exchange reserves, he said the Bank had taken precautions in its marketing strategies.

Trust Banks' Nic Barnardt said the Bank seemed determined to stabilise the rand.

He said if it didn't help ailing mines through currency depreciation other measures would have to be taken because the country could not afford the resulting major unemployment in such sensitive political times.

Nedbank's Edward Osborn said the Bank may have to allow <sup>for</sup> depreciation of the rand.

# selling on JSE

CMF 7/15/90 58

## Gold Index falls 94 points

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tion costs, including capex, for the March quarter show 332 tons of gold produced by 22 mines, out of last year's total production of 624 tons, cost more to produce than R915/oz.

The calculations are based on production and capex figures supplied in stockbrokers Ed Hern's Quarterly Gold Review.

The most alarming entry on the list of SA gold producers running at a loss is Anglo American's Freegold, the world's biggest mining complex, employing 110 000 workers, 23% of gold producers' employment.

Freegold, which produced 18% of SA's gold in calendar 1989, reflected working costs and capex of R1 019/ounce in the March quarter. It is losing about R100 on each ounce of gold it produces at yesterday's rand price.

Chamber of Mines spokesman Johan

Liebenberg said yesterday the further fall in the gold price placed the gold mining industry in a critical situation.

Figures released by the chamber yesterday disclosed that 54 381 jobs were lost on member gold mines between 1986 and March 1990. In the first three months of this year the total was 25 388.

Analysts said yesterday the 22 marginal mines were not necessarily all in danger.

Brokers Kaplan and Steward used Anglovaal's Loraine (R1 031/oz), which this week cut its labour force by 6% and reduced tonnage throughput by 10%, to illustrate the point.

On the JSE bearish sentiment spilled over to industrials for the first time since the start of the recent gold price decline and the index fell 1,4% or 44 points to 2 942.

JSE dealers said buying support emerged at the London fixing.

Analysts in Zurich said market psychology was so bad that customers were refusing to buy.

● Reuters reports that silver probed levels not seen for more than 12 years. It fell US13c to \$4,83 while platinum closed at a 1,5 month low of \$473,50.

# Back to business after bank shock

By IAN SMITH

A BANK boardroom rumpus that shook the world of high finance this week is over — for the time being at least.

The row between Allied Group managing director Kevin de Villiers and Sage Holdings chairman Louis Shill centred on a 1987 co-operation agreement between the two organisations.

The agreement was signed before Mr De Villiers moved to the top job at Allied.

Observers were startled when it flared into the open at the bank's annual meeting on Tuesday in a battle for board seats.

Clashes in the august banking world are normally settled discreetly and the rumpus has caused jitters among the group's 1.8-million customers and clients.

Speculation was that there could be only one winner — either veteran financier Mr Shill or ambitious Mr De Villiers.

Mr Shill heads a financial, investment and management group controlling assets of nearly R4-billion. Mr De Villiers is intent on expanding the building society-turned-bank with assets worth R9,7-billion as fast as possible.

## Traumatic

But both sides are adamant a truce has been declared. Mr Shill remains on the main board, despite Mr De Villiers' attempt to block his appointment. He is also chairman of the Allied's board executive committee.

Sage blocked the appointment of three main board directors supported by Mr De Villiers, but the managing director stays on.

Mr De Villiers said: "It's been a traumatic week. A lot of people have had to compromise, but that is what business is about. At least the problems are in the open and now we can concentrate on solving them."

A spokesman for Mr Shill said: "Everyone is unanimous — they are going to



LOUIS SHILL  
Veteran financier



KEVIN DE VILLIERS  
Ambitious banker

resolve the problems. There have been major disagreements among the board, but shareholders have used their democratic rights."

He denied Sage, which has a 10 percent stake in Allied, controls the group. "We have only two directors among the 10 on the board."

Inevitably, there is a hard road ahead. But both groups are closely linked. Sage gained its stake in the bank when it underwrote Allied's share offer to the tune of R500-million.

In turn Allied took a 20 percent stake in Sage for R71,5-million. The 1987 agreement

binds the two groups to joint marketing and development. At the same time they aim to rationalise activities, including some computer operations. This gives rise to one of the main areas of contention. *5/1/88 17/6/90*

Mr De Villiers claims Sage costs Allied between R6-million and R12-million a year before tax, mainly on computer processing at a discounted price.

But the price was part of the agreement and it might be too difficult to change it.

## Aggressive

Both parties are also unhappy about the values of their cross-holdings.

Mr Shill has been reported as saying that Allied might have done better if it had adhered to the agreement.

Sage was apparently happy with the workings of the agreement until Mr De Villiers succeeded retiring Allied boss Alan Tindall in 1988.

Personality differences and management style have added to the stress. Mr Shill is seen as an innovative but more conservative financier while Mr De Villiers has been more aggressive.

He has shown that he is not afraid of confrontational management in a number of staff shake-ups at Allied in the last two years.

Mr Shill, who says he is concerned about "direction, performance and strategy", may want a tighter hold on the reins. As chairman of the board executive committee he will now have a powerful voice in Allied affairs.



# Investor returns to the <sup>(58)</sup> basics of Acrem

By JULIE WALKER

BACK to basics is how Gordon Polovin of Columbia Consultants describes his group's investment in retailer Acrem.

The Columbia flotation in 1986 was a sensational success. Pitched below a rand, the share price of the financial services and investment banking outfit topped R8 before its gradual slide to the current 95c was triggered as far back as October 1987.

"We have got away from being a glamour company," said the chief executive.

Over the last two years Columbia has sold off its holdings in 11 companies, mostly listed, and is left with two-thirds each of Powernet and Blocktec.

Mr Polovin said any proceeds or cash which Columbia generates will be invested in Acrem, a long-term credit retailer of non-food goods.

Columbia bought the chain a few years ago out of the estate of Benny Sloame. Following the recent rights offer, Columbia will own 90% of the company, which will be capitalised at close to R43-million.

## Rapid

Some of the R15-million raised in the rights offer will be used to bring down Acrem's gearing from a hefty 124% to 33%. This is after taking into account the R4-million cash acquisition of I Lubner & Sons, a cash discounter in consumer electronics and furniture.

Acrem's pre-tax profit margin was 14% in the financial year to March. It has a rapid stock turn — 7,7 times — and returned 18% on assets managed.

Acrem earned 15,6c — 35% more than last year and 2c ahead of the forecast. A 5c dividend has been declared.

Mr Polovin said it had been a difficult year for Columbia, which will probably earn about 16c in the year to March 1990. As investments were sold, so were earnings.

But he is confident that the year to March 1991 will be one of good growth from the group, now capitalised below R30-million.

"Acrem is going places, and Powernet and Blocktec are performing well."

S

# BANK THAT DOESN'T CHARGE INTEREST KEEPS ON GROWING

By DIRK TIEMANN

**THE** Islamic Bank, making inroads into a small and highly specialised market, aims to increase its capital base to R200-million in the next seven years.

That's not large by banking standards, but then this is a bank that started with just R200 000. Moreover, it pays no interest on deposits and gives interest-free loans.

The Islamic Corporation was formed in 1983 and after 11 attempts it finally won a banking licence in September 1988.

The IB recently opened its new R5-million premises in Fordsburg, opposite the Oriental Plaza, with a gala function attended by representatives of the ANC economic unit, the Government and the Reserve Bank.

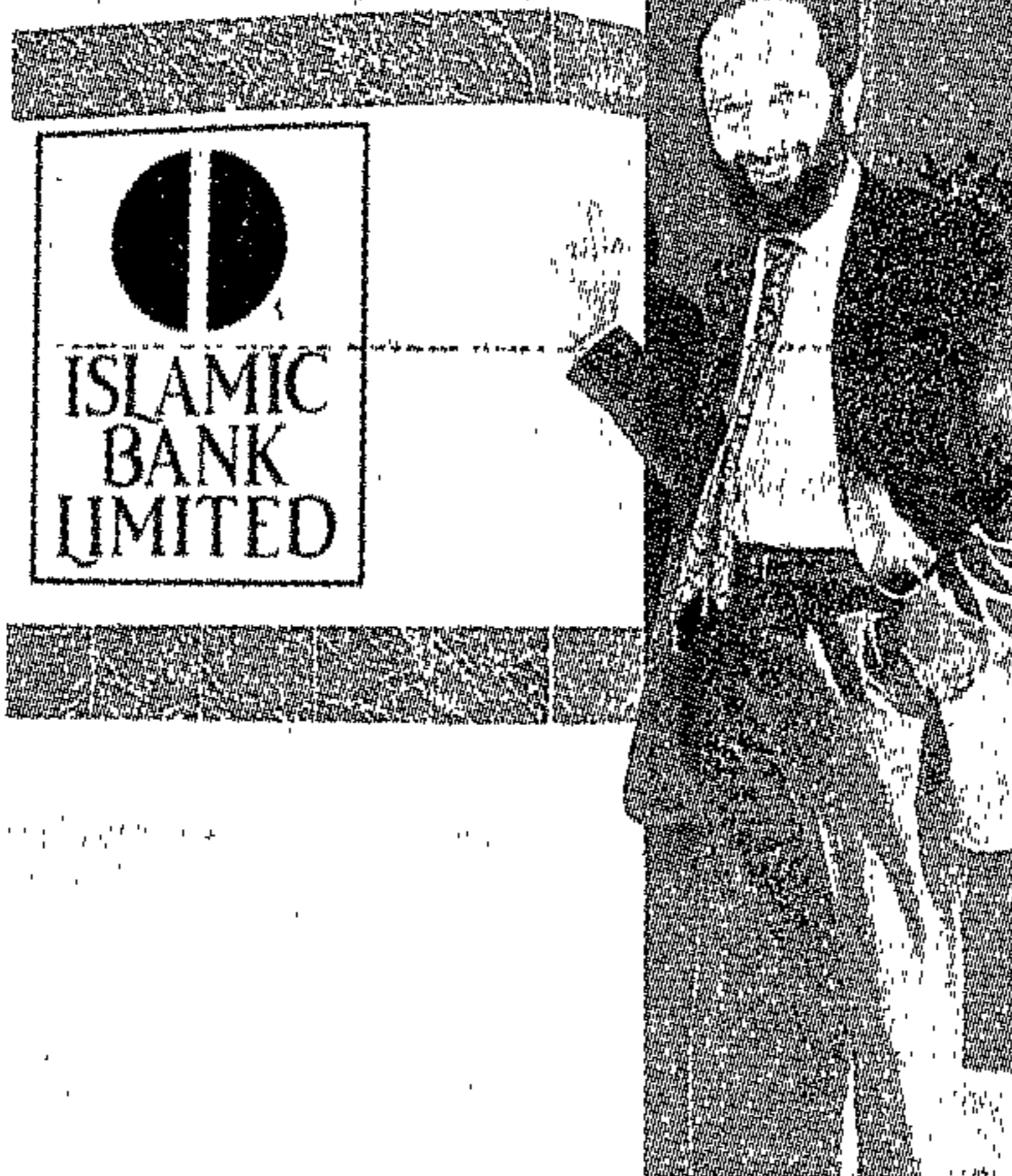
## Religious

It has met its capital base growth forecast of R20-million in the past seven years, leading to confidence that it will meet its new R200-million target.

Chief executive Ebrahim Kharsany says the IB isn't affected by the Reserve Bank's tight monetary policy.

He said: "We never borrow from the Reserve Bank window and our reserve balances of just under R1-million at the Reserve Bank are held in cash, instead of interest-earning gilts or Eskom stocks. The Bankers Acceptance rate doesn't affect us in any way."

Interest payments do not conform to the religious



## AT THE HELM ... Islamic Bank chief executive Ebrahim Kharsany is steering a steady course

*5 Times 17/6/90*  
requirements of Islamic law, and the shareholders and depositors benefit from the profitable investment decisions taken by the bank.

On average, the shareholders have received a 10% return and depositors have seen a 14% return on investments and deposits since the bank's inception.

Depositors receive a pro

rata share of profits, depending on the amount deposited with the bank.

The bank invests mainly in office property development — accounting for 80% of the total — and trading operations and industry. If the bank gets no return on its investments, then shareholders and depositors receive no income.

Mr Kharsany says the brunt of losses is borne by the shareholders.

The bank has a fund that provides interest-free loans to small businesses and graduates.

"We have developed a trusting relationship with clients and we have not suffered one bad debt in seven years. Nor have we been forced to repossess."

Property is sold to clients at a fixed price at a profit, and the repayments follow in a pre-arranged time period with no penalties levied on delayed payments.

Depositors, numbering 5 000, have deposited R12-million with the bank and the share capital from the 38 private shareholders totals R6-million.

## Issue 58

Now Mr Kharsany is considering the issuing a further four million shares at R10 each to broaden the shareholding and to increase share capital to R50-million.

He says: "We have refused to give foreign and local institutional investors a share in our bank because we want to stay in control. The new share issue will be a private placing within the bank and we know that our clientele will not speculate with our shares."

Mr Kharsany said monthly deposits with the bank were increasing at the rate of R1-million a month.

The bank serves mainly the Islamic community in Johannesburg, but there is a branch in Durban and another is planned in Cape Town.



# Dealers cut cloth to fit tight policy <sup>(58)</sup>

Blom 18/6/90

ALL trading incentives have been sapped from the money market by the constant official reiteration that the tight monetary policy, with its high interest-rates structure, will remain for at least several more months.

Markets flourish only when opinions, perceptions and expectations differ. But in this money market, dealers have resigned themselves to accepting that the authorities are unbending and implacable; that they have been saying what they mean.

Consequently there is no incentive for buyers or sellers of assets to take a view, or even a short punt, on the possibility of a minor deviation from the official line.

As a result, in the words of a money market manager, "the money market is moribund. So why take a gamble? Play it safe. Invest short-term to get the best rates you can."

"Keep your powder dry against the time when events and the economic indicators start to signal that an easing of the strait-jacket straps is nigh. And then you take a chance."

In line with this, institutions should keep investing heavily in overnight call deposits — which earn what appears to be the floor rate of 18% — and in three months negoti-



## IN THE MONEY MARKETS

Harold  
Fridjhon

able certificates of deposit (CDs) trading at the double price of 19,30/20%.

Superficially the CDs appear to be the more rewarding investment, but as call deposit rates fluctuate to a high of 19,5% at month-ends and earn interest daily which can be compounded, it might pay just by leaving it where it is.

This is a cogent point of view but I still cling to the belief that some funds should be invested in longer-term CDs which could be a useful portfolio sweetener when rates do start to fall.

That the present 18% Bank rate could fall to 17% by the year's end is not an improbable expectation. And a further one percentage point cut during the first half of 1991 cannot be entirely ruled out.

The sales of 12-month CDs are very limited, although the offerors' rates are very wide. One major bank is bidding a double of 18,90/18,80% but this offer is topped by another commercial bank's 19,25%, five points more than that bank's smaller associate.

With its relatively modest R1,975bn debt to the Reserve Bank, the market overall is fairly comfortable but its aggregate conceals the fact that some banks are heavily into the Reserve Bank's re-discount window; others are not.

Last week, the Bank tapped R400m out of the market by means of two very short-dated tender offers of treasury bills (TBs) and about R100m in forex swaps ahead of last Friday's inflow of about R1bn from salary payments to public servants.

But the favourable balance of about R500m will not remain long with the banks; they will use this on behalf of their clients to pay overseas trade debts and other foreign half-year commitments.

And with GST payments to the treasury falling due this week, the drain on the banks' liquidity will build up into a flood exacerbated next week as the banknote issue starts to rise from the current low level of R7,9bn to the month-end peak of about R8,7bn.

The rate for 90-day bankers acceptance eased marginally to 18,30% from 18,35% but the TB rate rose to 17,98% from 17,96%. The bills on offer were increased to R100m from the previous R70m.



SA 18/6/90

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BACKGROUND

# Millions spent

The marathon Harms and Hiemstra Commissions have cost about R8 million so far, according to informed sources.

Most of this expenditure has been for the Harms Commission which enters its 16th week today and has cost about R6 million so far. It is expected to complete its work next month.

The Hiemstra Commission sat for about two months at a cost of about R2 million. Oral evidence was completed on June 8 and the commission will sit for one more day, on Friday, to hear argument.

However, top lawyers argued that the millions of tax- and rate-payers money being spent was justified. The reasons given were the seriousness of the allegations and that it was in the public interest for the actions of the State to be open to public scrutiny.

But one source questioned the apparent free-spending on legal representatives. He felt that costs could have been cut in the Harms Commission by briefing one team of lawyers to represent both the SA Defence Force and its clandestine Civil Co-operation Bureau (CCB).

"If the CCB was operating legally there shouldn't be any conflict between its interests and the interests of the Minister of Defence. The Minister of Law and Order and individual policemen could also have been represented by one legal team."

## Hit squad

In February Mr Justice Louis Harms was appointed as sole member and chairman of a commission to investigate allegations that a hit-squad was operating from within the police against left-wing opponents of the Government.

The scandal broke when this was alleged in an affidavit by death-row prisoner and former security policeman Almond Nofomela the day before he was to hang for an unrelated murder. He was later backed by two other former policemen, Dirk Coetzee and David "Spyker" Tshikalanga, who testified before the commission in London in April.

The Harms Commission began in earnest on March 5 after an initial sitting on February 15. Proceedings were divided into two distinct parts: an investigation into the allegations by Nofemela and a probe of the covert CCB, which is part of the SADF Special Forces.

So far the commission has sat for 53 court days and heard evidence from about 25 witnesses.

Commission officers include Mr Justice Harms; Free State attorney general Tim McNally and Les Roberts — both senior counsel — assisting the commission; Chris Erasmus, a magistrate who is acting as secretary to the commission; and two senior policemen as investigat-

Millions of rands of taxpayers' money are being spent on two marathon commissions, the Harms Commission into politically motivated murders and the Hiemstra Commission into alleged irregularities in the Johannesburg City Council's security department. But legal sources said no matter what the cost, the investigation of serious allegations against the State is in the public interest. **KAREN STANDER** reports.



Interested parties instructed top lawyers to represent them at the commissions. Gilbert Marcus, for the End Conscription Campaign (ECC) in conversation with John Pearce's lawyer, Schalk Burger.

● Pictures by Karen Fletcher.

ing officers.

Appearing are 12 legal teams representing 23 parties. There are 8 senior counsel who command huge fees, plus 14 junior advocates and 12 firms of attorneys.

Legal sources estimated that an average cost for a legal team was R125 000 a month. However, it was emphasised that while some teams were charging about R150 000 a month, others cost far less.

Separate legal teams for the CCB and the SADF — rumoured to be the most expensive of the lawyers — have not been present since the wrapping up of the CCB probe on May 30. They will however be involved again once oral evidence on the police is completed and argument begins.

Also to be taken into account is the cost of space in the NGK Sinodale Sentrum in Pretoria — which includes the commission room as well as a suite of offices, travelling and accommodation.

The 10-day trip to London and the cost of the commission record — copied and transcribed by a private company — has added about

R150 000 to the cost of the commission.

The Hiemstra Commission, chaired by Mr Justice Victor Hiemstra and assisted by former city treasurer Mr Willie van den Berg, was appointed in March to investigate disclosures by The Star that a spy network operated from inside the Johannesburg City Council's security department.

## Legal teams

Additional assistance to the commission is rendered by two advocates, one senior and one junior, and a secretary.

The Hiemstra Commission began on April 11 and sat for a total of 28 court days.

Eleven parties were represented by 10 legal teams, including three senior counsel, nine junior advocates and 10 firms of attorneys.

Legal counsels' conservative estimate was that proceedings cost R37 000 a day, bringing to more than R1 million the cost of lawyers alone. This excludes salaries of officials and the daily provision of refreshments.



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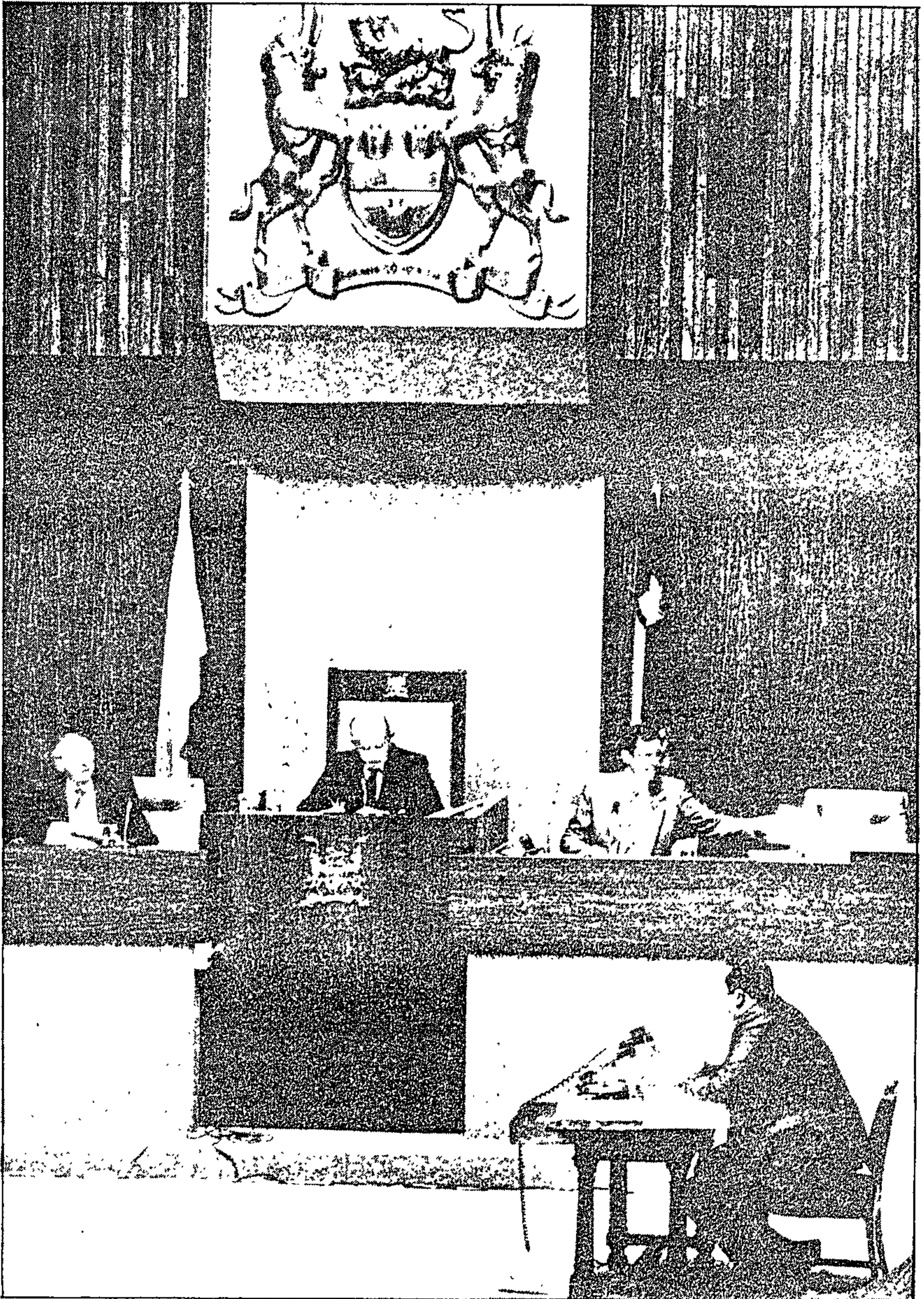
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Flashback . . . Johannesburg's head of security, John Pearce, testifies before Mr Justice V G Hiemstra.



# SA's foreign debt crisis over — Stals

The Argus Correspondent

ARGUS 58  
17/6/70

JOHANNESBURG. — Huge new inflows of overseas capital have raised optimism inside the SA Reserve Bank that South Africa may be breaking out of years of isolation in international high finance.

South Africa's overseas relations are expected to make further improvements next week when it clears the next hurdle in its programme to wipe out its heavy foreign debt burdens.

Reserve Bank governor Dr Chris Stals

has disclosed that within the next 10 days South Africa will pay off the last instalment in the second phase of its programme to end the debt standstill that rocked overseas creditors when it was imposed in 1985.

The instalment will bring total repayments over the past three months to more than R3 200 million.

Dr Stals said much of the pressure had been alleviated after substantial inflows of foreign funds in the past few months.

● See page 4.



# 'Big money' coming to SA

*CAPE TIMES 19/6/90*

By MIKE ROBERTSON

FOREIGN companies are considering investing billions of rand in South Africa in the next six months, Trade and Industry Minister Mr Kent Durr said in an interview yesterday.

Mr Durr was expanding on a speech he delivered to the President's Council in which he said sanctions were being rolled back.

"We are making contact now with old friends we have not seen for a while and large investments are being planned or considered," he told the council.

Mr Durr declined to give details of companies involved, but claimed investments totalling billions of rand were being planned in the motor, mineral, metal treatment and chemical sectors.

Government officials said investments of up to R4,5-billion were being planned by the motor industry.

A further R500-million investment in the manufacture of auto-catalyst components, mainly for export, was also being planned.

Mr Durr said major European and Asian companies were showing an increasing interest in developing mineral and metal treatment plants in South Africa, often in joint ventures.

The minister said that in addition to the renewed interest in investing in South Africa, rapid progress was being made in re-establishing old trade links and expanding new ones — particularly in Africa.

Mr Durr said future industrial growth here would have to be export-led.

"The need to encourage exports also brings home the imperative of normalising our political relationship with the world. You cannot have expanding sales into contracting markets."

**SA's debt crisis over**  
*CAPE TIMES 19/6/90*

**SOUTH AFRICA'S debt crisis is over, according to the governor of the Reserve Bank, Dr Cris Stals.**

Dr Stals told the SABC yesterday that within 10 days South Africa will repay the last of its instalments under the terms of the second arrangement of the debt standstill.

This will take total payments of foreign debt over the past three months to \$1,2 billion (about R3,2bn).

While South Africa still has large debt commitments to meet under the third interim arrangement, Dr Stals said the total debt due for repayment would be substantially lower in the years ahead. — Sapa

Property &  
Construction

FRANK JEANS



SR



## Sanlam's second development at Strijdompark

Insurance giant, Sanlam is making another big stride into a strong industrial growth point — Strijdompark, Randburg.

The group's property division is developing a R12 million industrial park there, with LTA Developments acting for Sanlam.

Fanie Lategan, provincial manager, property investments, of Sanlam Properties, says: "This is our second industrial park development at Strijdompark.

"The strong demand experienced at the existing one had a direct influ-

ence on the construction of development No 2."

The 22 000 sq m site on CR Swart Drive has good exposure to the N1 Western Bypass.

The development will have 22 units with a lettable area of 10 200 sq m.

Units vary from 235 sq m to 775 sq m. They are expected to be ready for occupation in November.

"The development has a lot more character than one usually expects of an industrial park," says LTA Developments managing director Ray Bowers.

# Short-term outlook for banking improves

The short-term outlook for the banking sector seems considerably stronger than that for industrials.

According to Davis Borkum Hare analyst, Iain MacKenzie, earnings growth from the individual banks and building societies (with the exception of Bankorp) will be in the region of 20 percent over the next twelve months.

Allied is expected to lift earnings per share by around 24 percent in its financial year to end-March 1991; First National is forecast to be up 19,6 percent for the year to end-September 1990; Nedcor up 24 percent for the year to end-September 1990; Stanbic up 20 percent for the year to end-December 1990; UBS up 22 percent for the year to end-March 1991; and Volkskas up 24 percent for the year to end-March 1991.

## Contrast

In sharp contrast Bankorp is looking at a precipitous drop from 126c a share in financial 1989 to only 64c in the 12 months to end-June 1990.

Last year's rights issue is part of the reason for Bankorp's appalling showing but problems at TrustBank also play a role. And, rapid asset growth aggravated the situation.

According to Mr MacKenzie: "The brakes have been put on

Diagonal  
Street

58

ANN CROTTY



and further growth is now being restricted to the minimum necessary to provide for the clients' needs and, measures have been taken to restrict further increases in operating expenditures and improve interest margins."

## Overall sector

Referring to the overall sector, the Davis Borkum Hare analyst believes that balance sheet growth is likely to slow because of Reserve Bank pressure and the general slowdown in economic activity.

Competition will remain fierce which "with continued pressure on costs as well as rising bad debts and bad debt provisions will keep pressure on margins."

In the near-term, profit growth is expected to exceed inflation which, as Mr MacKenzie points out, most industrials will struggle to do in the present high interest rate environment.

But longer-term growth potential, including difficulties over funding of the industry, is expected to restrict share price appreciation.



# Capital market welcomes Bank move

CAPITAL market players have welcomed government moves to enable the Reserve Bank to make a market in options on government stock.

"The result would be increased liquidity. This would benefit everyone, including traders in the underlying stock," said Rand Merchant Bank executive director Russel Loubser.

This was confirmed by Andrew Forbes & Co capital market trader Ian Crookshank.

"Improved liquidity can only result in improved market efficiency," said Crookshank.

The Reserve Bank has already been involved in selling call options (options to buy the underlying instrument) on government stock.

However, it has limited its activity to

Monday 20/6/90  
NEIL YORKE SMITH

selling calls and has not been involved in the sale of put options (option to sell the underlying) or any other type of trading.

By contrast Eskom — whose E 168 stock is the most active and liquid on the local market — is active in trading both call and puts.

Assuming the Reserve Bank would be a regular and active player, both liquidity and activity in government stock should improve and even outstrip Eskom stocks, traders said.

Eskom has announced it will reduce its activity in the capital market over the next five years.

"Increased liquidity would reduce the disparity between yields on Eskom

stocks and those on prime government stocks," said Loubser.

However, the Bank would have to build credibility as a constant and active player in the capital market if its role was to be significant, traders said.

"It would need credibility as a full time player. There would be no point in the Bank simply 'disappearing from the market' every now and then," said one.

It was crucial that the Bank develop and acquire the level of skills required to successfully run a fully fledged options operation, he added.

"It is also important that market forces are allowed to prevail.

"I would hate to see government using its influence over the options market to strengthen its hold over monetary policies," said another trader.

PTI Limited and its subsidiaries Consolidated cash flow statement for the year ended June 30 1990.

# Consolidated income statements and cash flow



Continuing the popular series by Richard Buchholz of K P M G Aiken & Peet

In most cases, especially if the company is listed on the Johannesburg Stock Exchange, we will be examining the income statement not only of a single company but also of a whole group of companies.

The income statement for this group of companies is called a "consolidated" income statement (See part 10).

Where a company holds more than 50 percent of the shares in one or more subsidiary companies, it is normal practice to group together the results of each of the subsidiaries.

In these cases, we usually consolidate or add all the results of the subsidiaries into one set of accounts which we call "group" accounts.

If, for example, our model company PTI owned all of the shares of each of its subsidiaries, it would be the only shareholder and would be entitled to all of the profits of each subsidiary and would also own all of the assets and liabilities of the subsidiaries.

In drafting the group accounts we would consolidate all the assets and liabilities of these subsidiaries into one group. Often, however, we hold less than 100 percent of the shares of

To show this potential liability in group accounts, we normally disclose the amount due to the outside shareholders under "capital employed".

It is highly unlikely that he would ever have to pay these shareholders their share of the group's assets, but we nonetheless still have to show that they are entitled to that share.

So far, in this series, we have looked in detail at the balance sheet and income statement. Typically a full set of financial statements consists of:

- A balance sheet.
- An income statement.
- A cash flow statement.
- Notes to the financial statements.
- A director's report.
- An auditor's report.

We will now examine the cash flow statement and later some of the important notes to the financial statements. The directors' and auditors' reports do not fall into the scope of these articles.

The cash flow statement attempts to show the movements in the company's cash balances over the year by analysing the activity in the various balance sheet categories.

For example, if we bought a machine, it would represent a cash outflow. If a debtor paid the balance on his account, it would be a cash inflow.

The cash flow statement is a summary of these inflows and outflows of cash, and is particularly useful because it shows exactly how the company is obtaining, and using, its cash.

As we have said before, cash is the crux of most business operations — a company has to be able to generate cash to survive. The presentation of what we call cash flow information varies from company to company, but the principles are generally the same.

We usually start a cash flow statement with the "cash generated by operating activities," which is really the cash the enterprise has created from its trading activities after paying its current liabilities, buying stock, collecting

from its debtors, and so on. From this cash the company has to meet two specific obligations:

- It must pay the interest on its debts (that is, on any amounts it has borrowed, including bank overdrafts).
- It must pay tax to the Receiver of Revenue.

Therefore, the company is left with its "cash available from operating activities".

From "cash available", we obviously need to show what dividends have actually been paid during the year (a similar situation to the income statement — see Part 10).

This may differ from the figure in the income statement, since the cash flow reflects dividends that have actually been paid, whereas the income statement will show dividends that have been declared but are unpaid as well.

After dividends have been paid, we are left with "cash retained from operating activities" — that is, cash retained in the company. This cash can be used either to:

- Purchase more fixed assets in order to maintain or expand its operations; or
- Settle any long-term loans that have become due and payable.

In a cash flow statement, therefore, we will usually disclose how cash retained has been used in one or both of the above two options. What is left after all these transactions will either be excess cash (in which case our bank balance should have increased from last year) or a deficit in cash (in which case our bank balance should have decreased from the previous year).

Readership response to this series on How To Read a Balance Sheet has been so great that it has been decided to publish it in book form. Copies can be ordered at R16 a copy, which includes GST, from the Promotions Department, The Star, PO Box 1014, Johannesburg. Orders can also be placed by phone (011) 633-2320. All proceeds go to Operation Snowball.

Investment in subsidiary: 106

Investment in fixed assets: 3 908

Investment in subsidiary: 15 115

Investment in fixed assets: 21 128

Net cash generated: 868

Cash effects of financing activities: 5 908

Proceeds from share issue: (6 500)

Decrease in long term borrowings: (592)

Increase/(decrease) in bank balance: 276

1990

Cash generated by operations: 53 328

Investment income: 1 156

Utilised to finance working capital: (6 201)

Cash generated by operations: 48 283

Interest paid: 3 245

Taxation paid: 13 142

Cash available from operating activities: 31 896

Dividends paid — members: 8 336

— outside shareholders: 664

Cash retained from operating activities: 22 896

Extraordinary loss due to flood: 900

Cash retained from operating activities: 21 996

Cash utilized in investing activities: 1 300

Investment to maintain operations: (100)

Replacement of fixed assets: —

Proceeds from disposal of fixed assets: —

Investment to expand operations: 106

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Investment in fixed assets: 15 115

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Cash effects of financing activities: 5 908

Proceeds from share issue: (6 500)

Decrease in long term borrowings: (592)

Increase/(decrease) in bank balance: 276

1989

Cash generated by operations: 36 929

Investment income: 892

Utilised to finance working capital: 803

Cash generated by operations: 38 694

Interest paid: 2 199

Taxation paid: 8 611

Cash available from operating activities: 27 875

Dividends paid — members: 5 366

— outside shareholders: 342

Cash retained from operating activities: 22 147

Extraordinary loss due to flood: —

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Investment income	1 156	892
Utilised to finance working capital	(6 201)	803
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Investment to maintain operations	(100)	(100)
Replacement of fixed assets	—	—
Proceeds from disposal of fixed assets	—	—
Investment to expand operations	106	106
Investment in subsidiary	3 908	3 908
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Net cash generated	21 128	14 494
Cash effects of financing activities	868	6 453
Proceeds from share issue	5 908	22 147
Decrease in long term borrowings	(6 500)	—
Increase/(decrease) in bank balance	(592)	(47)

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# MP delivers petition against Houghton office scheme

By Peter Fabricius, Political Correspondent

CAPE TOWN — Houghton MP Tony Leon yesterday handed to the Government a 6 000-signature petition objecting to Sanlam's proposed office park on the "Houghton Island" residential area.

Mr Leon, of the Democratic Party, gave the petition to Local Government Minister Amie Venter.

He said Mr Venter had promised to give the matter "due consideration once the townships board in Pretoria had decided on the application".

The Minister was by law the final court of appeal.

## Devastation

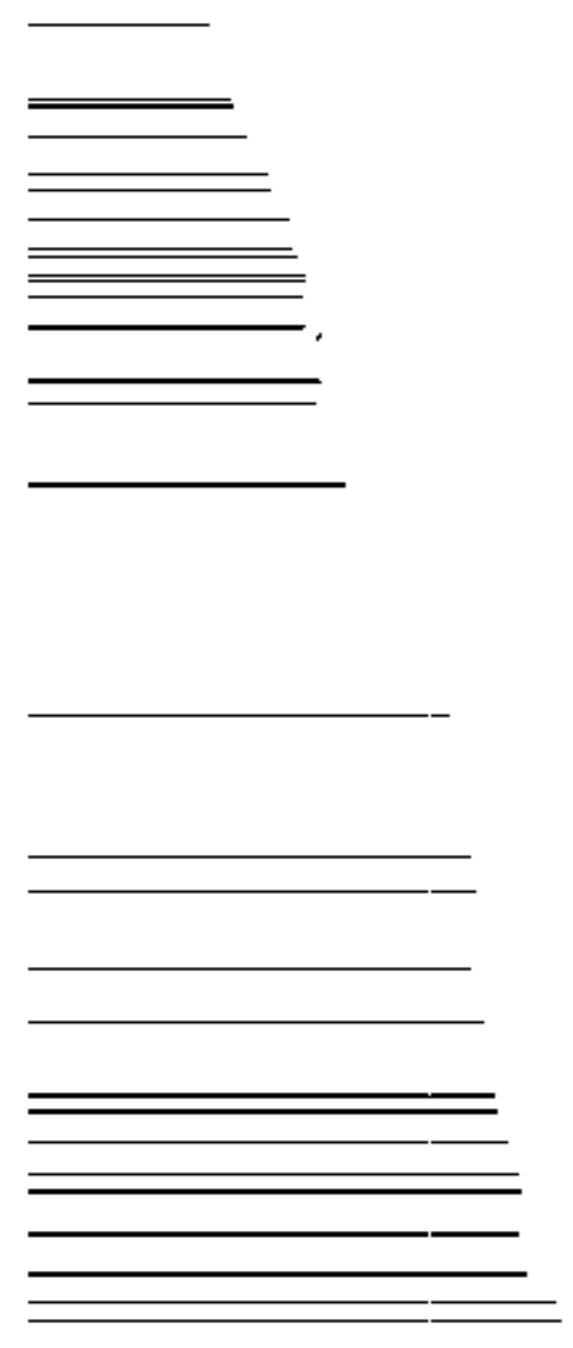
Mr Leon said he, city councillor Claire Quail and the residents of Houghton were determined to stop Sanlam's "proposed devastation of a prime residential and educational area".

In a letter to Mr Venter, Mr Leon said the area was a prime example of botanical and aesthetic beauty and would be devastated by the proposed development.

The existing roads and infrastructure would not cope with the extra traffic.

Houghton Island is the wedge of residential stands bounded by Louis Botha Avenue, Carse O'Gowrie Road, Houghton Drive and Boundary Road.

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# Board is the boss — Allied chairman

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By Derek Tommey  
Louis Shill, chairman of Sage Holdings, has not taken control of Allied, says the group's new chairman, Norman Alborough.

The board of directors was still "the boss", he said yesterday.

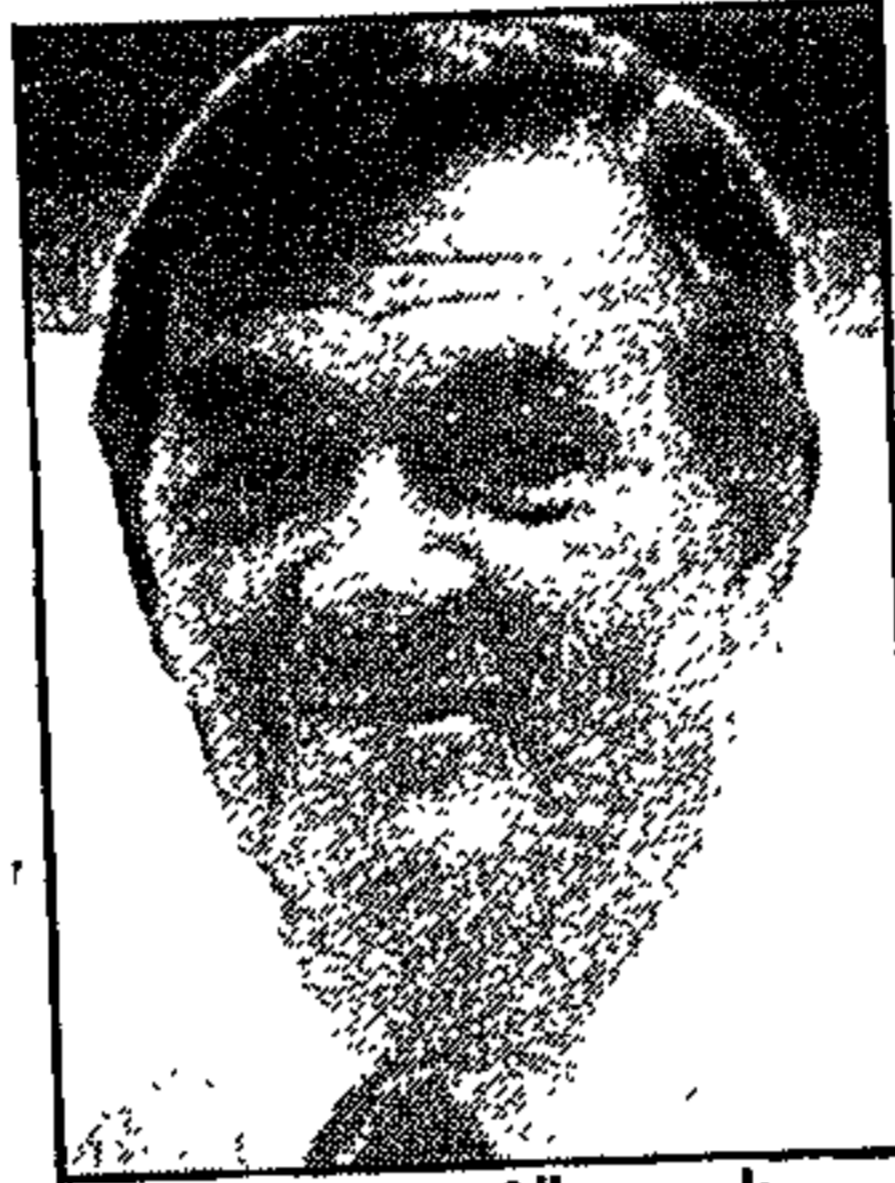
He was reacting to allegations in the media that the election last Wednesday of Mr Shill to the position of chairman of the Allied board's executive committee had made it possible for him to run the group.

This had followed the successful opposition by Mr Shill at the annual meeting of Allied last week to the confirmation of three new directors.

Mr Alborough thought the view that Mr Shill was now in a position to run Allied was extraordinary. It was self-evident that the board was the final decision-maker.

"Mr Shill is in the same position as I am. He is a director of the Allied Group and, through Sage, has a 10 percent shareholding. But he has no powers to take over Allied."

Mr Alborough said he welcomed Mr Shill's presence on he



Norman Alborough

board. "He is a very competent man and experienced in banking."

"He was on the Nedbank board and he and I are old colleagues."

Mr Alborough, who was appointed chairman of Allied at the annual meeting, is 62.

He joined Nedbank 19 years ago from what was then Barclays Bank. By the time of his retirement in 1988 from Nedcor, as the group came to be known, he had reached the position of group general manager.

He joined the board of the Allied Bank and was appointed to the board of the Allied Group in July last year.

He also became a member of the board executive committee, a position he still retains.

Mr Alborough made it clear yesterday that he intended to make his presence at Allied felt.

"I've always been an active banking person and I want to be as active as I can get."

"But by that I don't want to imply that I'm going to interfere in everything."

"I come from a disciplined environment. I'm very much for decentralised authority, for formalised disciplined reporting, and the fixing of clearly defined accountability."

He believes it important that the group managing director report to him.

Mr Alborough said he was disappointed at the ousting of the three directors at the annual meeting at which he had not been present.

He said this had been a shareholders' initiative and not the board's. He was particularly concerned about the ousting of Don Hunter, MD of the Allied Building society.

Mr Alborough said his position as chairman of a company with 50 000 shareholders, the largest having only 10 percent of the vote, was in many ways a much more responsible position than that of chairmen of companies with majority shareholders.

One of his first tasks was the need to reassure staff and remove any uncertainty about the group's management, he said.

He and Mr Shill and other board members are to meet senior executives today.

"It is understandable that there is much uncertainty. But once the position has been explained I'm optimistic that things will settle down," he said.

The recent changes at the Allied could produce many positive developments, he said.

# Allied boss acts to restore morale

B 10 am 20/6/90

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NEW Allied chairman Norman Alborough has called a special company meeting today in a bid to shore up the sinking morale of senior management and reassure them about the relationship between the board and members of the executive committee.

Alborough said yesterday that he was "surprised" by assertions that Sage could have control over Allied. He said it was "ludicrous" that Sage chairman Louis Shill could purport to have "effective control over the Allied board".

The senior management will be told that the board's executive committee, led by Shill, has no statutory standing and derives its mandate from the main board.

"There is no question that the chairman of the executive committee can be the dominant player on the board. I don't know on what logic Shill based his assertions." Alborough said it was disappointing and



● ALBOROUGH

BRENT MELVILLE

regrettable that a public debate on Allied took place at last week's AGM. "However, the board is now anxious to distance itself from the personal clash between Allied MD Kevin de Villiers and Shill," he said.

"To that end I have a commitment from both Shill and De Villiers that the board will now proceed positively," he said.

"Contrary to Press opinion, there are more than two persons on the board. Shill, even in his position as chairman of the executive committee, could still only vote Sage's 10% holding.

"Shill and I have had a close relationship for over 10 years and I am personally happy he is chairing the executive committee," said Alborough.

He also said he would not stand for being portrayed as "a pawn in the chair".

Ahead of the announcement of today's meeting, Allied dipped 3c to 138c, from the 141c level the share had been bolstered to since news of last Tuesday's acrimonious AGM.

The 11c rise represents a hefty 27% improvement on last Tuesday's 130c rating. □ In a report last week, Business Day mistakenly referred to Rob Alborough as the new chairman of Allied. The error is regretted.

# Act will raise life insurers' cash reserve requirements

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May 21/6/90

LIFE insurers will have to increase substantially their cash reserves to match those of banks and building societies six months after the Deposit Taking Institutions Act comes into effect on January 1 1991.

While the Act excludes premiums on life insurers from its definition of deposits, this exclusion falls away six months after the Act comes into force.

"We believe it is inappropriate for life insurers to have to submit to the same cash requirements as banks and building societies as they do not experience the level of instability that deposit-taking institutions have in the demands on their funds," said Jurie Wessels, deputy director for the Life Offices Association (LOA).

"Assurers are able to quite accurately predict what the future demands on their funds will be."

In terms of the investment guidelines laid down for life insurers, they are required to hold 10% of their funds in either government stock or cash, but there is no requirement to hold cash.

Wessels said another inappropriate aspect regarding life offices as depo-

LINDA ENSOR

sit-taking institutions was that in addition to falling under the Financial Services Control Board, life insurers would also fall under the Reserve Bank.

This way of dealing with premiums on life policies was a last-minute change introduced by the joint parliamentary committee on finance two working days before the second reading of the Bill, according to Wessels.

## Views

He said it indicated that the committee believed that life offices competed for short-term savings.

Wessels said the LOA would be presenting its views to the inquiry into the flow of funds between life insurers and banks and building societies, chaired by Japie Jacobs, economic adviser to Finance Minister Barend du Plessis.

He said the industry's self-regulation had stopped the writing of investment policies of less than five years.



# Pension fund invests in homes

IN THE first arrangement of its kind, the giant Metal Industries Group Pension Fund (MIGPF) has made a R10m investment in a scheme to promote low-cost black housing for fund members.

The fund has described the scheme as a precedent-setting example of socially responsible investment by the pension fund industry.

The fund's board — consisting of representatives of management (Seifsa) and labour (including Numsa) — announced yesterday it had purchased at bulk discount, through an agreement with the Urban Foundation-linked housing development company FHA Homes, 991 serviced stands in various Transvaal townships.

The stands — in Mohlakeng, Katlehong, Tsakane and Kwa Thema — are available for purchase by fund members, who would

ALAN FINE

reap the benefits of a lower price. Some estimates put the expected average saving at about 15%.

Purchasers would be entitled to their own choice of builder and design, and through a system of pledging credits with the fund, would have easier access to finance.

Fund director Harvey Pearce yesterday stressed the arrangement would not require fund members to subsidise those who purchased property. The return on investment would be at the going rate.

Part of the agreement was that FHA would repurchase any stands not sold after five years, and the fund would be offered a proportion of all future stands for stipulat-

To Page 2

## Housing

ed periods in any new FHA development.

"The MIGPF investment shatters the myth that investment in black housing is both insecure and unprofitable," the fund said.

"The MIGPF, guided by the recommendations of a specialist housing committee

set up to consider ways in which the Fund can contribute towards solving the housing crisis, expects to make more investments of this type in the near future."

Pearce said the the system of pledging benefits as collateral for housing finance was available to all races, and future projects would benefit them too.

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# AA Life, Crulife merge resources

## Finance Staff

A powerful new life assurance group, with total assets of R500 million, has been formed by merging the interests of AA Life and Crusader Life under the umbrella of Anglovaal.

This represents another major move into life assurance by diversified finance, industrial and mining group Anglovaal.

To establish the new group, Cruhold (Crulife's holding company) is to acquire AA Life's 95 percent interest in AA Life Assurance Association in exchange for the issue of 123,8 million ordinary Cruhold shares.

Both AA Life and Crulife will continue to operate independently to exploit their own markets.

To reflect Anglovaal's 41,1 percent interest in the AA Life Group, Cruhold is being renamed Anglovaal Insurance Holdings (Avins), while the AA Life Group is being renamed the AVF Group.

The acquisition will result in Avins becoming a subsidiary of the AVF Group and AA Life and Crusader Life becoming subsidiaries of Avins.

The combined assets under the group's control will be about R500 million and put it among the top ten life assurance companies in South Africa.

Clive Menell becomes non-executive chairman of Avins and Brian Benfield, CEO of AA Life,

will be group managing director.

R Rowand remains chairman of Crusader Life and becomes non-executive director and deputy chairman of Avins.

Bob Rowand remains managing director of Crusader Life and joins the board of Avins.

Outlining the rationale for the deal, Dr Benfield said last night: "Crusader Life considers that the stage had been reached in its development where additional capital will be required if it is to continue on its projected growth path, which could lead to a change of control.

"The board felt it should reach agreement with a suitable new controlling shareholder now, rather than perhaps creating a situation of vulnerability in the future."

The financial effects of the proposal, still to be ratified by the JSE, will be to decrease AA Life's pro-forma earnings per share (in the year to April 1990) by 4,2 percent to 15,9c. Dividends will increase marginally by 1,8 percent to 11,4c per share, while the net asset value will fall from 82,8c to 81,5c per share.

On Cruhold the effect is to increase EPS by 28,6 percent to 9c, while dividends will fall by 8,6 percent to 6,4c per share.

The net asset value drops by 19,7c to 44,9c per share.

# Notes to financial statements

By now, you will have seen that the balance sheet, income statement and cash flow statement are concise statements of the company's financial position and its profitability.

For example, we know from the balance sheet that the company owns fixed assets, but we have no idea what these may be.

We know it owns stock, but how much and what category of stock? We know it has operating income of a certain amount, but what items go into this figure?

Because most shareholders and other users of financial statements want more than just the basic information reflected in the balance sheet and income statement, we normally have a series of notes that expand on the various balance sheet and income statement items.

Many of these notes are required by law and by accounting convention, so that all companies provide roughly the same minimum amount of information in their financial statements.

The reason all this information takes the form of notes is that there is simply not the space to fit it all into a balance sheet and income statement format.

Most items in the balance sheet and income statement will refer to an explanatory note.

Some examples of notes you can commonly expect to encounter are:

**SHARE CAPITAL:** This note will offer information on the authorised and issued share capital, the type of share and the par value, and any restrictions that may be in place regarding the issue of these shares.

(Note: "Authorised" share capital is the total number of shares that the company is actually allowed to issue, in terms of the company's internal regulations or articles.)

**LONG-TERM LIABILITIES:** In the balance sheet, you are likely to see only a one-line item. The notes, however, will list all the

Continuing the popular series by Richard Buchholz of accountants KPMG Aiken & Peat



long-term loans making up this amount, the various interest rates being charged, whether any of the assets have been pledged or bonded to obtain the loan, and the terms of repayment.

**FIXED ASSETS:** This note will provide information on the types of fixed assets the company holds, what these assets cost, and the accumulated depreciation (which will be discussed later).

**INVESTMENTS:** This will tell you the types of investments owned, whether they are listed or unlisted and their market value — that is the value the shares have on the open market (for example, on the Johannesburg Stock Exchange).

If they are not traded on an open market, there will be a value placed on them by the directors. There may also be other detailed investment information, but this varies from company to company.

**STOCK:** This note should tell you exactly what categories of stock (raw materials, finished goods, work in progress) the company holds.

**COMMITMENTS:** If the company has committed itself to purchasing a large amount of assets in the forthcoming year, but has not actually bought them, this fact will be disclosed, together with financing details.

These are often known as balance sheet notes, and this list is by no means exhaustive. Every company will have circumstances that are peculiar to its own environment which may be explained in the notes.

**TOMORROW:** Some other notes, including income statement notes.

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# New R500m life firm will embrace Crusader, AA Life

B/Dan 21/6/90

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A R500m life company in the Anglovaal group — Anglovaal Insurance Holdings (AvIns) — has been formed which will have as its subsidiaries AA Life and Crusader Life.

The structure of the group, regarded as unique in SA, will allow both life companies to operate independently so they can maintain and grow their respective market shares and exploit their areas of expertise.

AvIns, previously Crusader Holdings (Cruhold), will be 84% held by a listed AvF Group, previously AA Life Group.

AvIns will hold 95% of an unlisted AA Life Assurance Association and 59% of the listed Crusader Life.

Assets under administration will total about R500m, placing the

LINDA ENSOR

group among the top 10 life offices in SA.

To establish the group, Cruhold will acquire the AA Life Group's 95% stake in AA Life Assurance Association in exchange for the issue of about 123,8-million ordinary shares.

A new administrative company to provide services to both Crusader Life and AA Life will be formed, and this will result in substantial savings in administrative overheads.

The two life companies will share a common computing system and on-line network countrywide, together with common actuarial, underwriting, billing and accounting services. They will also benefit from combining their investment muscle.

New Group MD of AvIns, former AA Life CE Brian Benfield, says: "We are delighted at the formation of the new group. We expect that the new structure, which combines all the elements of innovation and management flair previously demonstrated by the individual operations, will lead to rapid growth in our size and profitability."

Cruhold and Crusader Life needed additional capital to continue on their projected growth path.

The financial effect on the earnings of AA Life Group for the year to end-April would have been to decrease earnings per share by 4,2% to 15,9c (16,6c) and net asset value by 1,6% to 81,5c (82,8c), though the dividend would have increased by 1,8% to 11,4c (11,2c).

Cruhold's earnings to end-December would have increased by

28,6% to 9c (7c) but net asset value would have declined by 19,7% to 44,9c (55,9c) and the dividend by 8,6% to 6,4c (7c). The transaction has no effect on Crusader Life.

The formation of the new group follows the acquisition last year by Anglovaal of 41,4% of AA Life Group.

Anglovaal Group deputy chairman Clive Menell will become non-executive chairman of AvIns.

Alexander Rowand will remain chairman of Crusader Life and will become non-executive deputy chairman of AvIns.

Bob Rowand will remain MD of Crusader Life and will join the board of AvIns.

The formation of the group, with effect from May 1 1990, requires final approval from the JSE and the Registrar of Insurance.

# Eyeball to eyeball

■ The motives are obscure. The acrimony is not.



Once the shouting subsided, after Allied's stormy shareholders' meeting, what remained was an agreement to clarify an agreement. This came after a conciliatory board meeting

environment.

In return, each expects to have significant influence: one as a manager, the other as a representative of a major shareholder. Which is why antagonism flared into an embarrassing public squabble at the shareholders' meeting last week (*Economy* June 15). The sequel was the appointment at a directors' meeting of Shill to head the Allied

ment in the first place.

De Villiers, with a 0.85% personal stake (held in two blocks) in the group, is likely to find the committee more proactive and less influenced by his views in future.

To understand the present impasse, it helps to recall the historical context. Sage has a relationship with the former building society that goes back to the Sixties. In the Eighties, the link was strengthened as part of a strategic move on Sage's part to reach expanded markets — and this was formalised in 1987.

If the terms of the agreement reached then are not complied with, Shill will have lost precious time in his attempt to position his group in a highly competitive market, as well as opportunities to forge alliances elsewhere. Sage has had some setbacks recently, hence it could be argued that there is a pressing need to maximise returns from its associates.

And there is no doubt that Allied has been a laggard with a

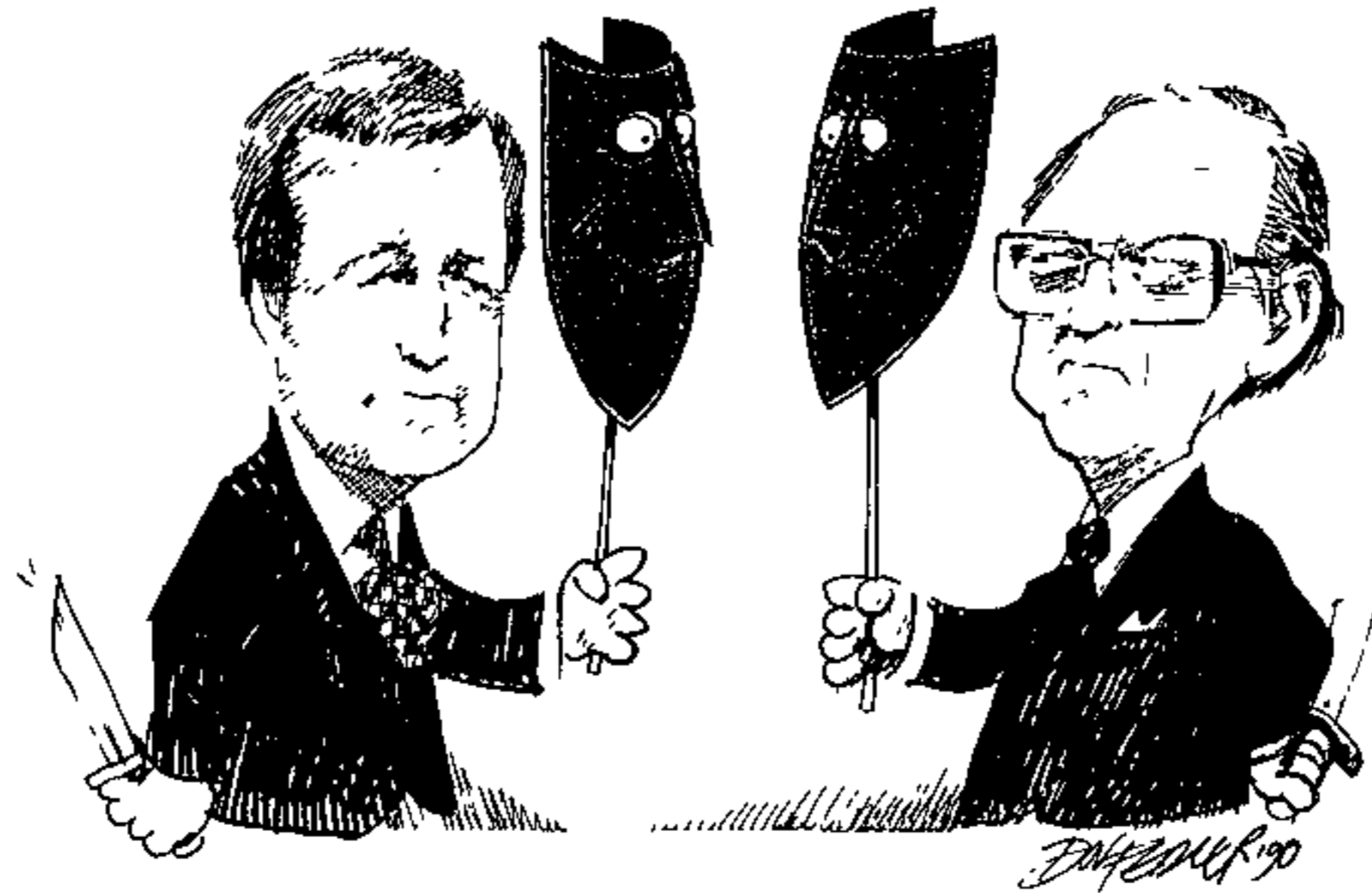
the next day when Allied MD Kevin de Villiers and its largest shareholder, Sage, represented by chairman and MD Louis Shill, announced that differences would be resolved "in a positive and constructive manner."

Quite what this means is not clear. The contentious agreement formalised between Sage and Allied in 1987 has never been fully implemented and, if De Villiers and Shill have not been able to find a workable compromise for their conflicting views in three years, what reason is there to believe they will succeed now that they have publicly aired their differences?

Millionaire financial innovator Shill and youngish banker De Villiers can both claim to have helped break the mould of a traditional building society by bringing Allied into the modern world of banking. Both were introduced by former MD Alan Tindall.

Whether the new mould is going to be an advantageous one for both shareholders and customers remains to be seen.

Shill, who established SA's first unit trust in 1965, quickly diversified into a range of financial services. By the beginning of the Eighties, what Sage had on offer was seen by the existing management as complementing the Allied Building Society's business of taking in savings and making home loans. Tindall believed that De Villiers, an ambitious executive at Barclays and one of the six-man team which successfully negotiated SA's first debt rescheduling in 1986, had the drive and skills needed to compete with major banks in a demanding



board's executive committee, and of former banker Norman Alborough as chairman of the board.

The chairmanship of the committee substantially strengthened Shill's position. And the appointment of Alborough to succeed retiring chairman Denis Paxton has probably created a more neutral environment. Joe Pamensky, who is without doubt a Shill man, replaces industrialist Rod Monthe as deputy chairman. His was a strange appoint-

very high executive turnover and an inclination to sacrifice margins to market share. The reporting conventions of a banking group might also be convenient for a financial services group like Sage.

De Villiers, who joined the group in 1986 from Barclays (now First National) to open the Allied Bank in January 1987, believes the agreement entered into by his predecessor does not benefit the Allied. He has largely ignored the letter and the spirit since he took over as MD of the group in October 1987.

Shill who was unable to resolve the issue with the former executive committee and the Allied board, moved last week.

With the backing of the majority of shareholders represented at the annual meeting (holders of 57m Allied shares), he proposed directors for the group board should be voted on separately — by ballot instead of by way of a show of hands. In this way he succeeded in removing Allied's Don Hunter, Blue Circle's



Deputy chairman Pamensky ... changing the guard



Former MD Tindall ... sought to bridge cultures



TAXATION FIM 22/6 190



## The eye of Org's needle

Org Marais is a well-meaning junior minister and one who understands well the canons of free-market economics and the need for an economic policy that promotes rapid growth. Tax reform is his very important responsibility and he deserves support in much of what he has been doing.

We have differed sharply with him over retrospective tax legislation. His patent threat in parliament this week — to impose a minimum tax if taxpayers dare to order their affairs within the law to minimise payments — must give cause for equally great concern.

Threats such as this are going to stop nothing. If tax evasion is the problem he claims it to be, then he must look more closely at the system which allows it — and at the reason for government itself encouraging the creation of perks and other concessions that abet it.

Over the past 20 years there have been two heavyweight commissions into tax and one into company law. Had the reform process initiated by these commissions been accepted, and adequately implemented by government, the tax system would probably have been so streamlined and efficient that tax evasion would not be a problem.

Another reason for evasion — which if it has reached epidemic levels suggests a full-scale tax revolt — is that taxes are too high and too concentrated on the most productive section of the community. Higher tax revenues would, in those circumstances, flow from more broadly based and lower taxes.

The labyrinth of tax concessions grew substantially — though not exclusively — out of government's reluctance (possibly inability) to remunerate a growing public sector. So, instead of pay, public servants were given perks: cheap back-dated pension rights, tax-free home loans that spawned property speculation, free cars and various other benefits that prejudiced the fiscus. It didn't seem to matter then. Nor was there immediate concern when the private sector followed suit. Inland Revenue went along with it.

Tax concessions intended to give artificial economic stimulus invariably provide the means of tax evasion. Tax concessions, for example, on forestry investments, film-making and hotel building. They are concessions that flow from government itself — private tax evaders cannot create them.

It is common cause that this had to change. But it is the manner of the change and the jaw-boning of the minister that will simply reinforce the tax revolt and inhibit the removal of practices to which most reasonable taxpayers object. A minimum tax is not going to stop evasion. Only lower taxes and tax reform will accomplish that task.

Ministers and MPs are paid — and sometimes elected — to provide society with the laws that are necessary for its protection. Among these are tax laws. If they are inad-

equated, and if clever tax lawyers continually outwit legislators, then ministers and MPs are clearly not doing their job properly. They certainly do not lack authority, only the wit to use it effectively in a free society.

Another problem is that there is too much panic reaction to events that could reduce public revenues. The result is that measures are taken that violate the canons of taxation in a free society and very often detract too from the democratic freedom every taxpayer has (or should have) to order his affairs so that he pays not a halfpenny more than is his legal due.

Retrospective taxation is one of those measures. The minimum company tax, which imposed a tax on losses as well as income, was another. In the confines of the Finance Ministry some will acknowledge that these were sad mistakes. But as they keep on repeating them, there must also be a sad lack of legislative and tax skills as well as democratic perceptions among our legislators. It should not be the sole responsibility of tax officials to see that the Exchequer is adequately funded. They should, too, be aware of their responsibilities towards those who pay taxes.

The advertising industry's guru, David Ogilvy, once warned fellow practitioners that "the consumer is not a moron: she is your wife." Well, the same may be said to those in the ministry. Today's tax evader is not your everyday smarmy crook. Chances are he or she is your wife, mother, daughter or brother.

The same applies to exchange control. When ordinary people are denied the right to do what they will with their own resources, they are likely to compromise on integrity, especially when an elaborate dual exchange rate system emphasises the loss of that freedom and invites desperate means of evasion. Tax evaders and exchange control violators are men and women of the same breed — their respect for the law is generally proportional to the amount of their own freedom it is perceived to deny.

That is an understandably human trait. It is not necessarily a noble one. But it is one that will be encouraged rather than denied by Org Marais' foolish tax threats. The most efficient tax systems are those that so enhance human traits that they keep as low as possible the propensity to evade. Indeed, that is true of the efficacy of all legislation.

Progress in the implementation of the Margo Report appears for some years now to have stalled. Those recommendations that would clearly enhance the flow of taxes to the Exchequer were implemented with exceptional speed. Those, however, that would be in the interests of equity and good economics have the opposite effect, and are being dribbled out as slowly as Pretoria can possibly manage.

In such circumstances, how can Marais expect beleaguered taxpayers to heed his belligerent warning? ■



Trevor Coulson and former Commissioner of Inland Revenue Micky van der Walt from the board. This was accomplished without using the 13,5m votes of Sage's mutual fund, vested in Nedbank Nominees.

The shares of the Mine Employees' Pensions Fund and the Mine Officials' Pensions Fund — which together hold 31% of Sage — were voted in support of Sage, which stresses that they were voted independently.

The move opened the way for the subsequent changes in the composition of the executive committee. Shill last week told the FM that De Villiers would have to "knuckle down to what the board reasonably wants or there will be doubt about the continuing relationship."

De Villiers answers obliquely to questions on how the situation can be resolved. He points out that Alborough was unanimously elected chairman, which indicates a spirit of unanimity among directors. And he says he relies on members of the committee "to use their own judgment and act independently" when making decisions.

Having gone along with the decision to avoid further damaging dissension, he now appears to expect some acknowledgment of — and response to — his co-operation. What he will do if this is not forthcoming is not clear. The terms of his employment contract, he says, "are pretty standard."

The agreement relating to computer facilities has been the subject of many drafts (still unsigned), though the principles have been confirmed by the board of computer arm Allied Information Services and by Sage Life. Payment by Sage for computing facilities was based on half the cost of an IBM 3083 and its maintenance over the five-year term of the agreement.

"Since then," says Allied, "we have undertaken numerous upgrades to its facilities. Our services have expanded and Sage is getting better processing times and better capacity. There is provision in the agreement for amendments by mutual written consent in event of changed circumstances."

Whatever it is based on, De Villiers argues that this payment, agreed by his predecessor, is unrealistic and totally inadequate. To which Sage responds: "We have an agreement about our payment for the five years to 1992, and what has happened subsequently to change the Allied's operation is not relevant."

When will these conflicts be dealt with?

De Villiers says it will take time to come to grips with the document. It is several centimetres thick and "has to be carefully studied." He expects it will be about two months before differences are resolved. Sage points out that the agreement has been studied "in depth by Allied management during the past year."

Since De Villiers took over as group MD, the boardroom has not been the only place where resentments have simmered. A series of departures at senior levels has kept Allied in the headlines. Latest was the loss of several top executives from the group's com-

puter arm (one is now negotiating his return, says Alborough) after the appointment of De Villiers' right-hand man Fritz Rieseberg to head it.

Another point of contention over the period has been the role of De Villiers' wife, Robin, formerly his personal assistant. Before her departure last year there were complaints both within the organisation and at board level that her influence was inappropriate. However, Hunter, MD of the building society, denies she had undue influence. She is now employed by Grey Phillips, which handles Allied's publicity.

The setting for this saga has been the changing world of financial services, spurred by rising inflation from the mid-Seventies, and the 1978 report of the De Kock Commission of Inquiry into banking. The former eroded the retail savings base of building societies as investors turned to insurance products as inflation hedges. The latter exhorted financial institutions to abandon cartels and other protective practices and enter into the market spirit of the Eighties.

So building societies — which were conceived to help people buy homes and not to produce profits for shareholders — had to entirely revise their way of life.

In 1983, Tindall, who was then executive director finance, put to the board a position paper recommending Allied shift to the more varied environment of commercial banking, to ensure its survival. The cost of maintaining both branches and systems networks was set against diversification into more products and commission-earning services. In 1986, legislation freed building societies from their mutual status and opened the way to their listing.

Tindall, who had been appointed MD in 1984, turned to Sage which provided a wide range of property, housing, investment, life insurance and financial planning products and services. In return for this expertise, Allied could offer Sage a national branch network for distribution and marketing.

When the agreement was concluded in April 1987, Allied bought convertible preference shares worth R71,5m. This will amount to 20% of Sage's issued share capital on conversion. As part of the agreement, Sage acquired a 10% stake —

the maximum allowed under existing legislation — in the holding company which was listed in June 1987.

Sage underwrote the 300m shares at R1,75 each — an exposure of R525m, Shill is at pains to point out. Allied responds that its listing was undertaken at the height of the JSE bull run. "And Sage had to purchase Allied shares on the open market after the listing to bring Sage's holding to 10%. Furthermore, Sage was paid an arm's-length amount of R1,54m (0,3%) in underwriting commission at the time of the listing."

Further legislation now being enacted will allow individual shareholders to hold greater stakes in banks and building societies. Both will be encompassed within the Deposit-taking Institutions Bill which has already passed through two readings in parliament. Once in place, it will allow a maximum of 49% to a single shareholder (and associates).

It is clearly of advantage for Sage to have a vehicle from which it can benefit from future industry rationalisation. Shill will not say whether he plans to bump up his holding to ensure this. But shareholding is not the only route to control of a financial institution. The new Act operates on other levels, seeking to ensure, via board and management structure, that control does not fall entirely to any one shareholder. And Shill is looking to these to keep out unwanted influences.

It is difficult to believe that remuneration from a computer contract should cause this sort of boardroom acrimony. Our guess, from the circumstances of the past outlined here, is that it is no more than an excuse. Clearly, Shill wants the Allied. And De Villiers' performance and the steady decline in the prestige of the institution gave him an opportunity for a body thrust. Sage's own need for greater earnings zip probably gave him impetus.

Shill has won this battle. Whether he has won the war remains to be seen. His weakness could be motives about which he is perceived to be less than frank. De Vil-

liers is going to have to shed the conciliatory line and look sharp if he intends to counter effectively his sidelining. For we wouldn't rate highly his chances of being able to work under the present executive committee. ■



Paxton



Van der Walt



Coulson

## UBS favours spending tax

Daily Mail Reporter

THE United Building Society has come out in support of an expenditure tax — an idea which has been described as “profoundly socialist”.

The reason is the drastic decline in personal savings in South Africa.

The immediate outlook for personal savings remains bleak, unless the authorities can ensure investors get returns after deducting tax and adjusting for inflation, concludes the latest Economic Perspective, put out by United.

The author of the bulletin notes the decline of personal savings as a percentage of gross domestic product, from around 7% in 1968 to less than 1% two decades later, and the increase in contractual savings (ie investments such as retirement annuities and life policies).

The danger is that the availability of risk capital has declined rapidly over the last few years, the United notes.

The United's bulletin suggests a number of solutions.

“For instance, a low withholding tax on all interest receipts at deposit-taking institutions would be a powerful incentive to save. *w/mail 22/6/90*

Alternatively, the authorities could consider a tax-free retirement account for households with joint income not exceeding, say, R75 000 a year, provided the money stayed in the account for, say, 10 years.



## Disappointing price

**Activities:** Life insurer with emphasis on underwriting health cover policies. (58)

**Control:** Cruhold 60%.

**Chairman:** A R Rowand; joint MD's: R de V Rowand, C C van der Meulen.

**Capital structure:** 19,7m ord. Market capitalisation: R33,5m.

**Share market:** Price: 170c. Yields: 8,5% on dividend; 8,5% on earnings; p:e ratio, 11,8; cover, 1,0. 12-month high, 200c; low, 160c. Trading volume last quarter, 255 125 shares.

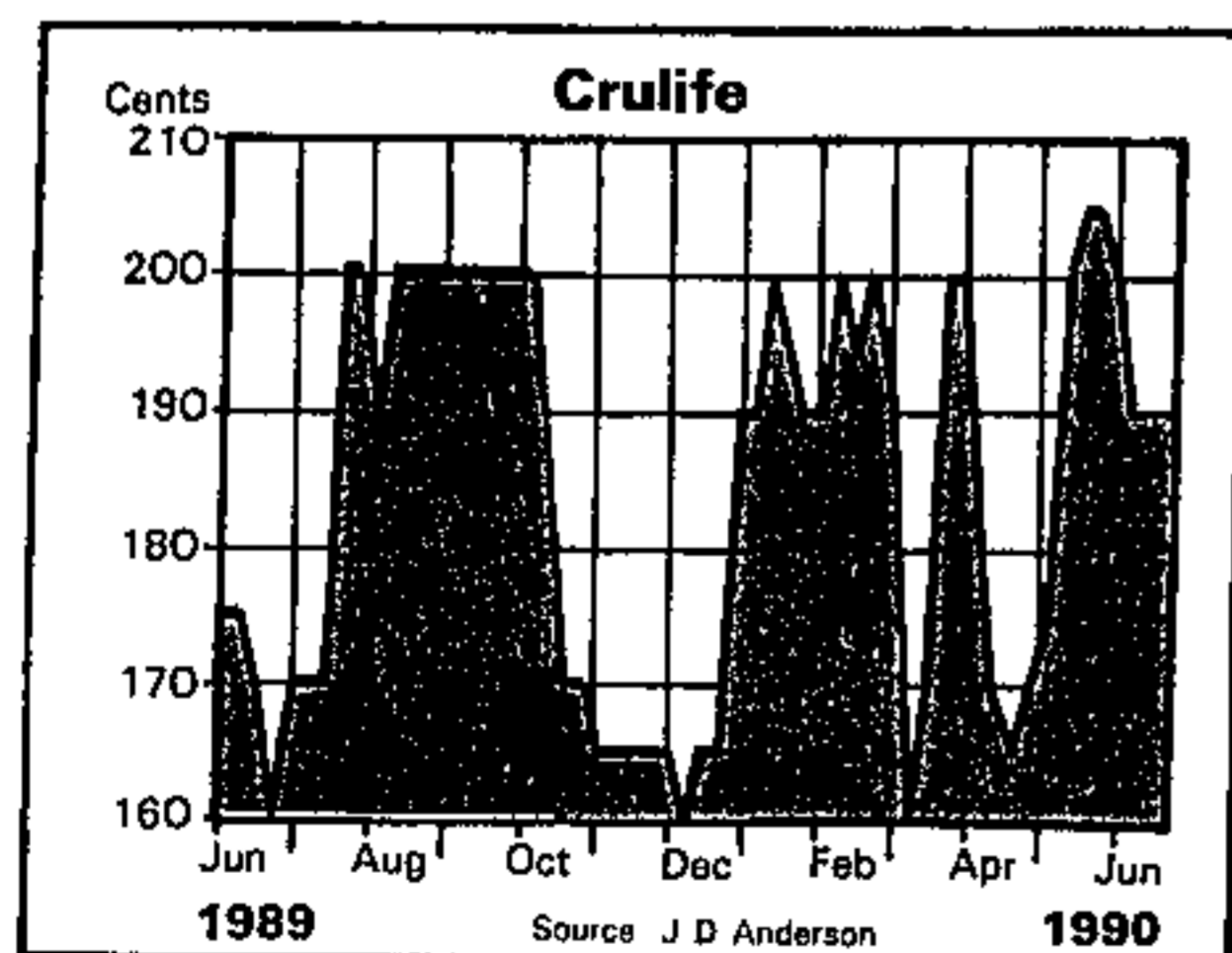
Year to Dec 31	'86	'87	'88	'89
Total Assets (Rm) ...	41,7	69,2	102,2	120,6
Net premium income (Rm) .....	26,9	37,3	46,2	60,7
Investment income (Rm) .....	3,6	4,0	9,2	10,2
Earnings (c) .....	11,7	14,0	11,5	14,4
Dividends (c) .....	8,0	9,6	11,5	14,4
Net worth (c) .....	67,5	107,4	107,4	114,0

When the performance of the share price does not reflect the performance of the group, there must be a reason. Crusader Life chairman Don Rowand expresses disappointment in the share price performance in his review: "... our share price stands at close to half that of August 1987, despite our dividend having increased from 8c (in 1986) to 14,4c without any contribution from our UK investment as yet."

He adds that: "We will address this problem during 1990 as we do not believe the current price fairly reflects the performance of the group."

Crulife stands at around 170c. Over the last year, it has swung between 160c and just over 200c. A dividend yield of 8,5% shows investors remain wary of stocks considered second-liners, especially if they are low profile operations like Crulife. This is despite dividend increases of 20% and more each year and the directors' expectation that this will continue.

Joint MD Bob Rowand says it is common for small insurers to restrict the amount transferred from the life fund to a figure enough to cover the dividend. Dividend cover



FINANCIAL MAIL JUNE 22 1990



Crusader's Rowand ... curbing expenses

remained at its 1988 level of 1,0 times. Net premium income last year rose 31%, with new business written up by 48%. Total assets now exceed R120m.

But the possibility of a rights issue could help cash flow and new business strain, which Crulife is still battling with. Negotiations under way with Anglovaal might provide some additional support.

Bob Rowand believes new business strain is tailing off because high strain in one area such as individual life has been balanced with low strain in other areas such as credit protection. And high expense ratios are slowly coming under control. Don Rowand says expenses in relation to gross premium income have reduced by 16%. However, operating expenses still rose 24% to R29,8m, compared to a 26% rise in the previous year. Most business has been converted to the new computer system, which should help.

Once the British operation, Pegasus, starts producing profits — which Don Rowand expects in about 1992 — investors could start feeling the benefits of an offshore investment especially if the insurer is listed in London. Meanwhile, Pegasus issued its first policy three months behind target, which hampered the acquisition of a bank loan to be secured by commission advances. Share capital was increased through a rights issue and Crulife increased its investment by R1,8m.

Increases in operating expenses and the lack of contributions from Pegasus have, however, been offset by Crulife's success in finding a niche for itself in the healthcare market; most of the group's business relates in some way to health.

As to why the share price is not performing, perhaps Crulife needs — for one thing — to gain a higher profile among investors and tell them more about what they are doing and what they intend to do.

Heather Formby



**Passing Corbank** (58)

Cape Investment Bank did not take long to find a way to get rid of the operations it did not want after buying Corbank in February. It decided the conventional lending capabilities of Corbank were not compatible with the niche areas in which the bank has made its name — mainly trading in money, bond and

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(58)

derivative markets.

So it decided to sell Corbank's lending and related areas. In terms of the Banks Act, it was easier to sell the banking operation and keep other areas than sell certain businesses and keep Corbank; transferring deposits is a fairly complex process. Investec, an earlier Corbank suitor, last week bought the R6,9m issued share capital of Corbank for about R28m, and Cape Investment Bank kept the trading operations. Both parties claim to have benefited from the transaction. Former Investec MD Errol Grolman, who has been MD of Corbank since May, says he took two weeks to structure the deal.

The arrangement is still subject to approval by the regulatory authorities and shareholders. Court sanction has already been given. The fate of the Corbank gilt fund, the project finance division and investing banking division, Corvest, has still to be decided.

Grolman, who has a three-month service contract to see the deal through, says the people in the project finance division will decide where they want to be, as there is no real "cost" as yet of this department, which is only four months old. "The gilts fund is potentially a joint venture between the two parties," he says.

Investec acquires the banking services and

treasury division; the corporate services division; and the property and instalment finance operations. It will use Corbank's merchant banking licence and integrate Corbank into its merchant banking operation. The Corbank name will be changed to Investec Merchant Bank, which will be capitalised at more than R50m.

Investec MD Stephen Koseff says there will have to be some staff rationalisation and provision has been made for retrenchments. Benefits for Investec, he says, include the acquisition of established areas where the group had only start-up operations, and the opportunity to widen its margins as on-and-off-balance sheet figures increase by about R300m each. With Corbank comes R500m of client business, an existing income flow and scarce, experienced banking personnel. Investec increases its capital base and removes a competitor.

Koseff says shareholders' earnings are likely to improve by about 8%. A circular will be released in a few weeks.

Cape Investment Bank is left with trading divisions in Johannesburg, where it wanted to establish a presence autonomous from the Cape Town operation; this will operate as Cape Investment Bank Johannesburg. It has acquired dealing rooms at virtually no cost,

**Prima face-lift** (58)

Investors in listed Volkskas Property Trust (Vetrust) might well be wondering who are their company's new managers. Unlisted Prima Bank, which has bought the Volkskas Group's 70% stake in Vetrust's management company, Volkskas Property Unit Trust Managers, has little experience in the property investment market. It is known mainly in the money, bond and derivatives markets.

Director Clive Ferreira says, however, the bank is negotiating with a property management group and other people to run Vetrust once Prima takes control on July 1. Saambou will remain as the trustee.

"We saw the purchase of an underperforming trust as an opportunity to increase the underlying assets and improve the market rating," Ferreira says.

The purchase price is undisclosed but, with a share price of 68c and 88,7m units on issue, Vetrust's market capitalisation is around R60m. The management company was probably bought for about R1,3m, one property analyst reckons. It will be renamed Prima Property Trust Managers, while Vetrust will be renamed Prima Property Trust.

Volkskas invited various parties to tender for the business as part of a strategy "to concentrate on banking." Vetrust was established in 1969 and listed in 1971. In June 1983, its management changed from Volkskas Commercial Bank to Volkskas Merchant Bank which, in its turn, tried to invest in larger, more centrally situated properties. Control fell to Volkskas Group early in 1989.

On a dividend yield of 13,8% the share is the highest yielder in the JSE's property trust sector, reflecting the company's lack of direction. Things might change with proper management and a clearer investment focus.

*Heather Formby*

MUTUAL & FEDERAL (58)

**Gaining share** FIM 22/6/90

Mutual & Federal (M&F) has bought short-term insurer National Employers' General (NEG) for R132m only two weeks after NEG's UK holding company National Employers' Mutual went into liquidation.

Speed — about half the normal time for such a deal — was needed to avoid further loss of confidence. NEG was put up for sale less than three months ago, when the parent started to sell assets to cover liabilities in Australia.

NEG is an "extremely solid company" with a solvency margin of 88%, says an analyst. The sale surprised the industry, as many local companies were interested in the opportunity to increase market share.

FIM 22/6/90

(58)

NEG held at least 3% of the market, which means M&F will increase its share from 19% to 22%. This puts it well in front of the nearest competitor, which according to insurance monitoring firm Quest is Santam, with 15.1%.

SA Insurance Association CE Rodney Schneeberger says there have been more than 50 mergers in the past 30 years, usually due to problems within a company.

Linda Mitchell



F/M 22/6/90

58

should start on January 1, says Deputy Registrar Chris Mostert. The revised Bill to set up the SA Financial Services Board, now tabled in parliament, has general support in the private sector (*Economy*, December 15 and February 8).

Mostert says the only changes since the previous exposure concern pension arrangements of recruits from the civil service.

Japie Jacobs, special adviser to Finance Minister Barend du Plessis, says the concept of privatising the office was inspired by the

Melamet Inquiry into the collapse of AA Mutual, which found that the office's inability to recruit enough suitable supervisory personnel contributed to the situation.

Fortunately, says Jacobs, a successful precedent was found in the structure of the Reserve Bank, which operates independently of the civil service in terms of contracts of employment and administration. It has been adopted for the new board, which will have freedom to negotiate salaries and terms of employment for all officials, funding its cost

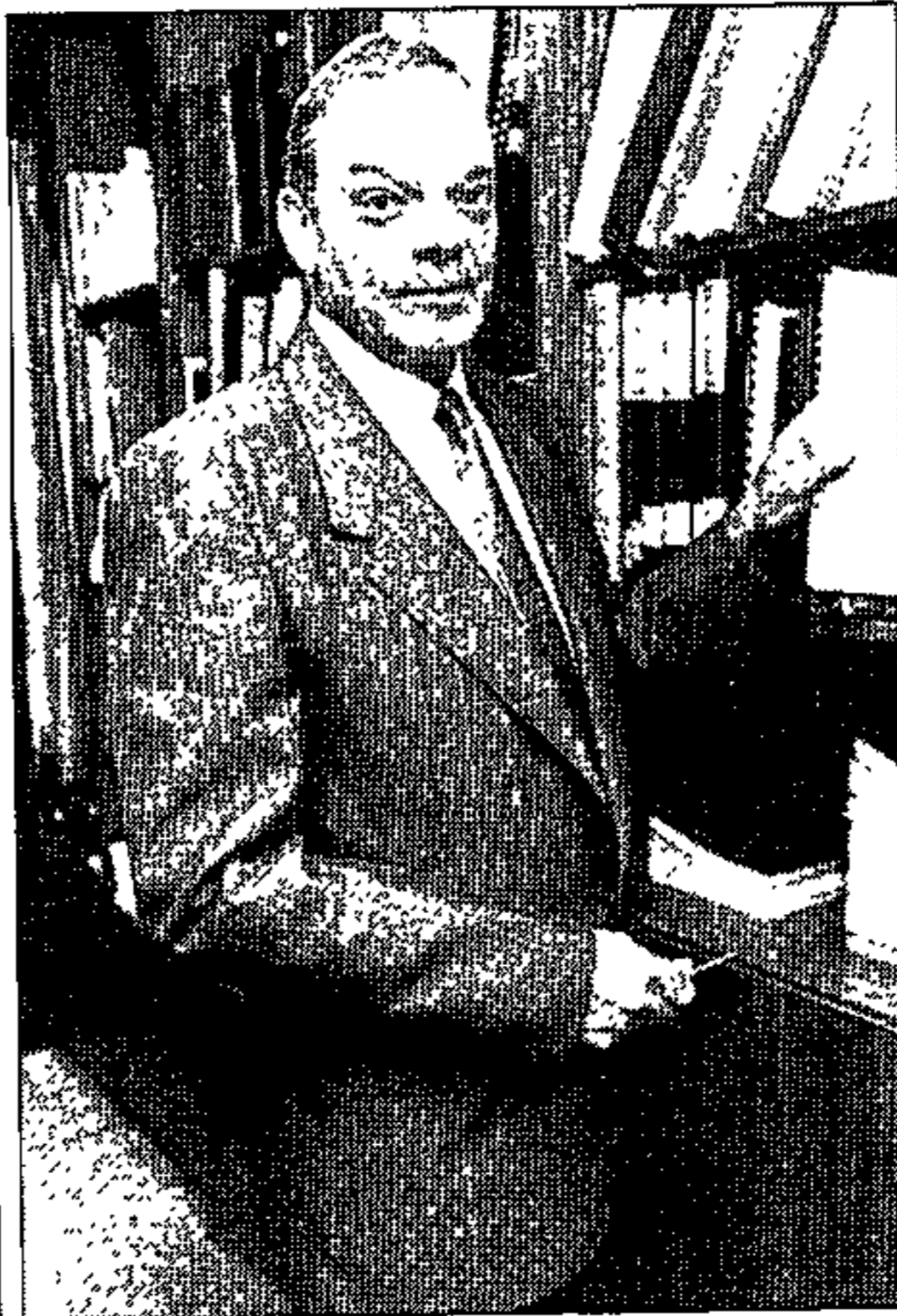
FINANCIAL SUPERVISION (58)

## All systems go <sup>F/M</sup> 22/6/90

The new structure for a privatised office of the Registrar of Financial Institutions

F/M 22/6/90

58



**Jacobs . . . successful precedent**

from an impost on the financial institutions to be supervised — a model based on foreign precedents.

This financial freedom from civil service constraints will make it possible to staff the office with sufficient members of appropriate qualifications and experience.

It will also become possible to carry out the important activity of monitoring developments abroad in financial supervision — hitherto neglected but doubly important in the context of our isolation.

Jacobs emphasises these radical changes will not alter the duties of the Registrar and his staff: he will continue to report to the minister and through him to parliament. ■

**Good form** (58)

New draft return forms for banks and building societies, unveiled this week by Registrar Hennie van Greuning at the Association of Corporate Treasurers' Financial Risk Management Conference at Sandton, aim to help the banking sector accurately determine risk exposure.

The forms, drawn up in conjunction with leading financial institutions and audit firms, are based on Bank of International Settlements guidelines. Details are also sought on liquidity, currency, credit and interest rate risk and their maturity structures.

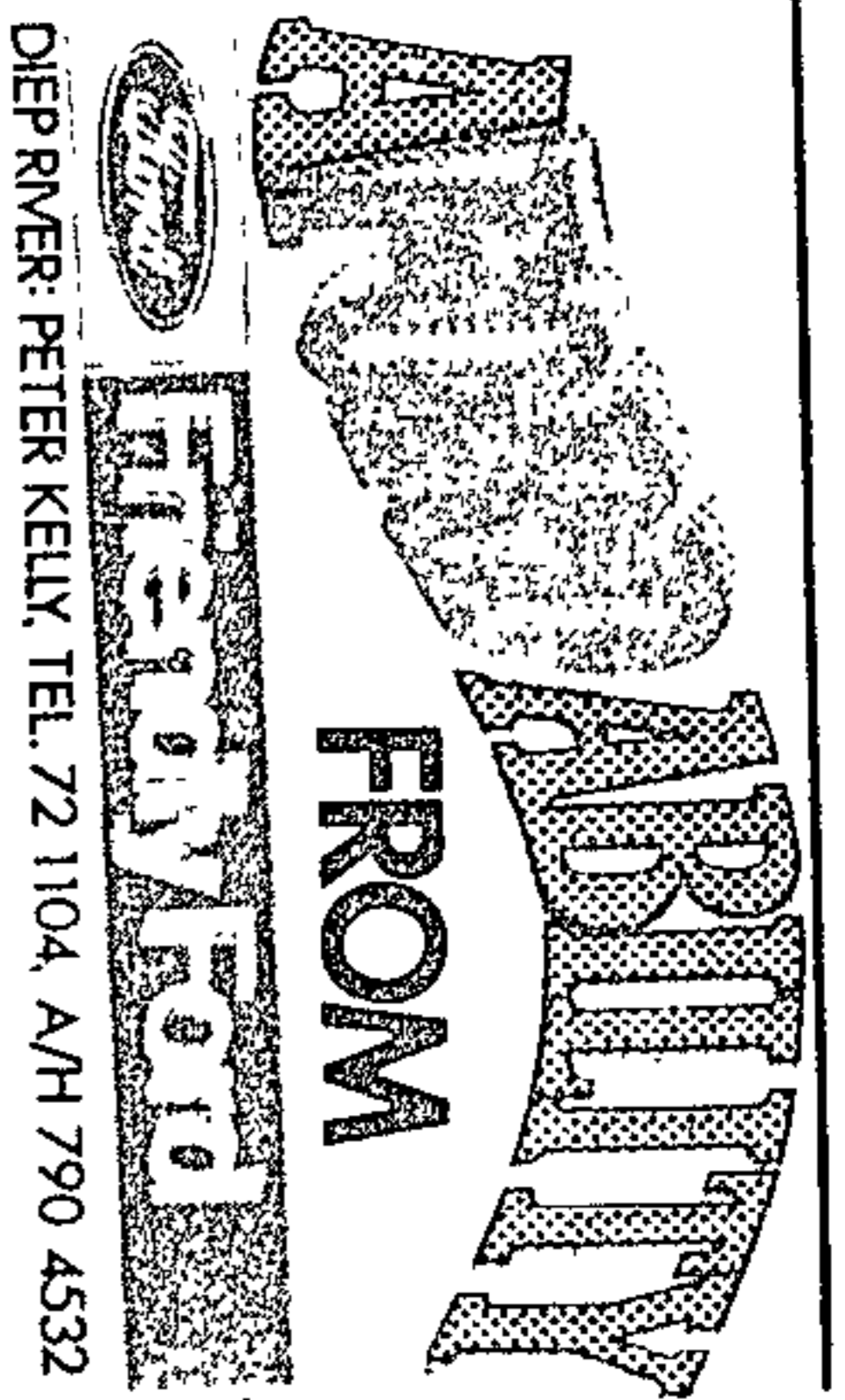
Several issues are still unanswered. One is that derivative instruments transfer but don't eliminate risk. It is important to be able to determine where risk ultimately resides.

Regulators will try to tread a fine line and encourage risk management without interfering in market processes. Supervision will focus on identifying and monitoring risk. Authorities as well as managers will need more information relating to risk exposure.

The new Deposit-taking Institutions Bill will allow regulators to act more quickly than did the old Banks Act. ■

# Business Report

FRIDAY, JUNE 22, 1990



## R500m life company formed

*CAF T.H.S 22/6/90*

**Own Correspondent**  
**JOHANNESBURG.** — A R500m life company in the Anglovaal Insurance Holdings (Avlins) — has been formed, which will have as its subsidiaries AA Life and Crusader Life.

The structure of the group, regraded as unique in SA, will allow both life companies to operate independently so they can maintain and grow their respective market shares and exploit their areas of expertise.

Avlins, previously Crusader Holdings (Crusader), will be 84% held by a listed AvF Group, previously AA Life Group.

Assets under administration will total about R500m, placing the group among the top 10 life offices in SA.

To establish the group, Crubold will acquire the AA Life Group's 95% stake in AA Life Assurance Association in exchange for the issue of about 123,8m ordinary shares.

A new administrative company to provide services to both Crusader Life and AA Life will be formed.

*MD of profitability.*

*The formation of the new group follows the acquisition last year by Anglovaal of 41.4% of AA Life Group.*

*Anglovaal group deputy chairman Clive Mentell will become non-executive chairman of Avlins.*

*Alexander Rowand will remain chairman of Crusader Life and will become non-executive chairman of Avlins.*

*Bob Rowand will remain MD of Crusader Life and will join the board of Avlins.*

*The formation of the group, with effect from May 1, 1990, requires final approval from the JSE and the Registrar of Insurance.*

**JSE major movements**

**Business Press Report**



# More notes to the financial statements

58 (Re 2/6/90)

We now consider notes which relate to income statement items, as well as other special notes.

**OPERATING INCOME:** This line in a company's income statement is not particularly informative, you will agree (see Part 10). For that reason, companies are required to disclose additional information about operating income.

Continuing the popular series by Richard Buchholz of accountants K P M G Aiken & Peat



Common items disclosed under this caption are:

- Auditors' remuneration — what the auditors have been paid in the current year.
- Directors' emoluments — what directors were paid during the year.
- Lease charges, — if the company leases rather than buys some of its assets, it must disclose the full amount paid on these leases.
- Profits or losses made on any fixed assets sold during the year.
- Profits or losses made on foreign exchange transactions during the year.
- Depreciation: this is an important item in most financial statements, and needs some explanation.

Most fixed assets will have a determinable "useful life" after which, through natural wear and tear, they will no longer be serviceable. A machine which costs, say, R10 000 might have a determinable useful life of 10 years, after which we assume that it

has served its purpose and now has no further value to the company.

This erosion of value over the machine's useful life is called depreciation.

We have a number of options in determining depreciation:

- We can say the machine is going to be worth nothing in 10 years, so it should be written off immediately — that is, to reduce its value to nil now, and have a R10 000 expense in this year's income statement.
- Keep it at R10 000 in the balance sheet for 10 years and then in the 10th year write it off and incur a R10 000 expense in the 10th year's income statement.
- Write it off gradually, as the company uses the machine so that it incurs only a small expense in the income statement each year (say R1 000 annually).

The third option obviously makes

the most sense because the cost would be apportioned over the time of the machine's useful life.

This is called depreciating the asset, and the cost of doing this each year is called "depreciation expense".

The amount of depreciation you will see in most income statements (or notes) is simply the annual "write-off" of a portion of the fixed assets.

The accumulation of these write-offs year by year is added to an account in the balance sheet called "accumulated depreciation".

This is why, in the notes on fixed assets, we would be able to find the original cost and the accumulated depreciation of the fixed assets.

For example, a R10 000 machine written off in equal instalments over 10 years (depreciation each year of R1 000) would, after the 4th year, be reflected in the balance sheet as:

Cost of asset	10 000
Less: accumulated depreciation	4 000
Net book value	6 000

At the end of the fourth year you would see the R6 000 in the balance sheet, but the supporting note would give details of cost and accumulated depreciation. In the income statement

(or in the explanatory note) you should see the annual depreciation charge of R1 000.

**INTEREST PAID:** You will often find note on the interest paid by the company, giving a breakdown of how it is made up between loans, bank overdrafts and other instruments.

**TAXATION:** The taxation note usually will give more information on how the tax charge in the income statement is made up — current tax, deferred tax and the like.

Sometimes a company may incorrectly calculate its tax in the previous year, or the Receiver of Revenue may decide he won't allow a particular expense, in which case the previous year's tax expense will be incorrect.

In these cases, you will normally find (in the taxation note), a reference to a previous year's "over" provision where we calculated too much tax, or "under" provision, where we calculated too little tax due in the previous year.

You should also find in the notes a reconciliation illustrating the differences between the tax charge in the income statement, and the actual tax payable to the Receiver. Remember that the Receiver calculates profit differently from the company's method.

There are also numerous other balance sheet and income statement notes published, either because they are required by law or by convention, or because the company wishes to give more information to its shareholders.

Lastly, you should also find notes dealing with the cash flow statement, giving more information on how the figures in the cash flow statement were derived.

For example, "cash generated by operations" is only the cash element of the operating income found in the income statement. Operating income is derived after deducting items such as depreciation which are obviously not cash flows.

Therefore in calculating "cash generated by operations", we will always add the depreciation charge and other non-cash items back to operating income.

**MONDAY:** Important accounting concepts and policy notes.

Readership response to this series on How To Read a Balance Sheet has been so great that it has been decided to publish it in book form, which will be available in two weeks' time at R16 a copy, including GST, from the Promotions Department, The Star, PO Box 1014, Johannesburg, 8000. Orders can also be placed by phone (011) 633-2320. All proceeds go to Operation Snowball.



# Baring the truth about options

JOHN WIXLEY

IT IS something of a conventional belief in our local options market that a "covered" option position is less risky than a "naked" option position. Unfortunately for those who believe the convention is always right, this particular one happens to be an illusion.

Surprisingly, the illusion is not confined to the local market. According to Martin Mayer, one of the better commentators on the 1987 October crash and author of the well-known book, *Markets*, the only loss that can result from a covered option is "the sacrifice of an opportunity for gain".

Mayer is described on the inside flap of his book as "the last, best hope of the intelligent general reader attempting to understand modern economic man and his institutions". Heaven help us.

## Example

To explain why the conventional belief is misguided, let us consider what is meant by "naked" and "covered" positions. A "naked" option position is achieved by selling (or writing) an option on an underlying asset and doing nothing else.

Take the example of a stockbroker who sells you a call option on 100 De Beers shares at a strike of Rx, expiring in one month's time. This gives you the right to buy 100 De Beers shares from your stockbroker at any time between now and the end of the month, at a cost of Rx. Clearly, there is nothing to protect the stockbroker from losing an unlimited amount if the share price starts going up and doesn't stop. Accordingly, he is said to be "naked".

Now say, at the same time as he sells you the option, your broker also buys 100 of the underlying shares. If the share price

rises and you exercise your option, he can simply deliver the share certificate to you. All he suffers is an opportunity loss — the amount he could have made had he been able to sell the share for its market value. Accordingly, your broker is said to be "covered".

On the face of it one might therefore say that a "covered" position is less risky than a "naked" position. But is it? What would happen if the next day was October 19 1987? Or if the option were written on a gold share, and the gold price suddenly plummeted? The stockbroker would then be left sitting with a long position in the underlying share, with only the option premium to protect him. As any reasonably sophisticated option trader will tell you, your broker's exposure to the market is exactly the same as if he had written a "naked" put option.

In short, a "naked" and a "covered" option have exactly the same risk exposure. They merely hit you from different directions.

Is the situation any different if your stockbroker is holding the underlying share at a much lower historic cost than the strike price at which he has written the call option? Your stockbroker is still effectively in a "naked" put position. The only difference is that he has some protection from his unrealised gains on the share.

In market jargon, he is said to have written an "out-of-the-money" put option. This position need be no more or less risky than that which results from writing a "naked" "out-of-the-money" call.

In market jargon, a "covered" option is also known as a "synthetic" option. Profes-

sionals will often create their own "synthetic" options from other options which are available in the market — either because it's cheaper, or simply because it may be more convenient to do so.

If you happen to have been caught under the spell of this illusion, there's no need to be ashamed. You're in good company.

According to George Broekhuizen of the JSE inspectorate, the JSE rules allow a one-for-one offset of positions in equity options against opposite positions in the underlying share. Stockbrokers are required to hold liquid assets only against this net exposure.

## Rules

In other words, if a stockbroker writes a call option and holds the underlying share, the JSE regards his net exposure to be zero, and requires him to hold zero liquid assets. Similarly, if a stockbroker were to write a put option and short the underlying share, his net exposure would also be zero. The latter might be slightly more difficult to achieve because of the JSE uptick rule against short-sales. Nonetheless, what the JSE is effectively saying is that stockbrokers need not hold anything against their "covered" option positions.

The Banks Act is no better. Banks are currently monitored on a quarterly basis by means of the BA Form 8, which aims at ensuring that they hold sufficient capital against their various risk exposures, including exposures to open positions in options on different underlying assets.

Like the JSE rules, however, the regulations require capital to be held only against "uncovered" option positions, where "a

covered call option written means a call option contract written by the reporting institution against a corresponding asset held in portfolio".

According to Hennie van Greuning of the Reserve Bank, a special subcommittee is currently investigating the issue of how to regulate risks arising from the derivative markets. In arriving at the risk coefficient for a position in derivatives, Van Greuning says that credit will be given for the reduction of price risk due to positions in the underlying asset.

While we wait for the new regulations, however, the existing regulations governing banks and stockbrokers give these players the ability to write "naked" options until they are blue in the face — provided these options are "synthetic".

This raises a fundamental point about regulation, which is that in order to be effective, the regulators need to be at least as smart as the market. That is why most regulators opt for self-regulation, since this places the responsibility in the hands of the market experts.

But as John Maynard Keynes once remarked, "It might have been supposed that competition between expert professionals, possessing judgment and knowledge beyond that of the average private investor, would correct the vagaries of the individual left to himself. It happens, however, that the energies and skill of the professional investor and speculator are mainly occupied otherwise".

Possibly in fooling the regulators?

□ Wixley is a consultant in derivative instruments for the banking and finance section of KPMG Aiken & Peat.

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B. D. A. J.  
22/6/90

# Saambou in bid to boost share of home loans market

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SAAMBOU is offering home buyers a package of concessions in a bid to boost its share of the home loans market.

Saambou's group MD Christie Kuun, said the cost of the concessions

## FINANCE STAFF

would be considerable.

"They are evidence of our determination to build our share of the home loan market.

"The concessions apply to our existing home loan clients who sell their homes and lodge new bonds with us, and to the buyers of these homes who bond them with Saambou.

"In both these instances, half the bond registration costs will be borne by Saambou, and we will waive inspection and administration fees.

"We will also arrange

bridging finance for any of these buyers at a rate of interest lower than those now prevailing".

Mr Kuun said the concessions also include a highly competitive bond insurance package, investment opportunities at attractive rates, and estate and trust planning.

"The concessions to home buyers are part of a more aggressive stance by Saambou. They will be followed by the launch of a range of products in the latter half of the year.

"These products have been designed to customer convenience and to be cost-effective in relation to service charges," he said.



# Family trusts can help defray education costs

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Star 23/6/90

The conventional family trust can prove a useful tool for taxpayers in financing education costs.

This is the view of KPMG Aiken & Peat tax partner Alister MacKenzie.

Mr MacKenzie says: "For those taxpayers who do not have access to approved bursary schemes, a trust which generates sufficient income to cover the cost of education can provide a most tax-efficient solution."

The trust is normally formed by a nominal donation being made to it by some member of the family.

The estate planner would normally transfer a sizeable portion of his assets to the trust which would be governed by a set of rules that give fairly wide discretionary powers to trustees.

The choice of trustees is in the hands of the planner. There would normally be three.

In terms of practice and the Income Tax Act, the income generated by the trust is taxed in the hands of the planner.

The value of the assets at the time of transfer to the trust is thus pegged in a "loan account" due by the trust to the planner.

While any interest income on the transferred assets is deemed to accrue to the planner (dividends now being free of tax), any distribution of such interest income, in any year of assessment, will be taxed in the hands of the trust beneficiaries — the children or

grandchildren of the planner.

It is possible in practice to designate the trust income that is being used to finance a particular distribution to a beneficiary.

So, if a parent has a student at university, and the annual cost of fees, resident and other related costs, is say, R22 000 a year, the effect of the trust's award (assuming the trust earns sufficient income to make a distribution of the R22 000) will be:

● The trust's income is reduced by R22 000 and the income that is deemed to accrue to the planner is reduced by R22 000 — assuming that at the top marginal rate of 44 percent this results in a tax saving of R8 800 (tax on R22 000 less the R2 000 interest exemption).

● The student, assuming for this reason that he or she has no other income, will have an accrual of interest income of R22 000, on which the tax payable will be R2 400 (also after the R2 000 interest exemption).

The effect of this arrangement is that the education costs, or for that matter, any other costs of living that would normally be met by parents, are rendered at least partly tax deductible by applying the so-called conduit principle.

With dividends now being exempt, the award to beneficiaries should be sourced from the trust's interest income.

# New deal of interest to savers

Star  
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DEREK TOMMEY

THE investment world is about to be turned on its head. Next year, for the first time for almost a decade, an investor will receive a real after-tax return from money deposited in fixed and other types of deposits with a building society or bank.

This should greatly increase the flow of savings to these institutions. It could also reduce the flow of money to the insurance companies and the stock market.

The new system will give savers a return big enough to compensate for any reduction in the value of their investment as a result of inflation, and a little bit over.

This happier state of affairs will be the result of two developments.

## Better off

The first is the Reserve Bank's determination to maintain 'real' rates of interest. From now onwards and as long as Dr Chris Stals remains Governor of the Reserve Bank, it seems that long-term interest rates are likely to remain at least 3 percent above the inflation rate. Savers therefore will be at least 3 percentage points to the good after providing for inflation.

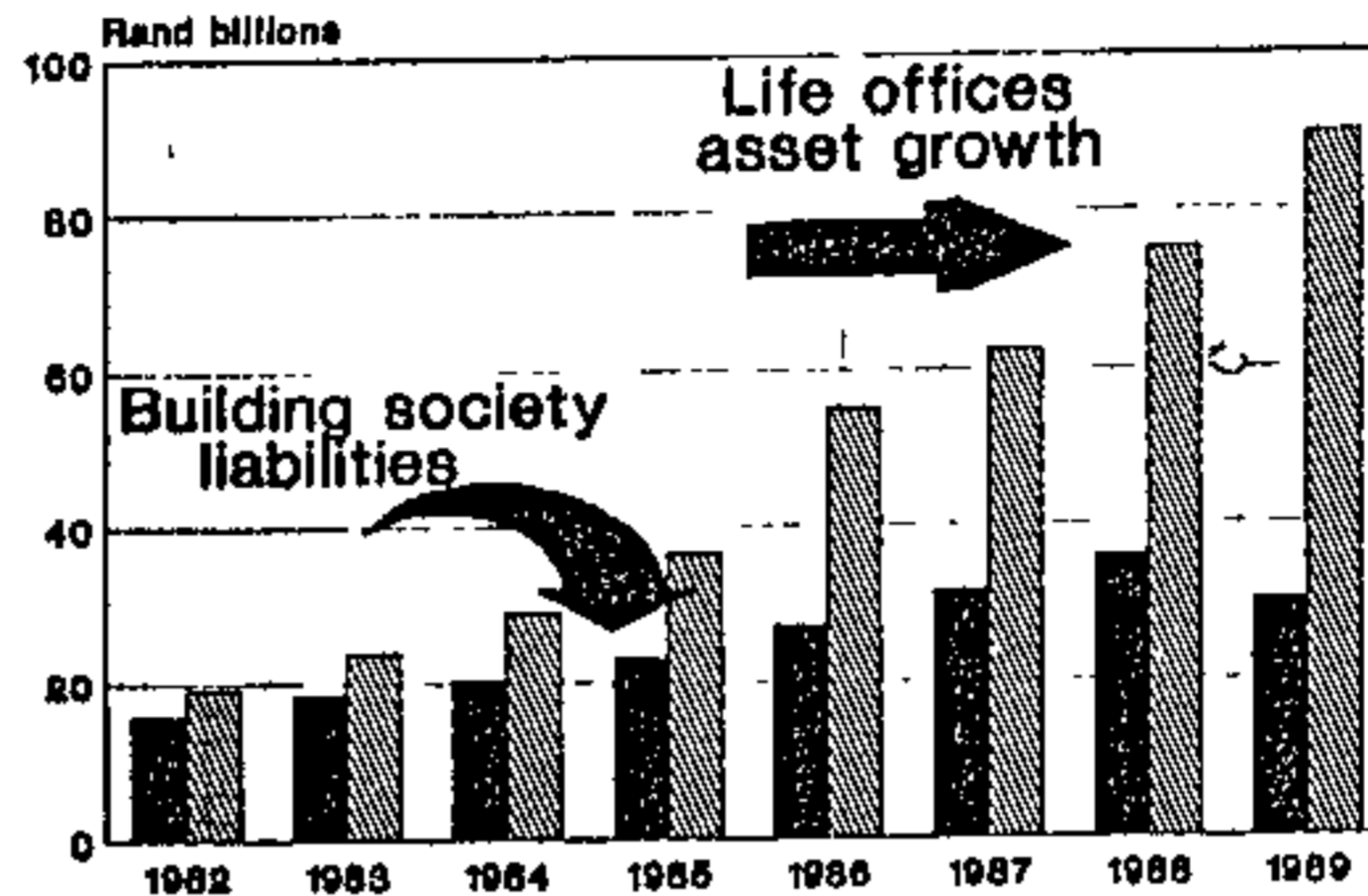
The second development is the planned slashing of tax rates on interest from savings.

It is almost certain that the Government will announce in the next Budget that all interest on moneys deposited with the building societies, banks and Post Office will be taxed at a flat rate of between 10 percent and 12 percent.

It will also announce that this tax will be levied on the savings at the bank, building society or Post Office, so that the interest received by the saver will bear no further tax. (Bankers say it probably would have introduced this scheme this year but the financial institutions needed time to prepare their computers to handle the input.)

At present an investor in the highest tax bracket has to pay 44 percent of any bank or building society interest (ignoring the limited tax-free investments) to the taxman. This means his net after-tax return from an investment yielding 18 percent is only 10,08 percent.

But next year an investor receiving 18 percent will have to surrender only between 10 percentage points (one-tenth) and 12 percent (just over one-eighth) to the taxman. The result is that his net after-tax return will rise to 16,2 percent — some 60 percent more than he gets now.



**GROWTH:** In recent years inflation and tax concessions have led to the life insurance industry growing much more rapidly than the building societies. In the six years to 1988 the liabilities of the building societies grew by just over R20 billion to R36 billion. In the same period the assets of the life insurers grew by R56 billion to R75,3 billion and rose a further R15 billion to R90 billion at the end of last year.

This development is expected to encourage savers to start putting more money into the banks, building societies and post office and less in the share market, unit trusts and insurance policies.

The Government has a number of reasons for changing the tax system on interest-income, which includes helping people prepare for their old age. But the main aim appears to increase the rate of savings and this the new system seems likely to do.

The result is that the banks and building societies should have a larger cash inflow at a cheaper rate. They will be able to increase lending for housing and for business expansion — at a lesser rate than they are charging today.

This increased inflow of cheap money should result in their business booming. This is clearly not the time for anyone holding banking or building society shares to sell them. In 18 months' time their share market rating should be substantially higher.

While it will not happen overnight, an increase in the long-term funds held by the building societies will help lessen their dependence on the money market. This will lessen the effect of changes in bank rate on mort-

gage rates, which should help all house-buyers.

The other side of the coin is that there will be some reduction in the flow of funds to the insurance companies and the share market. What this will do to the share market only time will tell, but it could mean that the smaller financially-weaker companies might have more difficulty raising share capital.

On the other hand, the banks should have funds to lend to these companies. As this will probably require greater discipline from borrowers than does the share market, it will not be a bad thing.

One side-effect, which will be greeted with cheers by both the Receiver of Revenue and taxpayers is that the new system should drastically reduce the number of provisional tax-payers.

But it is not all good news for wealthy tax-payers. The 10 percent withholding tax and the exemption this year of people earning less than R40 000 from having to submit a tax return will greatly reduce the work of the Receiver of Revenue and his staff.

And this will give them far more time to check up on the tax payments of the wealthy.

## Accident victim's

AT OF PARKTOWN NORTH writes: I would much appreciate your advice. I am a single parent with two teenage children (with no maintenance), and held a constructive and lucrative career until I had a car accident that turned my life upside down.

Unable to work with certain brain damage, semi-paralysis and minimal eyesight, I now have to plan a financial programme whereby the various insurance payments can be put to work to give me optimum income.

I have received to date two

## Readers'

Readers who have queries about investment matters are invited to tek, c/o Money Matters, PO Box 11

(tax) and medical aid all my pro working life, now when I am son desperate for financial help they me offer no help at all — in fact mo quite the opposite. The medical 1 fu aid chose not to pay my medical len expenses and I am still being cre taxed on anything that comes ten my way from insurance etc



CNH TENTS 23/6/90 (58)

# BOE launches first unit trust

## Business Editor

THE Board of Executors (BOE) has launched its first unit trust. It is a general fund, called the BOE Growth Fund, which will be managed by the institution's top investment team headed by John Winship, GM fund management.

It makes the 36th fund for SA investors to choose from, and the 16th general one, with a wide spread of investments.

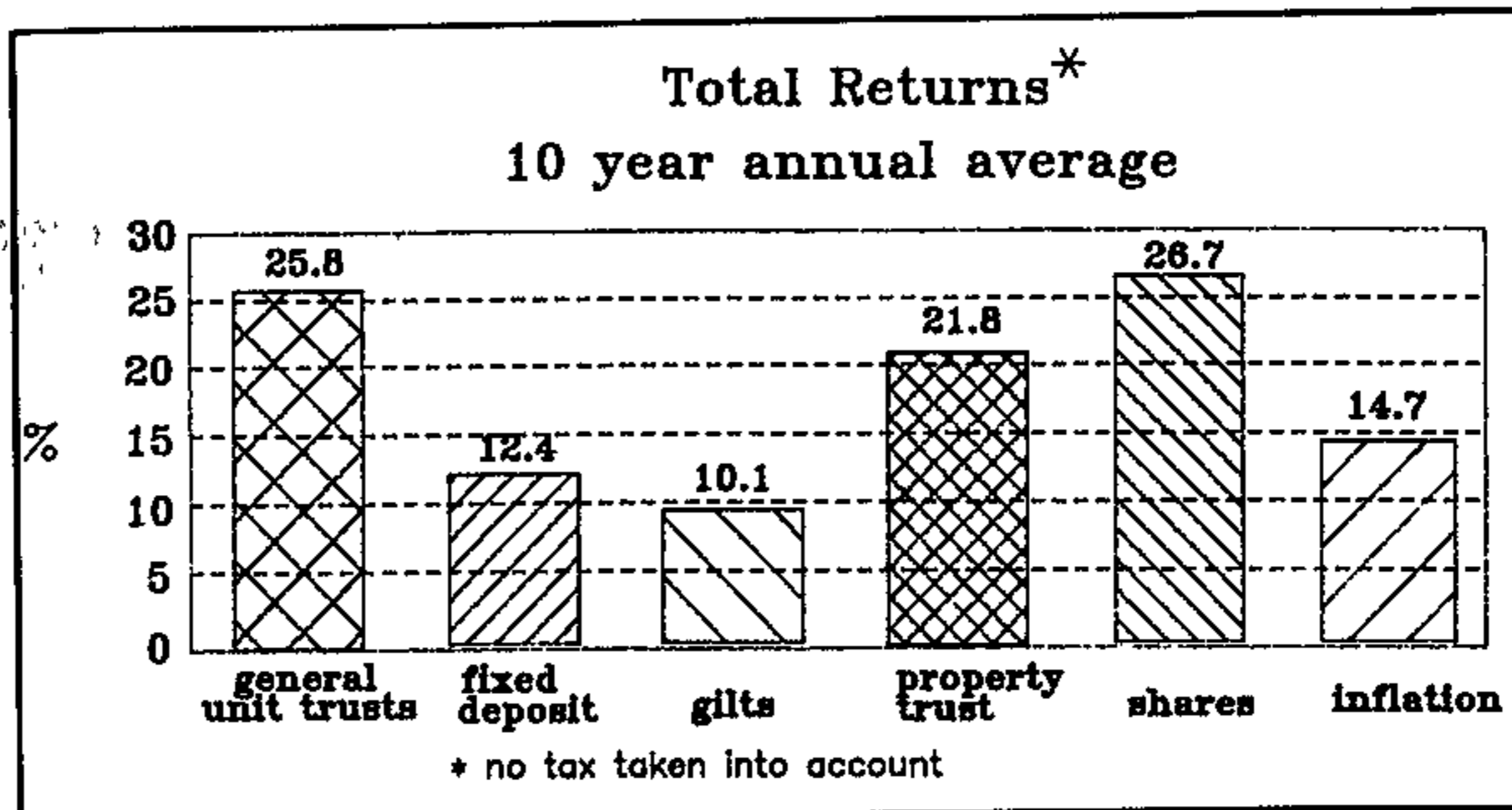
Its first shares were bought last week and units will be available to investors from Monday.

"This is the best time to start a unit trust, while the market is low and people get more units for their money," Winship pointed out.

He said the fund — started with R500 000 injected by BOE — would be between 45% and 50% invested within the next week. "All other general funds are 80% invested."

The portfolio would include "diamonds, platinum, a reasonable exposure to the financial sector — by which I mean banks and insurance — and carefully selected industrials."

It was intended to restrict the number of



This graph shows how general unit trusts have performed over the past 10 years, in comparison with other forms of investment.

shares held to between 25 and 30 at any one time.

Investments would be made after detailed in-depth research. "We are looking for companies producing superior earnings growth which will ultimately be reflected in their price."

Explaining why it had been decided to start a unit trust, Winship said it was plain that in today's inflationary environment standard insurance policies and pension funds, alone, were not enough to make adequate provision for retirement.

The equity market, historically, had shown it-

self to be the best way to beat inflation. And general funds had outperformed all the specialist funds in the long term.

Admitting that the market was volatile, Winship said: "In the medium to long term equities do better than any other channel of investment."

He thought three years was the minimum period to invest in a unit trust, to achieve a worthwhile return.

"It is true that we are entering a new ball game in SA. But whatever happens people will have funds and they will have to make provision for their later years.

"I think we are going to avoid the issue of nationalisation and expropriation, but there could be a higher level of inflation."

Pointing out that even in Zimbabwe people who stayed in the stock market got real returns, Winship said: "In this country we have positive real interest rates now, but they are not positive after tax."

The minimum lump sum investment in the new fund will be R500. The minimum monthly investment will be R50. Provision can be made for this to increase every year to keep pace with inflation.



Too early to cut interest rates — economists

# Money supply growth drops

Call Tuit's 23/6/90 58

AUDREY D'ANGELO  
Business Editor

THE growth in money supply slowed again in May, after rising in April, preliminary figures released by the Reserve Bank yesterday show. The year-on-year figure for the broadly defined M3 money supply was down to 19,03% in May from 21,67% in April and 19,96% in March.

But it is still well above the Reserve Bank's target figure of between 11% and 15%.

Economists said it was still too early to think of cutting interest rates — particularly while the gold price was under pressure.

Some considered it unlikely that interest rates could come down until next year, particularly if high wage rises were granted by the private sector following the substantial increases given to some public sector employees.

Adrian Mocke of the Stellenbosch Bureau for Economic Research (BER) forecast that the target figure for money supply growth would be reached by the end of this year and that inflation would average 11,9% for 1991. But it would rise again in 1992.

"The money supply figures, and other indicators like falling retail sales, are definite signs that the economy is cooling down."

Glenn Moore of Permanent Trust said the slowdown in money supply

growth was in line with expectations.

"The inflation rate is starting to come down as well, which is another encouraging sign. Both trends will certainly continue, probably for the rest of the year."

But Moore believes interest rates will not start to come down until they are lowered by SA's trading partners.

"I think interest rates will come down only when (Reserve Bank governor) Chris Stals is certain that he has more than sufficient reserves to cope with any sort of crisis situation — such as a significant fall in the gold price.

"But the key to his anti-inflation policy is a stable exchange rate, particularly against the dollar — although he has had to let the rand slip against some currencies.

"He will probably have to wait until the rest of the world decides to lower interest rates. People are talking about that now in the US. But I would not expect to see it until very late in the year, if at all."

Agreeing that business is seeing its margins squeezed, Moore said: "We shall have to see that for quite a while before we can say the economy is well placed to sustain an upswing.

"And there are all sorts of things in the pipeline that could have implications for the money supply and inflation — such as the wage talks now going on between the Cham-

ber of Mines and the NUM."

However, said Moore: "The position of business is such that it cannot grant unrealistic wage increases."

Mike Daly of Southern Life said: "The fall in the money supply growth to around 19% was expected, but it will have to be a lot lower before interest rates can start to come down.

"But the downward trend is definitely in place. The growth rate will fall gradually as the downswing progresses. And at some stage, when it is seen that the falling trend is in place and is not going to be reversed, the Reserve Bank will decide that we can start cutting interest rates."

However, he warned, "building up the level of foreign exchange reserves is a big priority and it is not helping that the gold price is under pressure. We cannot expect interest rates to be cut soon".

Riaan le Roux of Old Mutual said that although the lower growth rate in money supply was an indication that the economy was slowing down, it had not done so sufficiently for interest rates to fall.

"The trend is very favourable, but there is still some way to go.

"I don't think there is any risk of overkill of the economy. The tax cuts in the budget, and the public service pay rises, will contain that. And private sector salaries are running at high levels."

as well as the chair of listed Arwa. Effective from July 1, 1988, Tollgate became the major shareholder of Arwa

the issue of 3,0-million shares of 290c each and placed on Berkshire's behalf. The Berkshire deal raised Arwa's

expansion had been incurred in the first six months, the benefits would show only in

passed, the Arwa cash flow will be worth a little more than 180c a share.

# Premiums set to soar

BRACE yourselves — short-term insurance premiums may rise by 20%.

SA Insurance Association (SAIA) chief executive Rodney Schneeberger says premiums paid for fire insurance declined by 2% last year — an unprecedented occurrence.

Motor-vehicle thefts and accidents are increasing and the average claim from accidents is R4 500 because of rising prices of vehicles and spares. The mean cost was R1 800 a few years ago.

A tornado and several fires this year have drained the coffers — the evidence is clear from the falls in net premium income in the results of listed companies.

Mr Schneeberger says the position is so worrying that the SAIA council approached the Registrar of Insurance. The outcome was that SAIA members

— representing all short-term insurers — agreed to refrain from rate cutting.

The SA Insurance Brokers Association (SAIBA) will urge its members to support attempts to stabilise the short-term market "in the long-term interests of consumers", says Mr Schneeberger.

Brokers should not shoulder all the blame — their commissions are directly linked to premiums and decline in line with them. Mr Schneeberger agrees that insurers "weren't saying no soon enough" to brokers doing business at low rates.

He believes it is imperative that premiums be raised to ensure financial stability and ultimate protection of the insuring public.

Companies are financially secure provided action is taken in time to prevent any worsening in liquidity and

other important ratios. Many people remain underinsured, either because they lose touch with high prices or try to keep expenses down.

This is shown by the Welkom tornado in March when the total amount of insured damage was R80-million — much lower than initial estimates.

There have been 3 154 claims so far — 2 591 for domestic damage totalling R55-million, and 563 others for cars, shops and commercial risks accounting for the balance.

Mr Schneeberger reports a surprisingly large number of uninsured or underinsured risks.

He recommends that buildings as well as contents be fully insured. Bonded property has to be, but when bonds are fully repaid, home owners tend to forget that insurance is still necessary.

**UNIQUE FRANCHISE OPPORTUNITY**

# UNIT TRUST FOR 'OUTSIDER' BoE

CAPE-based Board of Executors has launched the BoE Growth Fund unit trust — becoming the first non-bank, non-insurer to be granted permission to do so by the Registrar of Unit Trusts.

*SI Times 24/6/90*  
Senior general manager John Winship, who will be one of the fund's managers, says this does not set a precedent for others. The fund's objective is capital and income growth over time. Its general equity status — SA's 16th — suits Mr Winship because it offers great flexibility.

The average all-in returns from general funds over 10 years has been 25,8% a year — easily outstripping the effects of inflation on buying power.

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**Target**

BoE cannot yet compare its performance with unit trust managers. But its pension and provident fund growth records outstrip those achieved by most other fund managers.

Mr Winship says it is psychologically harder to sell equities than to buy them, but replacements will be made in the portfolio when market conditions allow.

The fund will comprise between 25 and 35 counters which have been researched for their ability to grow consistently. The total is more than Mr Winship would like, but the existing invest-

**By JULIE WALKER**

ment criteria for unit trusts restrict the amounts that can be allocated to various companies.

Revision of legislation is being considered.

The BoE will report quarterly with additional useful information for unit-holders.

The target is existing BoE clients, negotiated linkages with major employers and regular agency business for the public. Mr Winship says steps have been taken to contain promotional costs. There has been a positive response from BoE staff members — "that will keep us on our toes".

He insists that now — while the market is down — is the time to launch the fund. Sales of units always rise in line with the market because of the attendant euphoria. But it is better to get in now and build up units at a lower average cost.



# Angvaal bigger in financial services

BY JULIE WALKER

ANGLOVAAL, the evenly balanced mining and industrial holdings group, has expanded its interests in financial services with a deal involving AA Life Group and Crusader Life Assurance company, into the Ocean Appliances cash shell in February. Its assets are 95% of the AA Life Assurance company, with executives owning the balance.

Anglovaal took 41% of the listed group and declared its intention to expand in the field.

Crusader Life's holding company, Cruhold, is to buy AA Life Group's interest in AA Life Assurance for R164,8-million — in line with the market value.

In consideration, Cruhold will issue to AA Life Group 123,8-million Cruhold shares of 125c — 25% above the market price.

AA Life Group will be renamed AVF Group, and will own 84% of Cruhold Insurance Holdings.

AVF's assets will be 95% of AA Life assurance and 59% of Crusader Life. It will be capitalised at about R184-million, with assets under administration of R500-million.

**Novel** 58

Its chief executive will be AA Life managing director Brian Benfield. His successor at the operating level is yet to be named. Dr Benfield and a consortium of entrepreneurs bought the assets of AA Life from Kirsh Industries after the collapse of AA Mutual in 1985.

Crulife managing director Don Rowand is also known for his entrepreneurial flair. He will continue to head Crulife's operations, and will be appointed non-executive deputy chairman of AvIns, Anglovaal's Clive Menell being chairman.

The two life offices will continue to trade in their respective niches with their own marketing divisions, but a novel aspect is the formation of a company to provide services to both.

The company will be headed by Crulife's current joint managing director Colin van der Meulen. AVF Business Systems will provide services such as computers, underwriting, claims, the issue of policies and so on, with a view to offering those services to other life offices in the future.

Dr Benfield says the concept is well tried abroad. The American General Corporation services nine independent life offices.

# New assurer aims high

BRIAN Benfield, group MD of the new life assurance group established in the Anglovaal fold last week, has ambitious expansion plans for the life office, planning to have the assurer among the top five within five years.

In terms of its R500m in assets under administration, the new group, Anglovaal Insurance Holdings (AvIns), with AA Life and Crusader Life as subsidiaries, is currently in the region of the 10th.

The long-term expansion plans extend beyond the assurance industry into the wider financial services sector.

## Shortfall

Benfield, formerly CE of AA Life, says the structure of the group is such as to allow it to incorporate other financial institutions, such as banks and building societies. And with the backing of a giant mining house, AvIns has the financial wherewithal to grow both organically and by acquisition.

Anglovaal, until last year the only large mining house without an investment in financial services, is believed to be looking at rectifying this shortfall.

The first step was the takeover last year of a 41,4% interest in AA Life Group, followed last week by the takeover of Crusader Life and the creation of AvIns.

Benfield, who joined the life industry as an insurance salesman in 1972 and received a doctorate from the University of the Witwatersrand for

## LINDA ENSOR

his thesis on life office management, says his new position will enable him to move out of day-to-day operations into areas where he can adopt a broader perspective.

"The position will allow me the time to look at the expansion of AvIns as a financial services group and to extend the market penetration of the group as a whole."

An administration company which has been formed will perform the administration services of Crusader Life and AA Life for a fee but the two life companies will remain independent and in competition with each other in their different markets.

Such functions as computing, premium collection, underwriting, billing and accounting services will be performed jointly, cutting down on costs.

Computer hardware savings are estimated at R1,5m annually. Crulife, which in the past contracted out its investments and used outside actuaries, will also save on these fees. The two life offices will have a joint investment company, AA Life Asset Management.

Benfield says there will be no retrenchments and the arrangement is such that the two life offices will not have to delay marketing and growth to implement it.

Benfield's new position is the culmination of eight years of arduous labour, years which saw AA Life grow from a backroom department of AA Mutual Insurance Association

with assets of R20m and annual premium income of about R4m into an independent life office with assets of about R320m and annual premiums of about R90m.

He joined AA Life in 1982 after working for Anglo American Life for 10 years, finally as GM: branch operations.

In 1986 he nearly saw his company swallowed up in the crash of its major shareholder, AA Mutual.

"It was an enormous problem to extricate AA Life from the situation and to set it up on its own feet, especially as we decided to largely retain its name.

## Devoted

"It took two years of difficult negotiations with eight different parties to finally do so."

Benfield regards it as one of his major achievements to have salvaged AA Life, which was bought out by a consortium of managers and Volkskas Merchant Bank.

His life is devoted to his work, but Benfield is also a dedicated father, acting as chairman of the management council of Bryanston Primary School which his two sons attend.

He is also an avid theatregoer, and expressed his support for the theatre by establishing the AA Life Vita Awards in 1983, initially for the performing arts and later for the literary and fine arts.

In his new position Benfield will have the power and backing to broaden his involvement in the main interest in his life — the life industry.

# Federale shares suspended

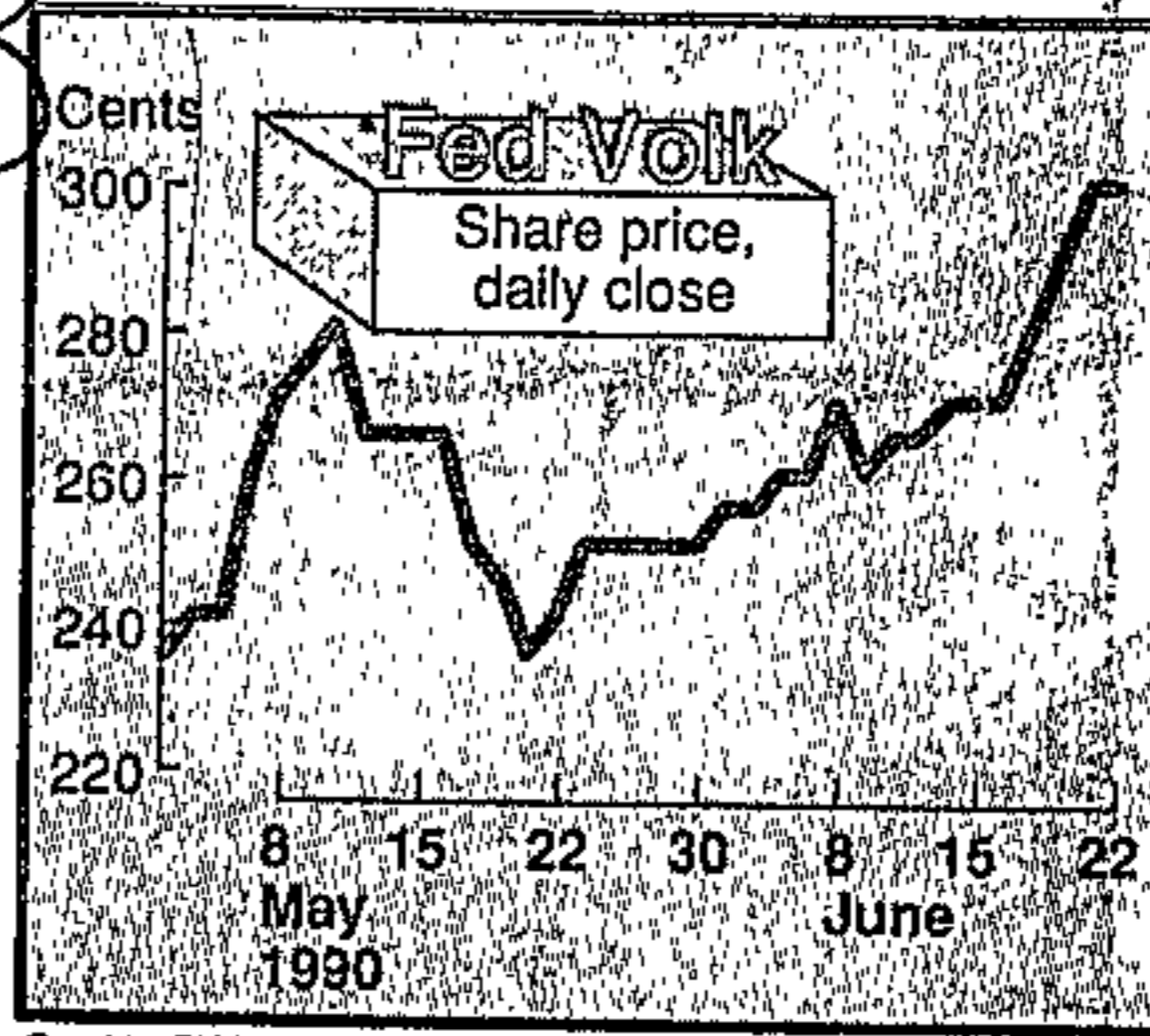
CHARLOTTE MATHEWS  
and PIERRE DU PREEZ

THE suspension of Federale Volksbelegging shares on the JSE on Friday was believed to be related to the disposal or restructuring of poorly performing companies that pulled down the annual results released in May. *By day 25/6/90*

Federale was suspended at 300c after climbing 27,6% or 65c from 235c at the beginning of May. This contrasted with the net asset value of 538c a share.

According to sponsoring brokers Senekal Mouton & Kitshoff, Federale directors were involved with a reorganisation that

□ To Page 2



Graphic FIONA KRISCH Source, JSE

## Federale *By day 25/6/90*

could take up to a week to finalise.

Federale CE Peet van der Walt declined to comment, saying that a full announcement would be made next Monday, when the company's listing might be reinstated.

He felt Federale would benefit from developments currently under way. An announcement said company directors were investigating proposals which "could have a material effect on the company".

Market analysts generally agreed on Friday that a reorganisation had been looming for some time.

The Federale group includes a range of diverse activities including Avis, Ster-Kin-ekor, Link, Price Forbes, Teljoy, Firestone, Exide, Simba and Tabletop.

Analysts said the major contributors to

*S8* □ From Page 1

Federale's 35% drop in earnings for the year to March were appliance group Tek and farm equipment supplier Fedmech.

At a media conference in May, Van der Walt said remedial plans had been introduced to return the group to profit growth, including rationalisations, disinvestments and other operating strategies.

More than one analyst rejected speculation that holding company Sankorp could be planning to make an offer to minorities and to de-list Federale.

Another said there were two options: Federale would be looking to unlock some of the value of the wholly owned subsidiaries by listing them separately, or it would sell off the poorer performers.



25/6/90 (58)

# Govt 'must write off R731-m rent debt'

By Montshiwa Moroke

The Government will have to write off the estimated R731 million rent arrears owed by Transvaal's black townships before residents would consider resuming payment of service charges, a Soweto civic leader said at the weekend.

The president of the Soweto Civic Association (SCA), Isaac Mogase, said this after the Transvaal Provincial Administration announced last week it would no longer cover the cost of services to boycott-hit townships. The TPA said if councils were not able to collect enough money to pay their bulk suppliers, supplies would "most probably be discontinued".

Mr Mogase, who is also a member of the Soweto People's Delegation (SPD), said the people of Soweto had never refused to pay service charges.

"The problem is that they (TPA) have been dealing with councillors and not with residents," Mr Mogase said.

The SPD is expected to meet provincial authorities next month in an effort to resolve the rent crisis in the province.

A spokesman for the TPA said last week arrears in the 82 black local authorities in the Transvaal, at the end of March, amounted to about R731 million.

"The rent boycott is effective in 42 of the 82 councils and we have only R26 million every month available for bridging finance. In the past three months we have paid out R164 million in bridging finance and that amount should have been spent after six or seven months.

# Extension of credit to private sector shows more shrinkage

Star 25/6/90

58

By Sven Lünsche

Extension of credit to the private sector continued to shrink in May, judging by money supply figures released by the Reserve Bank on Friday.

The broadly defined money supply measure, M3, rose by a year-on-year 19 percent in May, compared with a growth rate of 21,67 percent in April.

However, the May increase is a provisional estimate by Reserve Bank statisticians and could, as has been the case over the last few months, be revised upwards when the June figures are released next month.

Nevertheless, the downward trend indicates that credit extension by financial institutions to the private sector is slowing.

In April, M3 rose 21,67 percent to R149,362 billion from R122,758 billion a year earlier.

However, while April's growth rate was higher than March's year-on-year increase of 19,96 percent, it was substantially lower than the rate of 23,47 percent recorded in January.

M2 in April rose 23,87 percent to R121,701 billion, while the narrowly defined M1 increased by 19,97 percent to R48,706 billion.

Despite the slowdown, the Reserve Bank has repeatedly said money supply growth is excessive as long as it exceeds the inflation rate by large margins.

Using May's provisional

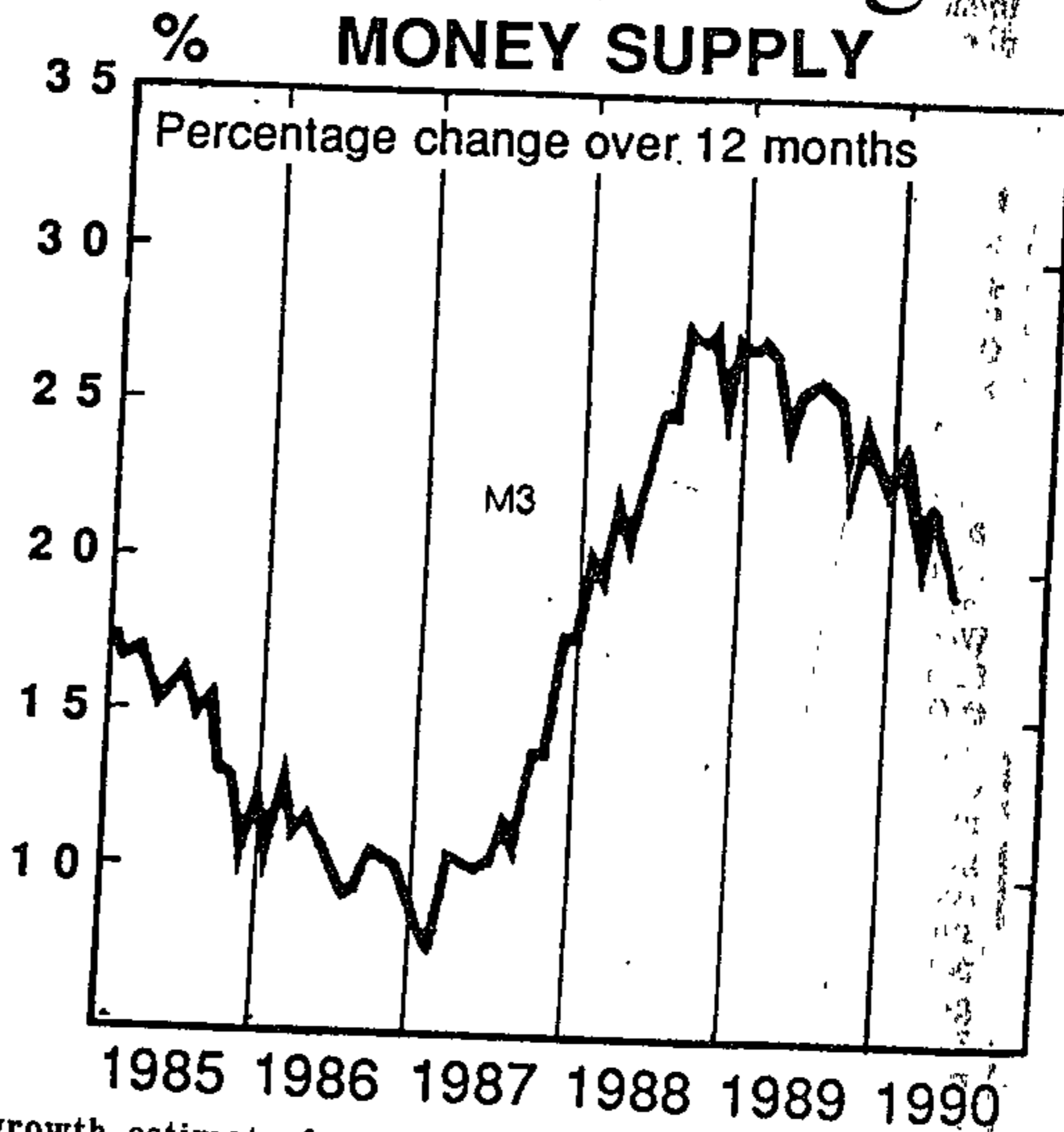
growth estimate for M3 of 19 percent, this is still well above the inflation rate of 13,9 percent for the month.

"A relaxation of policy in these circumstances would, in all likelihood, lead to the risk of a further escalation in the demand for credit," Old Mutual argued in a recent report.

Until such time that a clear decline in the growth of the real

supply of money and real demand for credit is indicated, it would be imprudent to relax monetary policy, as this would rekindle inflationary pressures, the economists said.

Both money supply and inflation have, however, fallen moderately over the last month and this could lead to a slightly easier liquidity situation towards the end of the year.



# Fed Volks may shed subsidiaries

APR 25 1990  
Finance Staff

Analysts believe the suspension of Federale Volksbeleggings' shares on Friday at the company's request is related to the disposal of loss-making subsidiaries, in particular Fedmech and Tek.

These two subsidiaries were largely responsible for Fed-volk's 35 percent decline in earnings in the year to end-March 1990.

A company announcement said the Fed Volks directors were investigating proposals which could have a material effect on the company.

The shares stood at 300c when they were suspended after having risen by 40 percent since their April low.

The listings of both Fed Volks' ordinary and convertible preference shares were suspended pending negotiations.

Neither Fed Volks' chairman Marinus Daling nor managing director Peet van der Walt would expand on the announcement and said a further announcement would be possible next Monday when the listing might be reinstated.



How to read a balance sheet — 15

# Accounting concepts and conventions

In the previous articles we have seen what a balance sheet, income statement and cash flow statement look like and what they mean, and discussed some of the more important notes.

We now consider the underlying assumptions or accounting conventions which frame a set of financial statements.

These fundamental concepts are "consistency", "prudence", "matching", and "going concern". We shall also look at "policy notes" which describe how a company applies these concepts.

There are also a number of conventions employed in the preparation of financial statements which we shall discuss first.

## Historical costs

They are "historical cost", "materiality" and "substance over form".

Historical cost is a simple convention: All assets and liabilities should be shown at their original cost to the company, and not at current market prices or replacement value.

Most South African companies operate on this convention but there are exceptions. Many companies revalue their land and buildings (and sometimes other fixed assets as well) to take account of their true current value.

Some companies also show their investments in shares at market value (their current value on the Johannesburg Stock Exchange) rather than original cost.

## Financial results

Some companies acknowledge that inflation has a major effect on financial results and the assets and liabilities, and produce what we call "current cost" accounts as a supplement to the historical cost accounts.

These represent a full set of financial statements prepared by using the latest data rather than historical costs.

Materiality is a tricky convention. If we had to disclose every single cent in every single account, our company's financial statements would be as voluminous as an encyclopaedia.

For this reason, we show only the big or important numbers. The little numbers are usually lumped together and hidden within a big number.

Continuing the popular series by Richard Buchholz of accountants K P M G Aiken & Peat



This concept of bigness or importance is what materiality is all about. The question really is: "How big is big?"

We normally set a limit above which we regard something as being big enough to disclose. This limit is called materiality.

If an item is large enough to be above this limit, it is called a "material" item; otherwise it is "non-material".

A more formal way of addressing this convention is to consider whether an item is important enough to be able to change someone's decision.

## Bank loan

For example, if you wished to buy shares in a company, and it did not tell you it had a long-term bank loan, this might influence your decision, depending on how important you consider the omission to be.

Obviously, if the amount was very small in relation to the rest of the balance sheet it probably would not make any difference. However, if the item was extremely large, you would almost certainly decide not to buy the shares. The point at which you change your mind is when the item becomes material to you.

Obviously, materiality is judgemental. What may be material to one person could be completely immaterial to another.

This notwithstanding, you will generally find that companies disclose only those items which, in the directors' and auditors' opinions, are material.

**TOMORROW:** More about accounting concepts and conventions.

Readership response to this series on How to Read a Balance Sheet has been so great that it has been decided to publish it in book form, which will be available in two weeks' time at R16 a copy, including GST, from the Promotions Department, The Star, PO Box 1014, Johannesburg, 8000. Orders can also be placed by phone at (011) 633-2320. All proceeds go to Operation Snowball.



# Start of a new era for the part bond industry in SA?

The new era of real interest rates under the governorship of Dr Chris Stals could herald a boom-time for the participation mortgage industry in South Africa.

Real interest rates, coupled with absolute security in a stable investment environment, would be attractive to most investors.

Like all other fixed-income investments, the returns on part bond investments during the last ten years have been negative for most of the time.

## Negative

When compared to alternative investments like unit trusts or shares themselves, part bonds have performed poorly.

But this was a direct result of the undisciplined monetary policy followed for most years of the '80s. On the whole, interest rates — which ultimately are controlled solely by the Central Bank — were negative when measured against inflation and taxation.

The tax regime followed during this time was also highly in favour of life insurance companies, with most investment products being offered by such companies receiving favourable tax treatment.

This has led to a huge misallocation of investable funds during the '80s, with banks, building societies and other traditional investment offices losing out heavily to the life insurance industry.

But all this is about to change, if Dr Stals proceeds with his current policy of high and real interest rates. Although many homeowners and businesses are hurting from this tough stance, savers are seeing real returns on their investments for a change.

Most part bond companies are currently paying interest varying between 19 and 20 percent. This provides a real return of between 5 and 6 percent on the current inflation rate of under 14 percent.

However, with the exception of the first R2 000, investors are

still are liable for tax on the interest earned, which places them at a disadvantage against dividends on equity investments.

But even this might change, if rumours in financial circles are accurate.

According to these rumours, Government is considering far-reaching proposals regarding tax on investment income. This includes an upfront 10 percent withholding tax on all investment income from traditional investments, like fixed deposits and part bonds, with the rest tax-free in the hands of the investor.

## Security

This will even more level the playing field between the various types of investments and is bound to increase the attractiveness of part bond investments.

Given real interest rates, part bonds are attractive investments for certain types of investors, notably pensioners and retired people who need absolute

security and a steady income-stream from their investments.

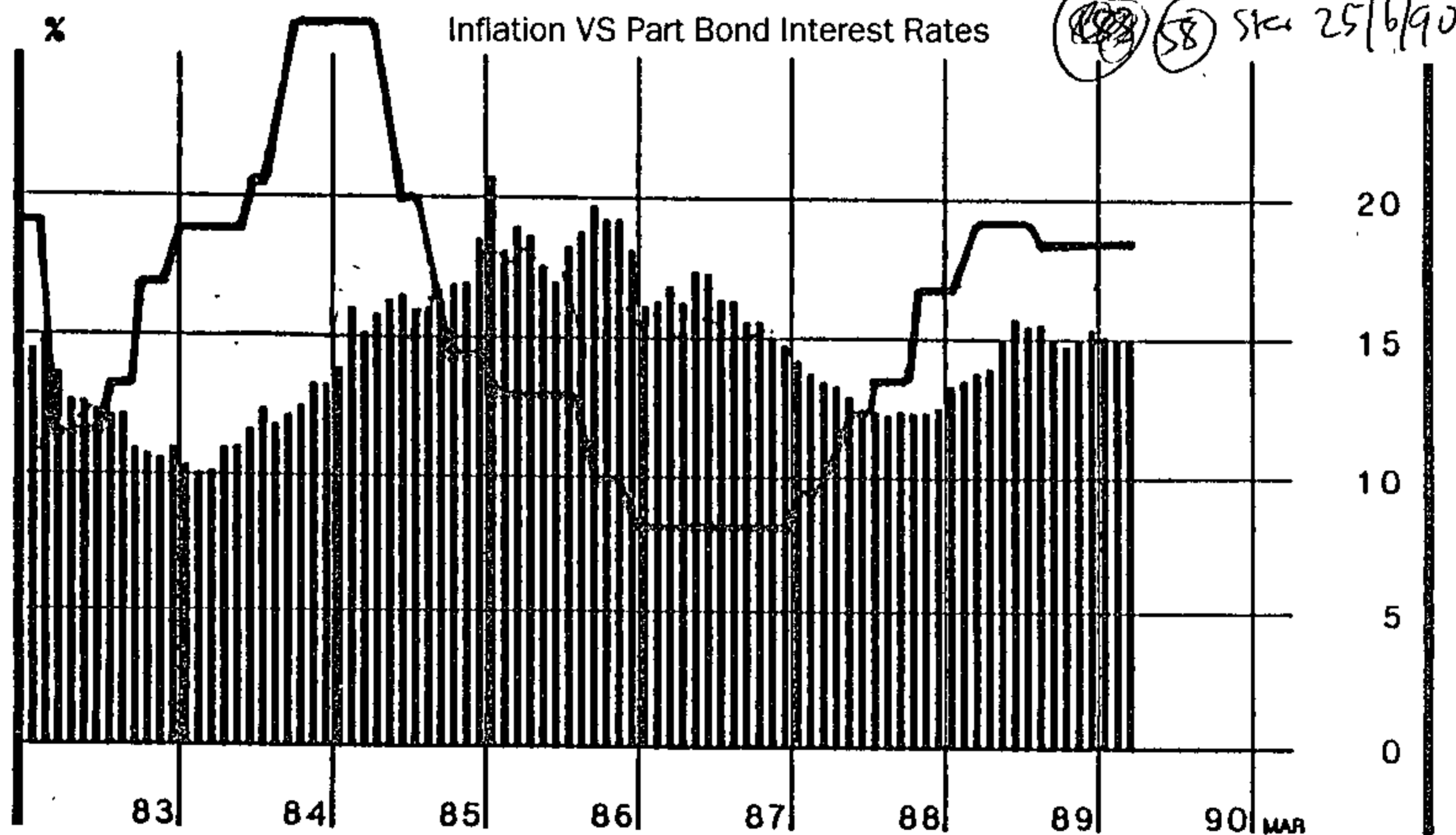
Part bond investments, which are tied up for at least five years and in many cases offer a floor rate (currently around 13 percent) offer great security and ease of handling.

With the choice of interest being earned either monthly, quarterly or half-yearly, it makes for sound financial planning for investors.

Believe it or not, but despite the obvious advantages of equity investments over the last fifteen years, there are still many people who prefer stable investments with guaranteed returns.

Many people balk at the prospect of tying up their money for five years, the current minimum period allowed by law.

But, in some instances, tying up your money with a guaranteed rate of return (coupled with a floor rate) when interest rate are high could work in your favour should interest rates drop during that period.



Investors in participation mortgage bonds are currently earning a real rate of interest on their investment when compared with the inflation rate. This compares with long periods when inflation was higher than interest on savings. The introduction of an upfront withholding tax on savings will further increase the real rate of return on fixed investments.

## Sharp drop in the buying power of the rand

If ever you had doubts about following an active investment programme to protect yourself against inflation, look at what the domestic purchasing power of the rand is today, compared with only 18 years ago.

Do you still remember what happened in 1970? The Americans were on the moon once more, petrol was 25c a litre and a medium-sized motor car cost about R3 000.

But, due to South Africa's high level of inflation since then, the rand's purchasing power has dropped from 100c in 1970 to a paltry 11c at the end of last year and is set to drop even further to 9c at the end of this year.

This 91 percent drop means that someone earning R425 a

month in 1970 should now be earning at least R4 860 a month just to be "treading the water".

In a survey of the rand's purchasing power, the Bureau for Economic Research at Stellenbosch used 1970 as the base year — when a rand was still considered a rand. But going back even further to 1910, the researcher estimates that the rand's value dropped back from R3,95 then to R1 in 1970.

As we all know, pensioners and people living off fixed-incomes have been hardest hit. An investment of R1 000 in 1970 would today be worth only R110 on the assumption that the interest was not reinvested. However, this excludes the effect of rising taxation, depleted pur-

chasing power even further.

Despite a welcome drop in the inflation rate to its current levels, now under 14 percent, South Africa's inflation rate is still three times that of most major countries.

Not only will this serve to undermine the purchasing power of the rand even further, but it is bound to lead to further downward pressure on the foreign exchange value of the rand — which, in itself, again is considered highly inflationary.

With inflation reaching towards the twenties again, South Africans will be hard-pressed to find investment avenues that outpace inflation.

While part bonds, like all other fixed-interest-type invest-

ments, have not been able to provide investors with real rates of returns after tax and inflation, this is changing.

The monetary authorities have long been worried about the crippling effect of the joint effect of high inflation and artificial low rates of interest.

As it reported elsewhere in this survey, the Government is seriously considering a once-off withholding tax, reported to be between 10 and 12 percent, on all bank, building society and other fixed-investments, including part bonds.

The after-tax effect of such a move on overall returns will be startling, especially for investors paying a marginal rate of 44 percent on investments.

# SA won't devalue the rand

Cape Times  
26/6/90  
58

From JOHN CAVILL

VENICE. — SA Reserve Bank governor Mr Chris Stals yesterday ruled out devaluation of the rand to help gold mines threatened by the low bullion price.

"It is our duty to protect the value of the currency. It would be to the total disadvantage of the economy if we were to manipulate the exchange rate to protect one sector — even one as important as gold which produces 40% of our foreign exchange earnings," he said at the World Gold Conference.

SA's balance of payments position did not warrant further depreciation of the rand. "We can absorb the lower gold price at this stage. Imports are falling and capital outflows are slackening."

Later Mr Stals told the Cape Times: "Before this fall in the gold price we were running an annual balance of payments surplus of R6,5bn. Now, at the lower price, it is R5,5bn. We can live with that."

"So far this year the rand has fallen by 4%, about equal to the differential between our rate of inflation and that of our main trading partners."

"We will only depreciate further if we had a balance of payments problem. More expensive imports are inflationary for everyone and in two to three years the mines would be in even more trouble with their costs," he said.

- Firms under-hedged in bullion — Page 11
- Brazil's role in gold market — Page 11
- Firmer gold price boosts JSE — Page 11



(58) Stec 26/6/90

# Builders can get insurance cover on defects

By Jabulani Sikhakhane

The Builders Civils and Engineering Underwriting Managers (BCE) has launched a unique home defects insurance scheme which provides indemnity against defects in design, materials and workmanship for a five-year period after construction is completed.

Underwritten by Fedgen, the scheme will cover houses, townhouse complexes, cluster homes,

small flat developments and single-storey shopping malls.

Cover is subject to the builder/contractor being a member of the Building Industries Federation of SA (Bifsa), through membership of the regional Master Builder's Associations or Building Industries' Associations.

Each association will be required to approve each mem-

bers' application for HDI cover.

The premium, payable on completion of the building, is one percent of the replacement value of the property for five years and a minimum premium of R1 000 applies.

A plus for home owners is that the value of properties protected by the scheme will have a much higher resale value.

Fedgen has also launched another insurance package for

companies (Bifsa and MBA members) with a turnover of up to R5 million. The policy offers cover of up to R2,5 million on any one contract, public liability of R1 million on every loss and a sum insured of R50 000 on the contractor's plant.

Building materials in transit (insured vehicles), in storage at insured premises will be covered up to R25 000.

## FSI sees a difficult year ahead

58

2/16/90

By Derek Tommey

The current year will be a difficult one for investment holding and management company FSI, says chief executive Jeff Liebesman in the annual report issued today.

But subject to there being no further significant deterioration in economic conditions, he expects satisfactory results.

Mr Liebesman says that the Nineties as a whole hold great promise.

"Our companies will benefit materially when there is an improvement in the economic climate, and especially when there is a return to stable operating conditions in South Africa.

"In particular, we are positioned to take advantage of the increased consumer spending in the growth sectors of the economy."

He says FSI plans to spend the early part of the new decade "getting better at what we are already doing".

FSI will expand its existing business geographically and into additional market sectors where it can offer customers better products, better service and better quality.

In the year to December FSI increased its earnings a share by 20 percent from 110c to 132c.

It paid a final dividend of 23c (20c), making a total of 35c (30c) for the year.

Capital employed at December 31 1989 was R1,89 billion — up from R1,6 billion a year earlier.

# More accounting concepts and conventions

Another generally accepted convention is that "substance" should have preference over 'form'. What this means is that we should disclose what a transaction represents in reality, rather than what it may look like on the surface.

A common example:

A company leases (rather than buys) a fixed asset which will become its property after, say, five years. The company has the full use of that asset in those five years, it is on the premises, and to all intents and purposes it owns the asset.

Substance over form would require us to show that item as an asset on the balance sheet rather than simply as a lease expense in the income statement, even though technically it is still owned by the leasing company and lease premiums are being paid on the item.

In fact, in terms of latest accounting convention, companies now are required to treat leases of this type in this fashion.

We now look at some of the fundamental accounting concepts:

## Consistency

Consistency requires companies to adopt the same approach in their financial statements from year to year. If the company treats something in a certain way in Year one it should treat similar items the same way in Year two and thereafter.

Supposing a company was depreciating its plant and machinery over 10 years, consistency would dictate that this was done the same way year after year.

If the company suddenly decided that it would depreciate its plant over five years, this would be inconsistent. Companies are sometimes allowed to be inconsistent but they then have to

meet stringent disclosure requirements showing the effect of any changes from one year to the next.

## Prudence

Prudence requires companies to act prudently when accounting for profits and losses. If a company expects to make a loss on a particular asset when it is sold next year, it should provide for the loss this year, rather than delay it.

Similarly a company should not take a profit to its income statement unless it has earned that profit — in other words, it cannot account for a profit it has not yet made.

This means companies should act conservatively when disclosing any profits and losses. Similarly, companies are required to disclose or account for all known liabilities.

## Matching

Matching requires companies to match their income to related expenses and vice versa. In our depreciation example (see Part 13), we spread depreciation over the useful life of the asset because it (hopefully) generated revenue during that time.

We therefore apportion a small part of the cost of the asset to each year's revenue. This is called matching the cost (depreciation) to the revenue that the asset is generating.

Another example: Using sales and cost of sales, we match the cost of the products we have sold to the sales revenue of those products. It makes sense.

Going concern is an inherent assumption that a company is operat-

ing and is expected to continue operating normally in the foreseeable future.

If a company is not expected to continue trading in the next year, we may wish to place different values on its assets because if it were suddenly forced to sell its assets it would probably not receive the same value for them as shown in the balance sheet.

Thus, if a company is not a going concern it may wish to ascribe different values to each of its assets. However, you will seldom find companies not reporting on a going concern basis. This will only happen when a company is, or is close to being, insolvent.

## Policy notes

In nearly all financial statements there is a section called "Accounting policies". These notes provide information on how the company is applying the accounting concepts and conventions.

Suffice it to say there are many different ways of treating income and expense. How a company accounts for an item could have a material effect on its results. Comparisons with the results of different companies are therefore meaningless, unless we know what methods (policies) each company is using.

Companies are thus required to have policy notes where choices are available, which will disclose how they treat certain items. When comparing sets of financial statements, therefore, it is imperative to read the policy notes closely.

TOMORROW: Ratios.



40% of world's foreign reserves held in gold

# Gold vital as risk hedge GIA-7/14/85 20/6/90 SP Stals

ARI JACOBSON

ALTHOUGH the relative share of gold as an international reserve asset had declined over the years it still accounted for 40% of total worldwide foreign reserves said SA Reserve Bank governor Chris Stals at the Financial Times World Gold Conference in Venice yesterday.

He emphasised the need to hold gold as insurance against risk.

"The present international monetary system with its great reliance on private market sources" had created liquidity of a "disputable quality", he said.

"Governments' need a buffer to cushion their economies against the unforeseeable, which may be of political, military or economic origin — with gold as the war chest."

Stals stressed that the risk-hedge factor of gold had increased in recent years arising from a vulnerable international financial system evolving around the floating exchange regime, the globalisation of international capital markets and the explosion of speculation in derivative markets.

"Prudent central bankers require an asset, like gold, which represents no liability of a country or international institution, and whose value is determined by its scarcity and the scattered demand of private individuals across the world."

Stals said at present the worlds' monetary authorities held 1,1bn ounces of gold in reserve, the same volume as that held in 1968 — when the two-tier gold system was introduced — "and in spite of the IMF and US Treasury's sales of gold between 1976 and 1980 amounting to 40m ounces".

Over the same period, said the governor, SA reduced its gold holdings from 35,5m ounces to 3,6m.

"Other central banks, therefore, increased their official holdings over the period by the same amount."

Stals said at this point, central authorities have no serious intention of disposing or adding to their gold reserves but on balance they turned net sellers to the tune of 634 tons in 1989.

The governor said a portion of gold reserves has been used by governments through varied gold-swap transactions to generate liquidity or reap earnings on an otherwise unproductive asset.

Turning to the stable economic setting, of low inflation and high real returns, throughout the '80s, Stals said this had motivated central banks to diversify their foreign exchange holdings into a multiple currency system.

For example he said the US dollar had shrunk in importance between 1973 and 1989 — with its share in global foreign exchanges falling from 76% to under 60%.

Stals also said the Reserve Bank was "perhaps more pro-active nowadays" in response changing conditions in the gold market. Asked if the Bank considered buying gold or holding back sales to assist the price, he said: "Overall we are net seller. We can affect the market by changing supply but we need foreign exchange so there is not much scope."

"We certainly do change our policy on swaps, forward sales and options and we are perhaps more pro-active. There is also no reason why we should not be a buyer at certain times," said Stals.

"The need for gold as a risk hedge has increased in recent years and not declined," said Stals, noting that changes in bullion reserves had mainly reflected switches from "old world" economies — such as Europe — to the new, as in Taiwan and others.

Later, however, Stals did concede that if it happens, European monetary union might change attitudes in the long term.

"I get the uncomfortable feeling that people may believe less gold will be needed to support the system."

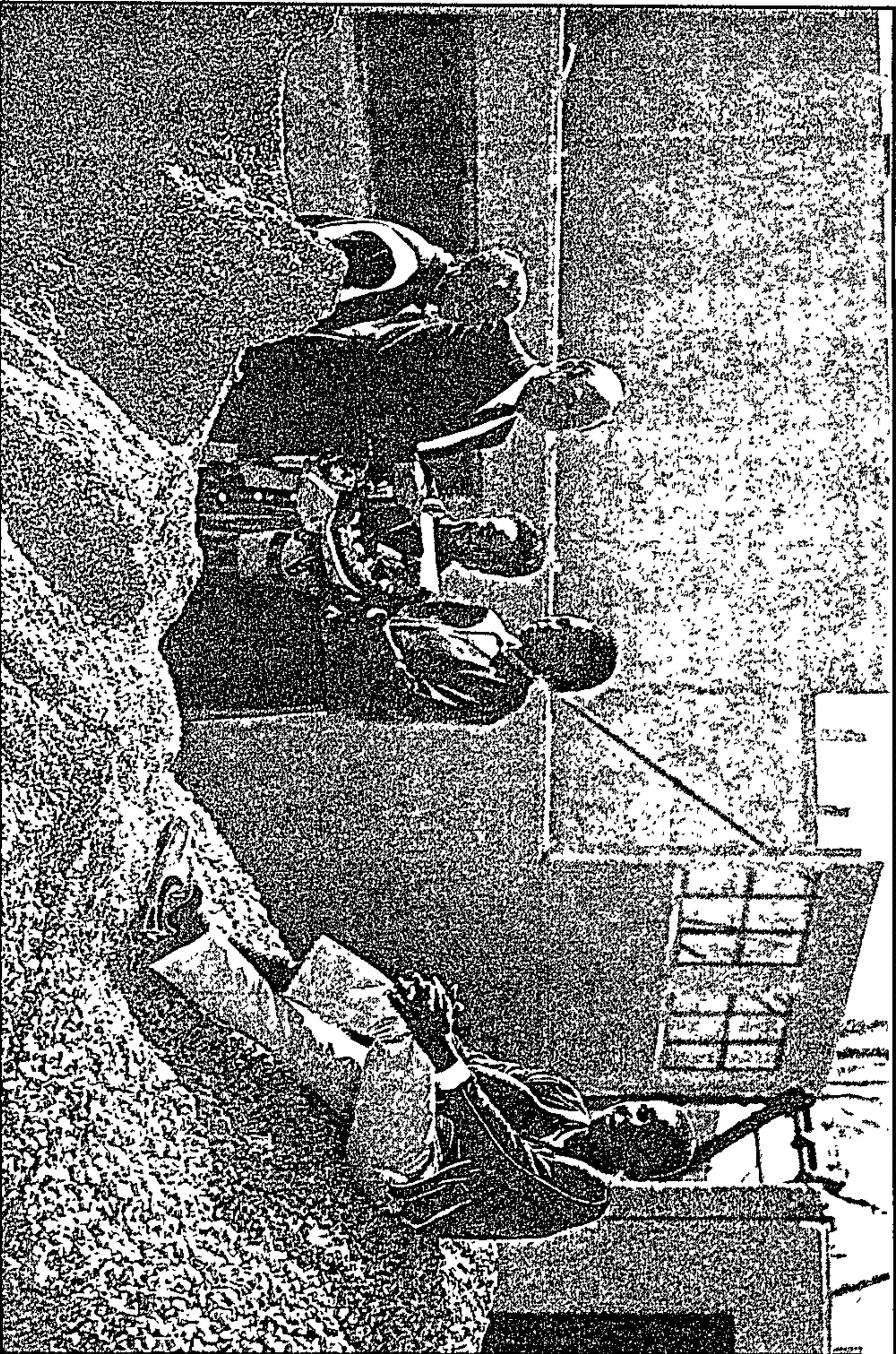
Lamberto Dini, director general of the Bank of Italy, said however it was "much too early" to think of the role of gold in a single currency Europe.

Even though it might appear less necessary, a pan-European currency "will still be exposed to third-country currencies and the reasons for holding gold will continue," said Dini even though he opposes any return to a form of gold standard.



NEWS

# Youngsters see their future built before them



Happiness is seeing the walls of the technical college you hope to attend one day rising around you. Four youngsters, Violet Masuku, left, Priscilla Hlongwane, Santha Masilela and Simon Fabatsa, were on site at the new ACE College in Alexandra when Alan Tindall, chairman of the Allied Educational Trust, handed over a cheque for R50 000 towards the project. ACE steering committee chairman, Jolyon Nuttall, general manager of The Star, noted that R4,4 million of the R5,5 million needed had now been raised.

ST

10

10



# Low mortgages <sup>(58)</sup> ~~374~~ agreement signed <sub>(153)</sub>

EDWIN UNDERWOOD

THE Association of Mortgage Lenders and the Urban Foundation yesterday signed an agreement which will make available mortgage loans of less than R23 000 by November this year.

The agreement is the forerunner to the start of the Loan Guarantee Initiative (LGI) which will act as an indemnity fund for lending institutions. The R20m LGI was announced by the Urban Foundation last October and will become a legal entity on July 1.

In terms of the agreement, a borrower will be able to apply in the usual way to financial institutions for a mortgage loan and usual lending criteria will apply.

Each institution will announce when it is ready to start offering loans in a new category of R35 000 and less. In terms of the agreement, all institutions will be ready to start the scheme by November 1.

Participating financial institutions are: Allied Building Society, Eastern Province Building Society, First National Bank, Grahamstown Building Society, Natal Building Society, NedPerm Bank, Provincial Building Society, Saambou National Building Society, Standard Bank, TrustBank, United Building Society and Volkskas Bank. *B104 2716190*

While the financial institutions have committed an amount of R3,5bn to the category of lending, it is expected that an amount of between R200m and R400m will be lent in the first year.

Although it will be some time before the participating financial institutions begin lending, they will start updating their legal, financial and administrative systems immediately.



# Keen eye on the future

b/Daw 27/6/90

(58)

COLFIN Holdings CE Jeff Wiggill and chairman Harry Spain are both excited about the future of their company.

Spain says although Colfin's roots date to an affiliation with Columbia Consultants, there is no longer any connection.

They look forward to what the future holds on both an operational and strategic basis.

"It is an ongoing process, continually reviewing our goals on a strategic level and from an operational point of view," they say.

Operationally, the company is planning to continue the trend set last year.

"May was a good month, while it is likely

June will exceed expectations," says Spain.

Wiggill and Spain expect sustained growth from all operations within Colfin Holdings during the new year.

Wiggill anticipates an improved performance from the core operation, its financial services division.

## Significant

"The diversification into project finance and films will add to this division's already successful track record in corporate finance."

Spain adds that Colfin's training operations, which fall under Arthur Klitofsky, are expected to provide a significant contribution to group profits.

"Continued focus on advancement and education augurs well for this division."

The third prong in Colfin's structure, investment banking, will benefit from new investment opportunities offered to Colfin and from the contribution from existing holdings.

Wiggill confirms that investments with high growth potential are offered to Colfin on an ongoing basis.

On the strategic side the financial services operation is looking at all options at pursuing a suitable acquisition in the financial arena: "Colfin is keen to add additional products to its portfolio."

Analysts believe it will be a sound move for Colfin to strengthen its position

in the financial services market by the acquisition of either a banking or life insurance licence.

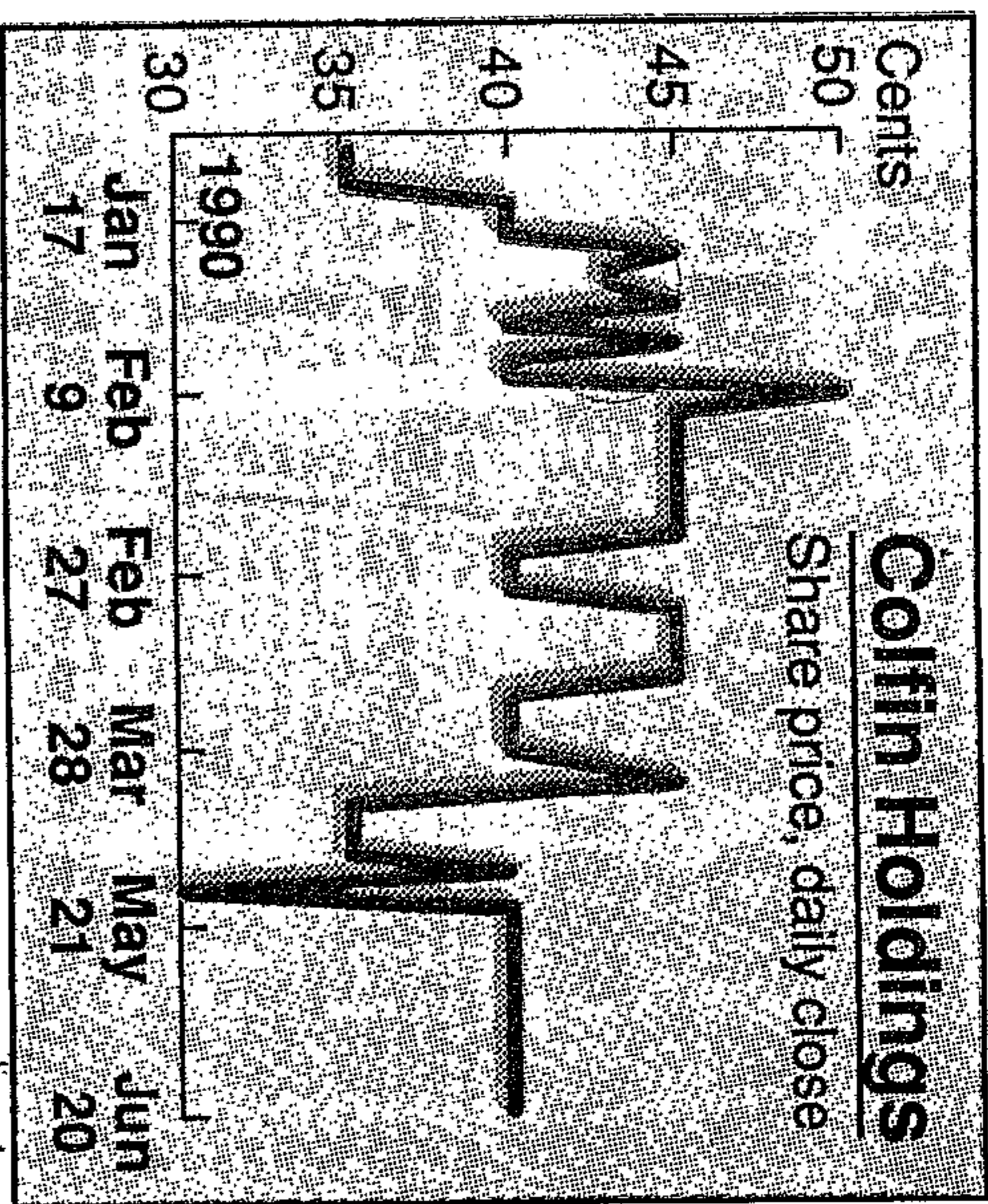
Spain and Wiggill do not rule out the possibility of such a move and add the strong demand for funding and insurance within the existing client base would represent an immediate synergy.

## Formal

Wiggill adds that a formal move into banking would most likely occur through strengthening Colfin's interest in Wingate.

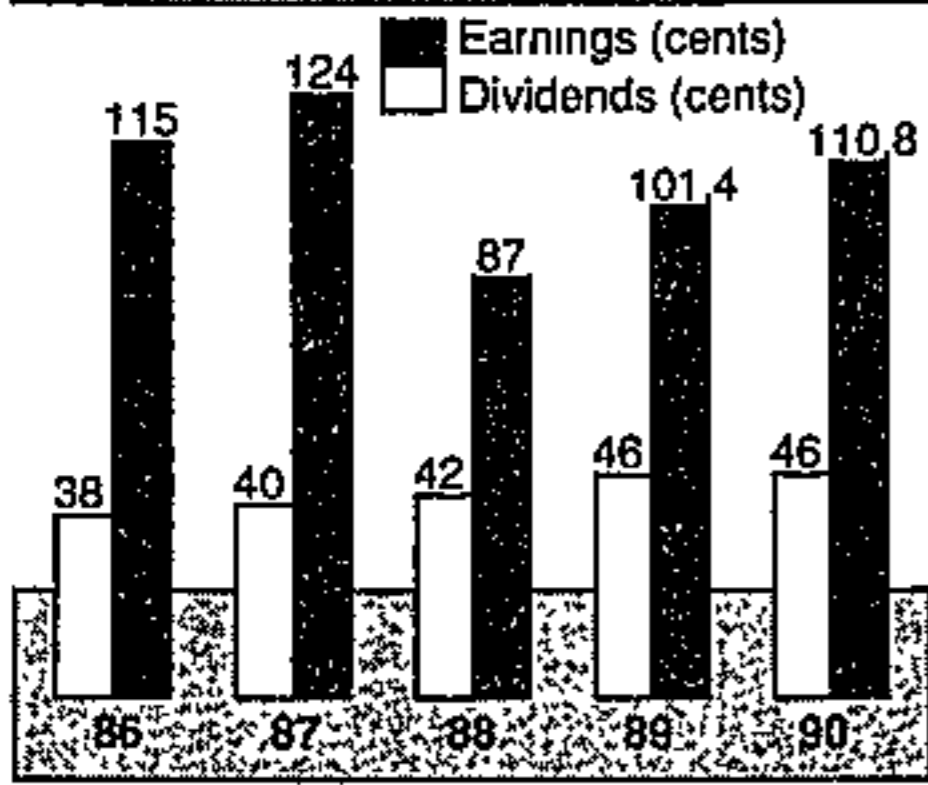
This being said, however, a banking insurance licence can have its advantages and is essential in certain cases.

Colfin has achieved certain of the advantages by being listed.



Graphic: FIONA KRISCH Source: JSE

**Boland Bank**  
Earnings and dividends per share



Graphic: FIONA KRISCH Source: BOLAND BANK

# Boland Bank raises earnings to R14,9m

LESLEY LAMBERT

CAPE TOWN — Boland Bank has reported earnings growth of 9,3% to R14,9m after transferring to internal reserves and writing off bad debts for the year to March. Assets have increased by R580m to exceed the R3bn mark.

Earnings translated into 110,8c a share (101,4c), while the total dividend was held constant at 46c a share to cover the phasing in of increased statutory capital requirements.

The banking group transferred R8,7m from the income account to the general reserve, bringing the total reserve to R119,9m.

In his annual review chairman Pietman Hugo said the results had been achieved in a "turbulent" environment characterised by sharp interest rate fluctuations, the evaporation of personal savings,

increased competition in the banking sector and the high cost of technological improvements.

The changed environment meant that banks were being forced to reconsider the prevailing philosophy of aggressive asset growth and marketing-oriented finance rates, he said.

The group expected to maintain current levels of profitability during the year.

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BIP Day 27/6/70



# Good growth is set to get even better

27/6/90

B/2m

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WITH a 37,5% improvement in earnings a share at the interim juncture, CE Jeff Wiggill is optimistic Colfin Holdings can better growth for the year to end April.

The interim figures, which incorporate the performance of almost entirely reconstituted operations, show turnover up from R2,7m to R10,2m, with pre-tax profits at R1,6m (R1,2m).

Earnings, shown at 8,05c — against a pro-forma 5,3c

for the previous period — are well on the way to achieving the 16,2c pro-forma forecast for the full year.

The group's year-end results are due to be published next month.

Wiggill says earnings of around 18c a share for the full year are not out of order.

The dividend will be "at least" 6c, on a conservative cover of three times, but cover could be as low as 2,5.

Assuming earnings a share of 18c, the prevailing share price will place the group on a P:E of 2,2 times and a dividend yield of 15%.

However, Wiggill says the board is not concerned with the share's performance at present.

"We are bent on producing attractive results for at least another year before we start worrying about the P:E rating," he says.

But based on these projections, analysts believe the share deserves an upward rerating.

## Earnings

At 40c a share, historical earnings and dividend place the share on a yield of 45% and a dividend return of 15%.

In comparison, the sector records an average P:E of 6,8 and a dividend yield of 6,1%.

Wiggill bases his forecast on the fact that the group's eight operational companies traditionally do better in the second six months.

"Although Accsys usually breaks even for most of the year, net earnings reach about R1m in November alone.

"All divisions performed well over the year."

He says the diversification of Colfin's financial services division at the beginning of the year into other activities (such as project finance) was a major

reason for the strong performance in that division.

The changed nature of the group is reflected in the interim results, the increase in fixed assets and trademarks to R10,6m (R2,1m), the reduction in current assets to R3,7m (R12,3m) and the parallel reduction in current liabilities to R2,9m (R5,4m).

Divisionally, Wiggill says financial services, with Colfin the best performer, should contribute about 40% to pre-tax profits of about R4,5m, with corporate and management services and investment banking contributing about 33% and 27% respectively.

The biggest contributor from investment banking is Accsys, which Wiggill says will show pre-tax profits of about R1m for the year.

In corporate and management services, Punch Line Columbia is expected to chip in about R1m pre-tax, with the bulk being made up by Academy of Learning.

"The training business has been strong, especially with the country's emphasis on black advancement."

This is reflected in the performance of Academy of Learning, which received a special business excellence award earlier this month in the highly respected Franchise of the Year award.

"When we were first listed through Cashworths, there was some criticism that we were offering Cashworth shareholders service operations, with a low asset base. Our response was that their choice was a cash offer of 40c per share. For those shareholders who have supported us, we are confident their support will be justified," says Wiggill.

"At an original offer of 40c a share and based on achieving ahead-of-forecast earnings, we now feel those shareholders got a good return," he says.



# Closure of insurance co-ops recommended

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27/6/90

LINDA ENSOR

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CO-OPERATIVE insurance companies were not in the public interest and should be required to cease their operations, the Melamet Commission of Inquiry into the operations of non-agricultural co-operative societies providing short term insurance has recommended.

The commission's report was tabled in Parliament last week.

Mr Justice D A Melamet recommended that steps be taken to ensure that existing societies cease operations or be wound up by not later than December 31 1991.

"There is no cogent reason why co-operatives which are in fact conducting the same operations as registered insurers, albeit on a smaller scale, should not be subject to the same conditions as to supervision, solvency margins, reserves and capital as a registered insurer.

"Conscious though we are of the fact that free enterprise should be encouraged and not be interfered with, we are of the opinion that it would be inadvisable and risky, having regard to the interest of the general public, to allow cooperatives, other than agricultural co-operatives, to carry on operations."

However, the report stated that as these co-operatives were established with the approval of the Registrar of Co-operatives and the Registrar of Financial Institutions, it would be "inequitable and harmful" to their members to order them to cease business forthwith.

The judge did not make recommendations as to whether the promoters of co-operatives should be given a licence to operate insurance companies.

He said this was a matter for the discretion of the Registrar of the Financial Institutions Office (now the Financial Services Control Board), which was aware of competing claims from other people and of the necessity for granting further licences.

The report also recommended that the Insurance Act and the Co-operatives Act be amended so that no provision existed for non-agricultural cooperatives to undertake insurance business.

● See Page 11


MEMBER ORDER	FORM 2
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# Banks forced to raise interest rates on new loans

By AUDREY D'ANGELO  
Business Editor

THE high cost of funds to banks is forcing them to raise interest rates on new loans to borrowers who do not qualify for prime rate, the MD of Boland Bank, Gert Liebenberg, said yesterday.

"People think high interest rates must mean the banks are doing well. But they do not realise that deposit rates are

high as well and banks are having to pay more for accommodation from the Reserve Bank.

"It is the Reserve Bank's policy to make money expensive in the hope of restricting demand for credit.

"In these circumstances, banks are no longer competing for market share but are looking for the most profitable business." A similar point is

made by the Chairman of Boland Bank, Pietman Hugo, in the annual report.

He says that the penalty rate of 22,75% which the Reserve Bank charges banks requiring accommodation against non-liquid assets, and upward pressure on money market rates, means that when there are strong outflows of money the banks are forced to do their mar-

ginal funding at a market rate of up to 21%.

"In view of the statutory liquid asset requirement applicable to banks, the effective cost of these funds often exceeded 23%."

Pointing out that the cost structure of the modern, technologically based bank, necessitates growth to achieve economies of scale, Hugo continues: "On the other

hand, an increase in assets is accompanied by higher statutory capital requirements as well as an increase in the marginal funding requirements of a bank."

Profitability in the banking sector, in terms of return on capital, is not sufficient to support real growth in assets by means of internal reserves. "In essence this means

that banks are being forced to reconsider the prevailing philosophy of net asset growth and marketing-orientated finance rates of recent years."

In spite of this, says Hugo, the directors are confident that Boland Bank "will at least maintain the present level of profitability in the new financial year.

In the year to March 31, the bank lifted profits by 9,3% to R14,9m (R13,6m). Its total assets exceeded R3bn for the first time.

# Boland Bank assets top R3-billion

(58) Star 27/6/90

Boland Bank's total assets have exceeded the R3 billion mark for the first time, chairman Pietman Hugo says in the annual report issued yesterday.

He says although South Africa is generally expected to experience a cyclical levelling off of growth in the next 12 months, Boland Bank is confident of at least maintaining its present profitability.

Banking in South Africa is under increasing pressure because of factors such as:

- Sharp interest rate fluctua-

tions which have become an inherent character of the economy. "This volatility in the cost of credit exerts substantial cyclical pressure on the financial position of many participants in the economic process.

"Banks' exposure to bad debt risks had consequently altered in respect of both character and magnitude, and necessitated greater conservatism with regard to provisions and the evaluation of borrowers."

- Individual savings have vir-

tually evaporated as a result of inflation and the sharp rise in the personal tax burden.

- Increasing competition has brought about greater negotiating power and freedom of choice for the consumer.

- The cost structure of the modern bank necessitated growth in order to achieve economies of scale.

Boland Bank achieved a 9,3 percent growth in profit from R13,63 million to R14,9 million in the year to March. — Sapa.



# Fed Volk's listing at stake

There is a growing realisation that what seemed to many to be quite implausible just a few weeks ago is at least on the list of options currently facing the controlling shareholders of Fed Volk — a delisting.

It seems a fairly drastic step to take and in ways (given that Fed Volk is regarded as one of the oldest Afrikaans investment vehicles on the JSE) it would be quite an emotive one.

But although Sankorp (the controlling shareholder) is no doubt sensitive to the sentimental aspect of a delisting of Fed Volk, the decision will be motivated primarily by investment considerations and the long-term well-being of shareholders — sentiment will have to take a back seat.

Behind a move to delist is the belief that the hiving off of its two problem areas — Fedmech and Tek — would not be sufficient to get Fed Volk into top shape. With minimal proceeds expected from the sale of these two subsidiaries, correcting the damage that they have wreaked on the Fed Volk balance sheet over the years would require yet another rights issue.

## Discrepancy

Given the discrepancy between the Fed Volk share price and its underlying net asset value, the prospect of having a rights issue at around the former level cannot be a very encouraging one for Sankorp. And, any attempt to move it towards the NAV level could see Sankorp ending up with an even larger stake of the company.

So Sankorp might just as well delist Fed Volk now, clean up its portfolio, inject the necessary funds and watch the cleaned up operation coming right over the next few years. Perhaps even re-

Diagonal Street  
58  
ANN CROTTY



9/21/90  
list a much stronger operation in about two years or so.

Part of the tidying-up process might involve the listing of some of Fed Volk 100 percent held subsidiaries. Certainly operations such as Avis and Firestone would look very attractive to the investment community. The proceeds from such listings could be used to offset the cost of buying out the Fed Volk minorities.

## Minorities

The paying out of the Fedvolks minorities could present major difficulties for the controlling shareholder. The share was suspended at 300c (which in terms of short-to-medium term earnings potential looks appropriate) but the underlying net asset value is around 550c.

Minority shareholders would feel justifiably aggrieved if they were offered a mere 300c given that the underlying value of their stake in Interleisure, Fedfood and SA Druggist alone, represents about 200c a share.

So Sankorp may have to offer a fairly complicated package to the minorities comprising a mix of cash and shares (in Interleisure, Fedfood and SA Druggist).

Analysts' reaction to the prospect of a delisting is, understandably, mixed. Some welcome a delisting of what they regard to be a chronic underperformer.

Others feel that the minorities would be hard done by. Having stuck by Fed Volk during times of appalling performances now, when there is some signs of light at the end of the tunnel,

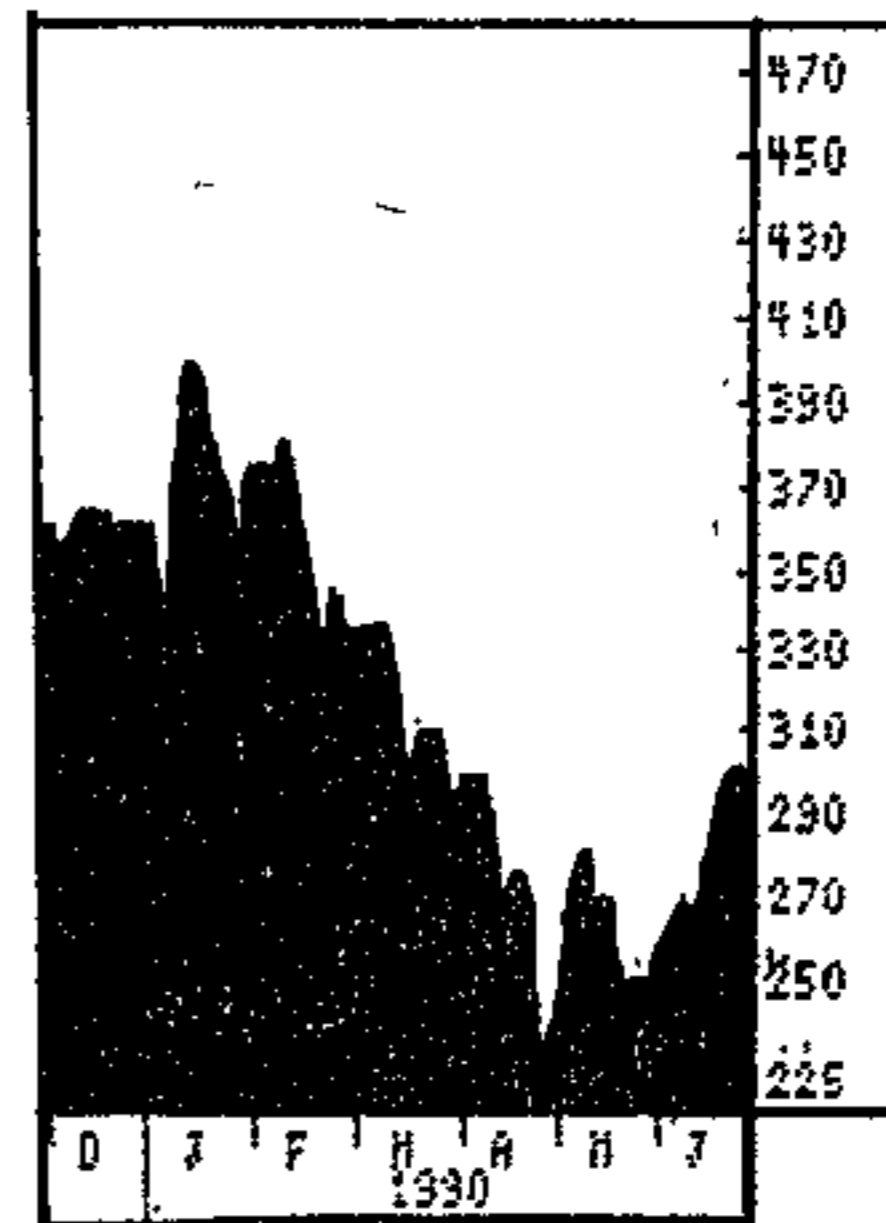
they are being deprived of the opportunity of enjoying the full benefits.

One leading analyst expressed surprise at the suggestion that Fed Volk might need a rights issue after the disposal of Fedmech and Tek. Even assuming that very little is earned from these sales and that Fed Volk might have to hold on to liabilities attached to Fedmech, he points out that getting Fedmech and Tek off the Fed Volk balance sheet would immediately reduce gearing down to below 50 percent.

Given the improved outlook for a trimmed down Fed Volk, it could trade out of this level of gearing relatively quickly.

At this stage all of this is hypothesis.

As one Sankorp spokesman pointed out: "We are faced with a number of options, one of which includes the possible delisting of Fed Volk. We have to review all of these options and decide what would be in the best long-term interest of all of the stakeholders — that includes employees as well as shareholders." He added: "In general we try to keep things listed."



Fed Volk share price.  
(Source: Wen Software)



## How to read a balance sheet — 17

# Ratios make sense of the figures

It is all very well to be able to look at a set of financial statements and to have some idea of what the figures mean.

But when we are examining financial statements we need to know how one set of financial statements compares with another and how to make some sense of all the bland, boring figures.

One of the most effective ways of doing this is to use "ratio analysis".

There are three important types of ratio, each relating to a different aspect of the financial statements:

- Liquidity ratios — what percentage of the company's assets are cash or could easily be converted into cash?
- Leverage ratios — how much is the company borrowing and can it service (pay the interest on) these debts?
- Profitability ratios — how profitable is the company?

Liquidity ratios, in essence, measure the ability of a firm to pay its bills on time — the more liquid a company, the more able it is to pay its bills. The most useful ratio in this respect is the:

Current ratio, which measures the number of times a company's assets cover its liabilities. The calculation is:

$$\text{CURRENT RATIO} = \frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$$

There are no hard and fast rules about what this figure should be, but an acceptable ratio normally is between

Continuing the popular series by Richard Buchholz of chartered accountants K P M G Aiken & Peat



one and two, although this may vary from industry to industry.

The important thing is that the current ratio should be used to make comparisons, rather than as an absolute measure of liquidity.

As a ratio it makes sense, because obviously a company's liquidity in the short term depends upon whether it has enough current assets to pay its current liabilities (Remember: current assets include the all important "cash", "debtors" and "stock"; current liabilities include "creditors", the amounts we owe our suppliers).

Another often used similar ratio is the Quick or Acid-test ratio. This also compares current assets to current liabilities, but removes stock from the assets.

The reason for this is that of all the current assets, stock usually is the least liquid, or the most difficult asset to readily convert into cash. The quick ratio therefore gives us a more accurate assessment of a company's liquidity.

The calculation is:

$$\text{ACID TEST RATIO} = \frac{\text{CURRENT ASSETS} - \text{STOCK}}{\text{CURRENT LIABILITIES}}$$

Apart from these two general ratios, we can also look at the liquidity of certain specific assets (that is, how fast we can turn specific assets into cash):

Accounts receivable/debtors liquidity (called the accounts receivable or debtor turnover ratio) is a ratio which measures how quickly the customers are paying their accounts and is calculated as:

$$\text{DEBTORS' TURNOVER RATIO} = \frac{\text{ANNUAL SALES (excluding cash sales)}}{\text{AVERAGE DEBTORS}}$$

Usually, we can use the turnover (annual sales) figure to calculate this, since many firms do not have material cash sales.

"Average debtors" is simply the last year's debtors' balance added to this year's balance and divided by two.

The ratio will be the number of times the debtors balance actually "turns over" in a year (more simply stated, the ratio represents the number of times the debtors' balance is converted to cash

during the year).

Another method of interpreting the liquidity of debtors is to ascertain how long debtors take to pay their accounts — the longer, the less liquid they may be.

This "average collection period" ratio is easy to calculate. We simply take the number of days in a year (365) and divide this by the turnover ratio mentioned above (Remember, the turnover ratio is the number of times debtors pay in a year).

An example: PTI (our company that sells spades to the hardware trade) has annual sales of R402 424.

At June 30 1989 its debtors' balance was (from the financial statements) R35 989.

At June 30 1990 the debtors' balance was R43 579.

The average debtors' balance for the year was therefore:

$$(R43\ 579 + R35\ 989) \div 2 = R39\ 784$$

DEBTORS' TURNOVER RATIO =

ANNUAL SALES ÷ AVERAGE

DEBTORS = 402 424 ÷ 39 784 = 10

In this case, on average, the customers settle their accounts 10 times a year, and the "average collection period" is:

$$365 \div 10 = 36,5 \text{ days}$$

(that is, our customers take an average of 36,5 days to settle their accounts).

We cannot say whether an average of 36,5 days to settle accounts is good or bad until we compare the figure with the ratios of similar companies.

However, clearly the longer it takes, the less liquid are our debtors, and the more difficult it is to collect cash to be able to pay our own creditors.

A further useful liquidity ratio is one which measures the liquidity of stock. This is calculated in much the same way as the liquidity of debtors, and the results can be similarly interpreted. Stock turnover ratio is calculated as:

$$\text{STOCK TURNOVER} = \frac{\text{COST OF SALES}}{\text{AVERAGE STOCK}}$$

What this ratio represents is the number of times (on average) that the company "turns over" its inventory in a year; in other words, how many times its entire stock is sold and replaced in a year.

The fewer times, the less liquid is the stock — which could indicate that some products may be becoming obsolete and are no longer selling so readily.

By dividing this ratio into 365, we can also derive how long the company holds its stock before it is sold. This is another figure that is useful in making comparisons with other companies.

TOMORROW: Leverage ratios.

Readership response to this series on How to Read a Balance Sheet has been so great that it has been decided to publish it in book form, which will be available in about two weeks' time at R16 a copy, including GST, from the Promotions Department, The Star, PO Box 1014, Johannesburg, 8000. Order can also be placed by phone at (011) 633-2320. All proceeds go to Operation Snowball.

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(58)

## NBS ups loss provision to R30,7m

**CHARLOTTE MATHEWS**

NATAL Building Society (NBS) has increased the provision for losses on mortgage loans and properties in possession to R30,7m from R13,5m as a result of the doubling of properties in possession to R34,4m at the end of the financial year to March.

"There is no doubt that the decision of the authorities to pursue a policy of real interest rates has placed mortgagors under considerable financial pressure," chairman Gordon Chapman said in the group's 1990 annual report.

He welcomed recent statements and actions by the Minister of Finance and the Governor of the Reserve Bank showing their commitment to reversing the inflationary spiral.

"If the inflation rate can be reduced to single figures it could unleash a pent-up demand for home ownership and encourage personal savings to flow into interest bearing investments."

Chapman said the announcement that the tax exempt portion of interest income would be raised to R2 000 from R1 000 would marginally help deposit taking institutions.

It was even more important that a withholding tax on interest at a low rate be introduced in March 1991.

If the rate was low enough and was "indeed a final tax, there is the possibility that retail deposit rates after tax will exceed the inflation rate".

**EXECUTIVE SUIT**



# Making significant in-roads into the finance market

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COLFIN Holdings, formerly Columbia Corporate Finance Ltd, was formed three years ago through the combination of the client bases of Harry Spain and Jeff Wiggill with that of Columbia Consultants Limited.

Columbia Consultants' decision towards the middle of last year to group its investments in the managerial service arena (including Columbia Corporate Finance) into one listed mega-service resulted in the formation of Management Services Corporation Limited (Manserv).

Wiggill and Spain held a minority stake.

Manserv and its listing was short lived.

Columbia had made the decision in April last year to divest itself of its investment portfolio for cash.

## Buy out

It was subsequently discovered that many of the business activities carried out by the Don Gray operation (into which the Columbia Services operations had been reversed listed) were not profitable.

Spain and Wiggill acted to buy out Manserv. Securing a large portion of their financing from investors (including present directors Yakoub Paruk and Roy Eckstein), Columbia's interest in Manserv was bought in a classic management buy-out. Unprofitable interests were disposed of and the name was changed to Colfin.

In January this year, Colfin finalised the acquisition of Cashworths Fashion Holdings for R12.2m. The deal involved the transfer of Manserv's 13 subsidiaries to Cashworths, leaving Manserv a cash shell.

Cashworth's name changed to Colfin Holdings in order to reflect the nature of its business.

GM corporate finance Chris Shone and Fernando Patrizze say the group has come a long way since then



CHRIS SHONE

"In the short time since our listing we have made significant in-roads into the corporate finance market, where we have become the dominant player in the small to medium listed company market.

"Companies listed by Colfin include those operating in property development, mining, textiles, electronics, leasing and finance, food and retail," says Shone.

Colfin is an active player in the "cash shell" market, structuring disposals and utilising the vehicles.

With the depressed state of the market, Colfin has become a prominent player in leveraged buyouts.

Patrizze says the listings boom and subsequent market crash will motivate companies to delist, offer-

ing a potential growth area for Colfin's corporate finance team.

Colfin's general financing services are provided through associate company Wingate Finance, in which Colfin has a 21% stake.

Wingate, established as an unlisted public company last year with the private placing of five million shares, provides general financing services including leasing, instalment sale financing, property financing and term loan facilities.

Wingate MD Ronnie Waldman says it was established to service the corporate and professional niche.

"We keep risk to a minimum as our clients are generally well known by our board-members," he says.

## Referral

"As such, we are selective about clients, who are largely received through referral."

Waldman says Wingate is the fastest financial group in the country, able to put an entire deal through within 24 hours.

"Many banks require at least two weeks to provide financing commitments, which factor gives Wingate a significant service edge."

He says Wingate's biggest strength is its size.

"We have six hands-on managers and no pyramid structure — every person is vital to the functioning of operations.

"It boils down to personal service and people. We

are not alienated from the client," he says.

However, this is not at the cost of service or confidentiality.

"Our specialists can offer tax-based structures or lending products to suit any client," he says.

On the international front, Colfin, in conjunction with foreign associates, advises both individuals and corporates.

"Colfin has attracted selective foreign investment and acts as advisers to several companies in structuring foreign holdings in local companies, financial rand structuring and moratorium debt trading and utilisation," says Shone.

On the domestic front, increasing liquidations stemming from deteriorating business conditions provides scope for significant merger and acquisition activity.

"Many smaller to medium companies are finding difficulties financing their growth. Circumstances are forcing them to look for 'big brothers' in order to provide liquidity and stability.

"Colfin is poised on two sides to take advantage of the economic situation.

"On the one hand, it has a proactive mergers and acquisitions team under Mary-Anne Tennant, and on the other, its investment banking division investigates the possibility of acquiring strategic stakes in suitable companies with good growth and/or turnaround prospects," says Wiggill.



# Business Day SURVEY

*In the three years since its formation, Colfin Holdings believes it has made significant inroads into the corporate finance market. The group is one of the few independents offering services including corporate finance, international, general and film financing, training and investment banking. BRENT MELVILLE reports.*

## Stepping into the unknown took guts

THE founders of Columbia Corporate Finance, Harry Spain and Jeff Wiggill are today the chairman and CEO of Colfin Holdings.

They are joined on the board by financier Yakooob Paruk, Amshoe CE Roy Eckstein, and Arthur Klifsky.

To step off a successful career takes courage. Yet, at an age when most men are beginning to focus on consolidating their position Spain, 45, left the security of a senior partnership of a major international audit practice for the thrills and potential spills of a fledgling company.

However, Colfin represents a familiar environment for Spain.

### Cemented

He says his previous position encompassed much the same activities.

"My relationship with Wiggill was cemented during the many listings the two of us achieved, myself as auditor/reporting accountant, and he as the merchant banker co-ordinating the listing.

"We work well together, our different areas of expertise coupled with distinct personalities has enabled us to attract assignments of a varied nature, while our track record is evidence of our success," says Spain.

Wiggill joined Spain in June 1988 after qualifying as a CA in 1982 and spending some six years in merchant banking.

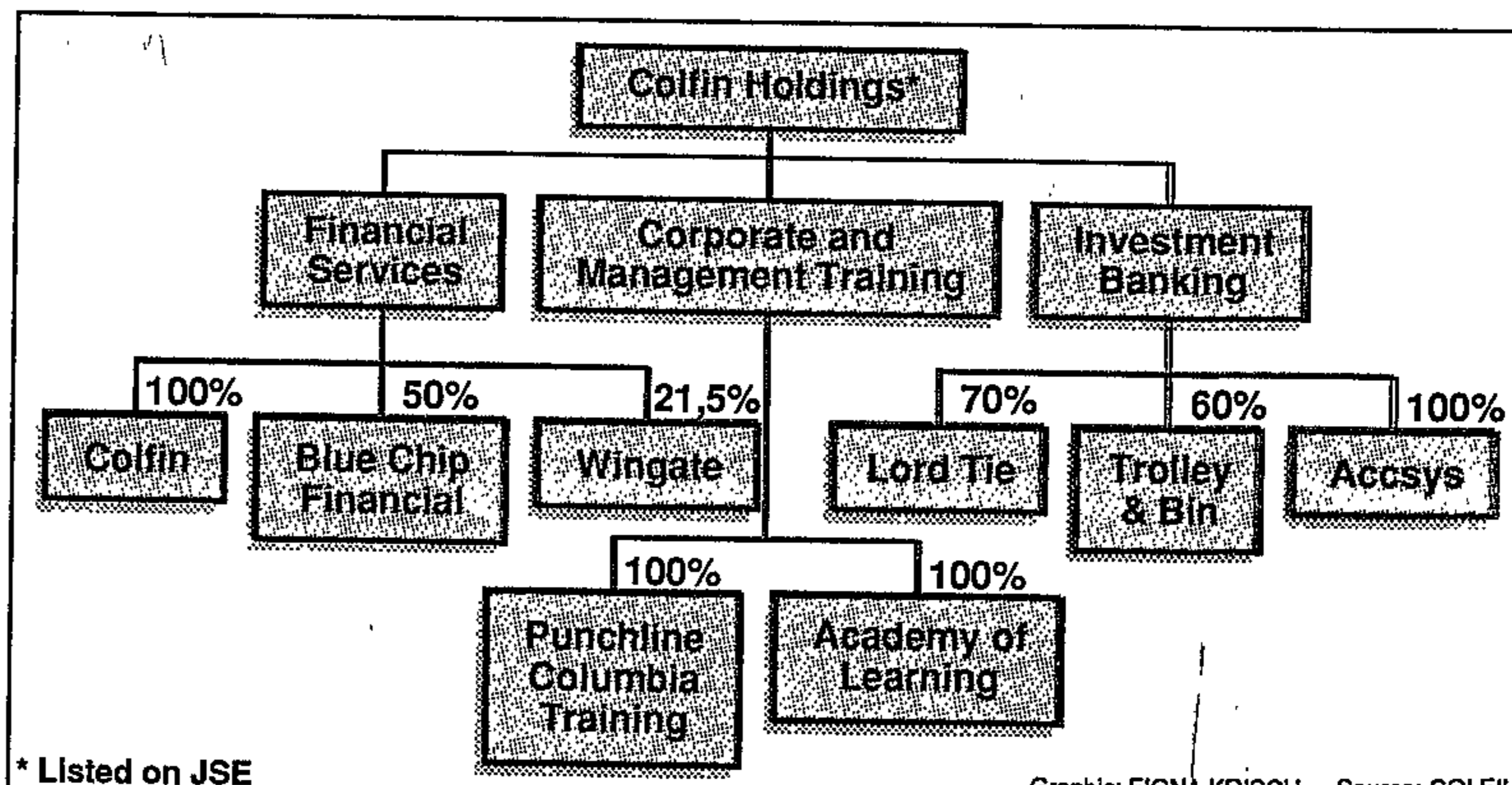
### Enjoyed

Both he and Spain's enjoyment of their work plays a large part in their success.

Also part of the decision-making process is industrialist Yakooob Paruk, whose family's interests extend into clothing, food, plastics, furniture and banking.

"Paruk and I have been associated since I was responsible for his audits prior to the formation of Colfin.

"Daily interaction between the three of us is the accepted routine," says Spain.



\* Listed on JSE

Graphic: FIONA KRISCH Source: COLFIN



HARRY SPAIN



JEFF WIGGILL



LORRAINE VAN RENSBURG

## Proving the critics wrong

COLFIN has disproved two issues raised by bankers and investors as being limiting factors in independent corporate services operations.

The first, says CE Jeff Wiggill, is that Colfin has shown size in terms of a large capital base is not necessarily a key to success. Secondly, to operate successfully in the financial services market a banking licence is not an absolute requirement.

Wiggill says a banking licence can, in fact, be a

limiting factor rather than a competitive advantage.

"The costs of maintaining a banking licence serve to limit competitiveness in terms of costing transactions," he says.

Colfin's success is enhanced by its independence and flexibility and its aim of providing a "businessman's approach to corporate finance".

As a management owned and controlled business, the entrepreneurial flair required for success-

ful implementation of transactions is available.

"Colfin's executive team come from 'big bank' backgrounds. This pool of experience, combined with the business and market knowledge of certain of the directors accounts for Colfin's innovative and sometimes aggressive style.

"It is also important that Colfin be seen as identifying with the client's needs and being innovative and proactive can create the level of comfort the client requires," says Wiggill.

# Insurance firm launched

A NEW insurance company, Lombard Guarantee Insurance (LGI), specialising in providing guarantees to builders for construction work, was launched last night with the backing of several major reinsurers.

Munich Re (30%), Swiss Re (25%) and Hollard Insurance (15%) have an equity stake in the registered company. George Lombard Associates holds the remaining 30%.

MD George Lombard said in an interview substantial reinsurance capacity was required given the magnitude of the annual turnover on building contracts awarded. Having major reinsurers as backers would also provide LGI with the credibility necessary for a guarantor.

George Lombard Associates which acted as a guarantee risk manager for insurance companies, particularly for Aegis Insurance, had about 30% of the guarantee insurance market, covering contracts worth about R2bn annually.

"Taking into account that the average duration of a guarantee is two years, this means that the value of outstanding guarantees at any given time is approximately R400m," he said.

LGI would be taking over the client base of about 400 clients presently underwritten by Aegis, he added. About 70% of these clients were builders and

LINDA ENSOR

large construction companies, including Basil Starcke, Basil Reed, Group Five and Wilson Bayly Homes.

LGI would provide performance guarantees for the building contractor, giving cover to the principal for poor workmanship and non-performance. Guarantees would also be provided for maintenance, bid bonds, retentions and advance payments.



● LOMBARD

Lombard said loss ratios depended on the economic situation but averaged about 20%-25%. Historically, performance guarantees covered 10% of the contract value although there were indications that this percentage was on the increase. LGI would start off with a capital base of R3m with no liabilities. Due to its not being 100% operative and to its extensive reinsurance programme, the solvency margin after the first year was expected to be 400%.



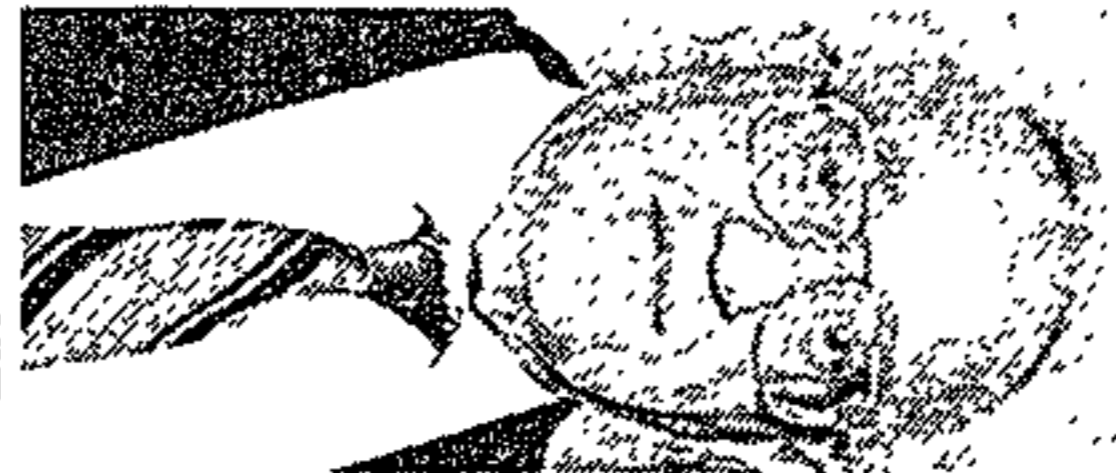
# Commission warns on 'pool insurance'

FINANCIAL disaster could befall the members of co-operative societies offering short-term insurance, and the onus is on the authorities to protect the interests of the public.

The Melamet Commission of Inquiry into the operations of such non-agricultural co-operative societies found them to be a source of financial risk to members as, being registered in terms of the Co-operatives Act, they did not have to meet the requirements contained in the Insurance Act regarding solvency margins, capital reserves, etc.

Commission chairman Mr Justice D A Melamet said in the report: "It would appear that these co-operatives are all in a vulnerable position with their financial resources apparently inadequate to risks being assumed."

"From specimens of the policies lodged with the commission, it would



LINDA ENSOR

appear that the cover contained therein creates a situation whereby one serious mishap could exhaust the pool fund.

"Until now they have been operating during a period when the claims experience for the classes of insurance in which they are involved has been good, but the situation is deteriorating."

Tracing the history of these co-operatives, the judge found that while legislation providing for them has existed since 1960, the first registration of a trading co-operative to carry on "pool insurance" was granted only in 1987.

"This was after the short-term insurance business of the AA Mutual Assurance Association was placed in liquidation and applications for the granting of new licences under the Insurance Act were refused on the grounds that there were sufficient short-term insurance companies in SA to meet the requirements of the public.

"Certain unsuccessful applicants then resorted to registration as trading co-operatives with the object of carrying on the activities envisaged in Section 51 of the Co-operatives Act."

With one exception, all the promoters of these co-operatives, the report said, were either former insurance brokers

SS  
BIP  
27/6/90

some with unhappy relationships with insurance companies — or they had been associated with the insurance industry. Often they took their clientele with them into their co-operative.

"It is clear, therefore, that the system was largely developed as a substitute for insurance by persons who were not able to obtain the right to conduct business as insurers."

According to the report, Section 51 of the Co-operatives Act was intended to cover pools created by a co-operative of farmers to indemnify them for crop losses and losses caused by disasters such as hail or fire.

## Limited

"In providing for this contingency, section 51 of the Co-operatives Act was widely phrased — including within its provisions co-operatives other than agricultural co-operatives. It is this position which has been exploited."

The characteristics of pool insurance were that benefits were not guaranteed and the liability of the co-operative in respect of claims was limited to the amount standing to the credit of the fund maintained to meet claims.

According to the report, the represen-

tatives of the co-operatives argued that they were not providing insurance but a limited form of indemnity. But this was dismissed as "verbiage".

The commission found that as the co-operatives mostly obtained reinsurance from a reinsurer for the risks covered by them, it was difficult to distinguish their activities from a registered insurer. As with registered insurers, the co-operatives reinsured the liabilities of the pool in order to be able to immediately compensate members in full for the cover enjoyed by them.

The "policies" of co-operatives followed, "almost slavishly", the pattern of those issued by insurers. And while the application forms noted the limited liability of co-operatives, the prominence given to such qualification varied, the commission said, and was not consistent.

"It is notorious that persons do not necessarily pay the attention which they ought to conditions appearing on printed pages even if these are highlighted..."

"If there should be a loss by an individual he will not blame himself but the powers that be for allowing such a system to continue. The danger of the public not being informed can never be eliminated."

# HOME IMPROVEMENTS

## Homeowners need to look at contracts

**HOMEOWNERS** who encounter problems with their bond repayments often do not get expert advice before signing contracts, says Mrs **Tammy Taranto**, project and marketing manageress at **FHA Homes**.

"People need to understand what they are signing for when buying a property."

Taranto has been on the housing field for many years. Her company is involved in the

By **KENOSI MODISANE**

Urban Foundation's low-cost housing scheme for people in the lower salary bracket.

She also blamed other housing consultants who do not often consider affordability and preference of their clients when making deals with them.

"Buyers often fail to repay their bonds because they are not told how it will affect their salaries.

"They are only told

about the package deal which does not always reflect how their pay packets will be affected."

"Home ownership is not only an investment. The underlying responsibility which goes with it should be understood by the buyer."

"People need to understand that the repayment they make on a monthly basis will continue for at least 20 years. And such a commitment when buying a house should not be overlooked."



**Tammy Taranto**

Taranto said a home buyer must be given chance to consider his decision to buy a house.

"This is a lifetime decision which needs a thorough consideration."

caption.. Mrs Tammy Taranto... project and housing marketing manager on housing.



# Spiralling bond repayments: how to cope with them

AS bond repayments continue to spiral with the increase in interest rates, you are probably battling to meet the repayments demanded by the financial institutions.

Do not despair and hide your head in the proverbial sand hoping the demand for payments will go away. You are among numerous other home owners who are in the same predicament.

The key point, when you find yourself in this kind of financial trouble, is to talk to the people at the bank or the building society where you have your home loan and not suddenly just stop paying because you can't cope.

## Experts

Home loan experts from the Perm advise that, before difficulties occur, you should attempt to have contingency, for example a regular saving scheme, which will help you prepare for those unexpected emergencies.

You could also ask your employer to deduct your monthly payment from your salary and send it direct to the financial institution.

If your loan repayment is 20 years, they may consider extending it to 30 years so that your monthly repayments are reduced or, in some cases, they may, by agreement only, allow you to miss a few months payments.

They could also suggest you take in a tenant who can contribute towards the repayments

or in circumstances where your difficulties are insurmountable they may suggest that you sell the house and buy a smaller, lesser expensive one with a low bond.

You also could be among the many people who, faced with an increased payment, believe that you can continue repayments at the previous level.

## Loan life

This has the immediate effect of extending the life of a loan.

The maximum period of a home loan is usually 20 years but this can be extended to 30 years and not longer.

While extending the period of your bond may take the immediate pressure off you, remember there is a cost attached. For example, a R75 000 bond over 20 years at 19 percent will cost you R1 215.51 a month, amounting to R216 723 for the 20 years.

The cost over 30 years jumps to R354 000.

However, once you find yourself heading for a financial quandary, let the bank know as soon as possible as, and depending on your individual circumstances, there are several things that can be done.

Most lending institutions have a number of alternative schemes on offer, which you may consider, rather than extending the life of your loan.

The home loans department at Nedbank for example, will consider the merits of re-negotiating the terms and conditions of your existing loan with the bank.

## Excess

You should also note that monthly repayments in excess of the home loan repayment are permissible.

Re-advances and additional bond finance can

always be applied for and will be considered by the bank.

Nedbank borrowers can choose between interest rate options and instalment option.

These are:

\* Interest rate options:

Here you have three choices:

A one, two or three-year fixed rate of interest. After expiry of the three year period, the interest rate will revert to Nedbank's mortgage bond rate for the remaining term of the loan, unless a further fixed term-rate or another option is negotiated.

A three-year interest capping scheme: The Nedbank mortgage rate plus a margin is applied to the loan with a maximum capping rate, that will not be exceeded during the three-year term.

Unless the option is extended by negotiation after the three-year term has expired, the bank's mortgage rate will apply.

## Options

\* Instalment options

The three options available are:

Monthly instalments of interest and capital. An initial period of grace during which no instalments are payable for up to three months is negotiable.

Monthly interest repayments of interest only may be negotiated for a period of up to five years, after which normal monthly instalment conditions apply.

This option gives you the advantage of an even repayment stream for the period negotiated, while increases in your income will place you in a better position to meet higher future requirements.

\* This article has been reproduced with courtesy of Plan ahead, Nedbank's monthly magazine.



# HOME IMPROVEMENTS

## 1 000s will benefit in new home bond deal

58

**THE Association of Mortgage Lenders and the Urban Foundation have signed a R20-million loan guarantee initiative (LGI) agreement which will lower the bracket of home loans to as little as R12 500.**

The initiative taken by the institutions will put mortgage finances for home ownership over the next few years within the reach of thousands of South African who have so far not had access to such finance.

The scheme will come into effect on July 1, but it may take some time before the institutions will start lending money.

**By KENOSI  
MODISANE**

Once it is underway, anyone in need of a mortgage loan within a certain category can consult any of the following institutions.

The person will however, still be expected to meet the lending institution's normal criterion.

The financial institutions are: The Allied Building Society, First National Bank, Nedperm Bank, Standard Bank, Trust Bank, United Building Society, Volkskas Bank, Saambou National Building Society, Natal Building Society, Provincial Building Society and the Grahamstown Build-

ing Society.

Each of the above institutions will individually announce when they are ready to start offering loans in the new category

of R35 000 and less.

All institutions are expected to be ready by November this year.

While the institutions have committed R3.5-

million to the category of lending, it is expected that an amount of about R200-R400-million will be lent to home buyers in the first year.

Sowetan 28/6/90

# Insider traders will face wrath of JSE

By Derek Tommey

Insider traders, look out! New legislation will make it easier for the Johannesburg Stock Exchange to discover and prosecute those who use confidential information to buy and sell shares, says JSE president Tony Norton.

He told a UCT Business School seminar in Johannesburg that new legislation was the result of the JSE's frustration at its inability to prosecute insider traders.

Despite all efforts it had not yet had one prosecution.

## Best interests

The JSE wanted to prosecute insider traders because it was in the best interests of the exchange.

It had a duty to promote fair and honest trading.

He said it was economically necessary to police the share market.

Research had shown that investors only put their money into markets where they believed they would get fair treatment.

Insider trading was a bloodless crime, but not a victimless crime, and it had left many investors feeling aggrieved.

Mr Norton said there had been times in the past when the JSE would note a sharp increase in trading in a company's shares before a major development such as a take-over bid.

But when it tried to determine who had done the trading and why, the JSE would run into a blank wall because the dealings were concealed by the use of nominee holdings.

However, under the new legislation the Securities Regulation Panel could use its power of discovery to call people before it, question them and unravel the skein of information.

If it discovered evidence of a crime it could refer the matter to the Attorney-General for further action.

The panel had 12 members, including merchant bankers, insurance officials, brokers, accountants, lawyers and government officials.

However, it seems the panel will probably not have to rely

entirely on its own efforts to detect insider trading: greed and envy are expected to aid it in its work.

Professor Michael Katz, a member of the standing committee on company law, told the seminar that much of the panel's information could possibly come from outsiders.

## Prudent borrowing

He said the Securities and Exchange Commission (SEC) in the US had found that the bulk of its work arose from tip-offs from people with a grudge — who were, for example, jealous or felt they had not been sufficiently rewarded for their co-operation.

Professor Katz said the new legislation was based on US security regulations.

"We didn't want to re-invent the wheel. There has been a prudent borrowing from the experience of the US."

Not all areas of uncertainty of what was and what was not insider trading had been eliminated.

But the US experience had

given SA authorities an element of certainty to start with.

Some areas of difficulty in the US had been eliminated and some might ask whether the net has been drawn too tightly, he said.

However, for those not too sure what insider trading was, he had this advice: "If in doubt do what is decent and you won't violate the law."

He said that according to SEC rules, a broker who had confidential information that a share price was about to fall would be in breach of his duty if he told this to a client who had given him an order to buy the share.

Clients could not expect their broker to use confidential information on their behalf, he said.

## Third party

Professor Katz said people found guilty of insider trading could be sued twice: by their company to make them disgorge their gains, even though the company might not have been prejudiced, and by a prejudiced third party.



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# Economists disagree on timing of Bank rate drop

CAPE TOWN — Economists disagree over when a drop in Bank rate can be expected. TrustBank and Syfrets believe it could come next month, or in August. Others forecast that it will stay at its present level until the end of the year, or the beginning of the next.

But stockbrokers Davis Borkum Hare suggest in a special report on banks and building societies that even when it does come down, interest rates paid by the average borrower may not follow suit.

The report, by Iain MacKenzie and Dana Wakefield, points out that "the gap between the inflation rate and prime is widening, which will put downward pressure on interest rates".

But it continues: "Pressure on the banks' margins means that banks will be increasing their average lending rates to compensate, even though prime is not increased officially."

"The prime rate is therefore not as accurate an indicator of general interest rates as before."

## Own Correspondent

TrustBank chief economist Nick Barnardt says in his weekly report the money market should be easier in the fourth quarter, with a drop in the Bank rate around November.

"But markets should provide for a small 'surprise' drop in the Bank rate at an earlier stage," he adds.

## Danger

TrustBank economist Johan Els explained: "We think there is a 15% to 20% chance of a small surprise drop in the Bank rate — perhaps of 0,5% — at the end of July or August after the money supply figures have come out."

"But our main projection is of a drop in November, when we think there is a 60% chance."

He pointed out the inflation rate and money supply figures had come down considerably and were expected to fall further.

Elmien de Kock of Syfrets said she expected the Bank rate to come down in

August. The economy was hard hit and there would be a real danger of pyenkill if interest rates did not come down in the third quarter.

"Gross domestic expenditure has shown negative real growth since the second quarter of last year," she pointed out.

"Exports carried us last year but I am not sure this will happen this year."

But Old Mutual economist Andre Roux said he did not expect a drop in Bank rate until November at the earliest, or possibly until next year.

"We have still got inflation and the lower gold price has created a balance of payments problem. And fiscal policy is relatively lax — if anything it is mildly expansionary."

Glenn Moore of Personal Trust said he did not expect the Bank rate to come down in the third quarter. A fall in November was possible, but the Reserve Bank might think it unwise to encourage consumers to spend over Christmas.

Monday 28/6/90  
**NBS sees merit  
in withholding  
tax on interest**

**Own Correspondent**

DURBAN — The savings industry could benefit from the introduction of a low-rate withholding tax on interest next March, NBS Holdings chairman H G Chapman said in the annual report.

He said the last Budget's concession to increase the tax-free limits on savings to R2 000 (from R1 000) was of marginal assistance.

But, "if the inflation rate can be reduced to single figures it could unleash a pent-up demand for home ownership and also encourage personal savings to flow into interest-bearing investments".

(58)  
**Recapture**

Chapman said that during the past decade the combination of high marginal tax rates and inflation had virtually destroyed the incentive for individuals to save in interest-bearing investments.

If the withholding tax was low and was "indeed a final tax", there was the possibility that retail deposit rates after tax would exceed the inflation rate.

"It is likely this development will allow building societies to recapture the ground lost in the personal savings markets in the '80s, thus providing the funding for the extension of home ownership in a new SA." Chapman expected real growth in the year to March 1991, although trading conditions would become more difficult.

In the past year earnings per share were 76,6c (55,2c previously), while dividends were 29c (23c) with dividend cover of 2,6 times (2,4 times).



## MLS Bank finds a comfortable niche

NEIL YORKE SMITH

VOLKSKAS subsidiary MLS Bank has found a comfortable niche in the marketing of financial services to the medical, dental and related professions.

Its services include the financing of medical equipment and the development of medical centres, day clinics and private hospitals throughout SA. It also holds courses aimed at educating medical professionals in financial management.

MLS is small by comparison to its parent: net earnings for the year to end-March were R3,07m (R2m) and total assets stood at R593,8m (R310,5m).

Volkscas, with assets in excess of R20bn, earned slightly more than R115m during the same period.

However, MLS Bank MD Joe Grove says he prefers being small and flexible.

"We know our clients and their business very well. As a result financing decisions can be made quickly," he said yesterday.

Another benefit of specialising and gaining expert knowledge in the

medical field is it enables the company to control bad debts efficiently, he added.

"Equipment purchases can have a significant impact on the services a practitioner offers. We understand this, we also know what the equipment is worth and can usually structure an efficient financing package accordingly," Grove said.

MLS has an excellent relationship with Volkscas and while it operates independently there is regular contact with Volkscas executives, he says.

Volkscas is also the most obvious source of new capital should MLS require it.

"To date the parent has been pleased with MLS's performance so we are reasonably confident they would invest further, should we need to strengthen the capital base," said Grove.

This seems likely, given the rate at which MLS has increased its book over the last two years — 157% in the year to March 1989 and 91% to 1990.

# Controlling with less than 50% equity

CAN TON'S 7/28/61/90

By ARI JACOBSON

WHILE the biggest of the big four on the JSE — Anglo American/De Beers — controls companies totalling 45.3% of the market's capitalised value, it owns a mere 11.9% of the assets reflected on the exchange, says Mathison Hollidge economist Jos Gerson.

Writing in The Executive magazine, Gerson says this contrast between ownership and control is perpetuated through a variety of techniques by which dominant shareholders, whose equity falls short of 50%, obtain total control of companies.

He explains: "If a controlling shareholder acquires 50% of the shares of a holding company which, in turn, holds 50% of the shares in the underlying operating company, he has effectively acquired control of the entire group with a mere 25% (50% of 50%) of its equity. If he interposes yet another

holding company, his stake reduces further to 12.5%."

Gerson said the prominence of the pyramid structure on the SA scene is largely attributable to the fact that simpler alternatives — shares with dual voting rights — have long been restricted.

"Companies that have already issued such shares are allowed to continue with them and to use them for the purpose of restructuring. The Anglovaal group, Wooltru and Rex Trueform are among the exempted companies enjoying the concession."

Gerson mentioned that pyramids and/or dual-class shares are restricted in most major English-speaking countries but quite common in Scandinavia, West Germany, Japan and several other European countries.

"As it happens corporate voting power in Sweden is so concentrated as a result of the prevalence of dual-class shares — a few families con-

not almost all the major companies on the Stockholm Bourse."

Gerson said concentrated shareholdings did not necessarily retard corporate performance.

"Many people object to the idea of too much wealth being concentrated in too few hands. However, the issue is a red herring in the context of determining the ideal corporate structure... so is the colour and identity of the wealthy."

The second objection to the concentrated structure of corporate shareholdings and control was based on the suspicion that it enabled firms to rip off consumers by colluding at their expense.

"The domination of a product market by a few big players (so-called oligopoly) does not automatically or necessarily lead to collusion."

"The SA motor industry, an oligopoly if ever there was one, suggests that market

prices and conditions are highly competitive."

Gerson adds that fears of "excessively" concentrated control which gives the dominant shareholders room to abuse their power at the expense of the minority shareholder must be taken seriously.

However, non-controlling shareholders recognise their vulnerability and accordingly demand a discount on shares purchased said Gerson.

"That is why, in the case of dual-class shares, the low voting shares almost always trade at a discount to the high voting shares."

In addition, when controlling shareholders indulge themselves at the expense of the company, they always bear a portion of the cost — a salary manager who indulges, often gets away scot free, says Gerson.

"In the US where the problem is rife, managers and 'outside' directors accumulate all

sorts of perks and benefits for themselves. They also pile up cash reserves which they refuse to distribute to shareholders lest it diminish their power and influence.

"For much the same reason managers keep debt to a minimum. After all, having to service debt calls for greater efficiency which is hardly conducive to a relaxed working environment."

Gerson asserts that, to avoid managerial abuse, tough and powerful controlling shareholders are required.

Besides the aforementioned methods of issuing dual-class or pyramided shares, this could be achieved he said, by raising the level of debt within a company so that putting up 50% of a diminished equity base becomes easier to attain.

"Few individuals, even if one includes the Oppenheims and Gettys, are sufficiently rich to put up 50% of the value of a large modern corporation."



(58) Sta 23/6/90

# Leverage ratios

After examining "liquidity" ratios, we turn now to what are called "leverage" ratios.

These give us a means of analysing what sort of debt the company has, and how it finances its operations.

All the leverage ratios will contain one or both of the following elements: Long-term debts and short-term debts.

We usually compare these with the total assets of the company.

Banks and other financial institutions usually are keen to know the company's leverage ratios because these show how much the company has borrowed and how much more it can afford to borrow.

## Debt ratio

The debt ratio is the ratio of all debt that the company has, to its total assets. It is therefore measured by:

$$\text{DEBT RATIO} = \frac{\text{TOTAL LIABILITIES (including current and long-term)}}{\text{TOTAL ASSETS}}$$

Because of the accounting equation, we can generally conclude that the company has financed its assets by the above proportion of "non-owner" funds. "Owner funds" obviously would be share capital and retained earnings.

Lenders generally stipulate that this ratio should not exceed a certain percentage because it is usually more risky to lend to a company that has very little owners' funds (SHARE CAPITAL + RETAINED EARNINGS) in proportion to its "non-owner" funds.

Once again it is difficult to say what a desirable absolute value for this ratio should be, and its usefulness lies in how it compares with the same ratio in other similar companies.

## Long-term debt

Another useful ratio is called the long-term debt ratio, which is identical to the first ratio, except that we look only at the company's long-term debt.

Long-term debt is fairly fixed. Generally, lenders do not like to give long-term loans to finance short-term (current assets). They prefer to lend on a long-term basis for items such as fixed assets.

This ratio therefore indicates what proportion of the assets has been financed by long-term debt:

$$\text{LONG TERM DEBT RATIO} = \frac{\text{LONG-TERM DEBT}}{\text{TOTAL ASSETS}}$$

These are the two most commonly used debt ratios. There are derivatives, such as the debt/equity ratio, which measures the ratio of debt to share capital (similar to the debt ratio).

Perhaps a more important analysis, however, especially within a South African context, would be to see how capable a company is of meeting the interest obligations on its debt.

Two typical debt "costs" are: Inter-

Continuing the popular series by Richard Buchholz of chartered accountants KPMG Aiken & Peat



est and lease payments. The easier of these ratios to remember is the "times interest-earned ratio".

This ratio measures how many times the operating income of a company will cover its interest costs. It has importance, because generally a company has to pay interest, and failure to do so could result in foreclosure.

This ratio is expressed as:

$$\text{TIMES INTEREST EARNED RATIO} = \frac{\text{NET OPERATING INCOME}}{\text{ANNUAL INTEREST EXPENSE}}$$

If this ratio were less than one, we would have reason to be worried because it would indicate that the company's net income generated from its trading operations was not sufficient to cover its interest expense.

However, this ratio has a weakness in that net operating income is usually stated after depreciation has been subtracted.

As you will recall, depreciation is not a "cash flow" item (it does not involve the payment of cash by the company). It may therefore be appropriate to add this figure back to net operating income before making the calculation.

Another weakness is that the firm is not only obliged to pay interest — it may have to repay some of the principal debt owing, as well as having to make lease payments.

We could thus make the ratio more useful by incorporating these factors and calling it:

$$\text{OVERALL CASH-FLOW COVER AGE RATIO} = \frac{\text{NET OPERATING INCOME} + \text{DEPRECIATION}}{\text{INTEREST} + \text{LEASE EXPENSES} + \text{PRINCIPAL DEBT REPAYMENTS}}$$

Note that we have added in lease payments because these are also usually commitments that the company cannot avoid meeting.

All the information for this ratio can be found in the financial statements. Most of it can be found in the notes, but the principal debt repayments should be found in the balance sheet as the "Current portion of long-term debt".

Although a ratio of less than one would be disturbing, the usefulness of this ratio also lies in comparison with the same ratio of similar companies. TOMORROW: Profitability ratios.

Readership response to this series has been so great that it has been decided to publish it in book form, which will be available in about two weeks' time at R16 a copy, including GST, from the Promotions Department, The Star, PO Box 7014, Johannesburg, 8000. Orders can also be placed by phone at (011) 633-2320. All proceeds go to Operation Snowball.



## Fixed deposits will be a wise choice <sup>(58)</sup> TrustBank

SYLVIA DU PLESSIS

HIGH real interest rates, declining inflation, a continuing business downswing and falling business profits point to interest-bearing investments as the "obvious" choice for investors in coming months, according to TrustBank.

It could be wise to go for fixed deposits on a 12-month basis, as interest rates are due to begin dipping before year-end, it says in its latest economic overview.

Interest-bearing capital market investments — either directly or via income funds — should also be considered, it adds.

"Although the return on such investments is currently only around 16%, capital values could rise about 10% with falling interest rates in the next 18 months.

"In this regard, the additional tax relief on interest income announced in the Budget should also be borne in mind.

BIDAM 29/6/90

### Related sectors

"Furthermore, the possibility of a low-rate withholding tax on interest income being introduced early next year points strongly in favour of interest-bearing investments."

According to TrustBank, falling fixed investment and inventory spending in the business sector will depress the overall business cycle over the next 18 months, in response to high interest rates, sharply falling corporate profits, political uncertainties and declining export growth.

Consequently, sectors related to business spending such as computers, commercial vehicles and to a large extent passenger cars and non-residential building and construction, could experience a downturn lasting throughout 1991.

"Banks and building societies will find sharply declining credit demand in the next 18 months — consumer credit this year and business credit next — together with rising bad-debt write-offs.

"However, financing margins should widen to some extent, especially next year."

## A friend indeed?

Leading insurers have adopted a client-centred approach to personal lines business. With the mounting cost of claims, higher premiums have become unavoidable. And no longer able to compete by undercutting each other, they have been forced to re-examine their relationship with the public and look at other ways to gain market share.

For a start, they are trying to make contracts more comprehensible.

By making clear the relationship between premiums paid, coverage offered and extent of claims made, they hope to avoid traditional misunderstandings. (However, Guardian National personal lines manager Stuart Miller says he is not certain how successful insurers have been in getting people to read policies.) *FIM 29/6/90*

Many insurers are opening client liaison offices to speed up claims procedures and cut out unnecessary paperwork.

This will reduce administration costs and improve the relationship with clients making claims.

This is a major change in the attitude of insurers, who previously made little attempt to change the negative public perception of their role. The relationship has been one of mutual suspicion and antagonism. Says SA Eagle GM Bruce Illing: "We have entered a new era of service."

We should be so lucky. ■

boost. "If it was to continue on its set growth path, the need for capital would have made it vulnerable," Benfield says. A shareholder like Anglovaal will make it feel more secure, while the capital problem will be solved by a rights issue "possibly in September."

AA Life, on the other hand, has no niche market but competes head-on with the large life offices. "We have a lower premium flow but still have to provide the same services," Benfield says. "We had to find a way to rationalise expenses."

Benfield believes the two life offices' interests in direct insurance and reinsurance in the UK also complement each other. Crulife has 24% of UK life insurer Pegasus while AA Life recently formed a reinsurer on the Isle of Man, Atlantic Re. "These interests will provide rand-hedge opportunities in due course and help the SA operation to keep in touch with developments abroad."

The deal means AA Life Group and its shareholders will have control of the insurance group via AVF Group under which falls AA Life's total assets of R315m and Crusader Life's R120m asset base. This makes the group the eighth largest life insurer in terms of total assets. Net premium income of the group includes AA Life's R57,2m and Crusader's R60,7m.

But "the way in which the group has been structured means neither life insurer is being taken over," Benfield says. Cruhold will acquire from AA Life Group the entire capital of AA Life in return for about 123,8m Cruhold ordinary shares at 125c each — a premium of 25% on the current market price.

Crulife has already responded positively to the news with the share jumping 20c in a week to 190c. However, Cruhold has remained virtually static.

AA Life Group rose 5c.

This is unlikely to be Anglovaal's last move into the fast-rationalising financial services sector. Its first step was last year when

it bought a 41,4% stake in AA Life Group (now AVF Group), which now has 84% of AvIns. The only question is, who's next?

Heather For.nby

AA LIFE/CRUSADER LIFE (58)

**Sunny side up** <sup>FIM</sup> 29/6/90

Sharing the eggs and making more bacon is the rationale for the life insurance group being formed under the umbrella of Anglovaal. By using the same administration and investment companies, AA Life and Crusader Life hope to save substantially on costs.

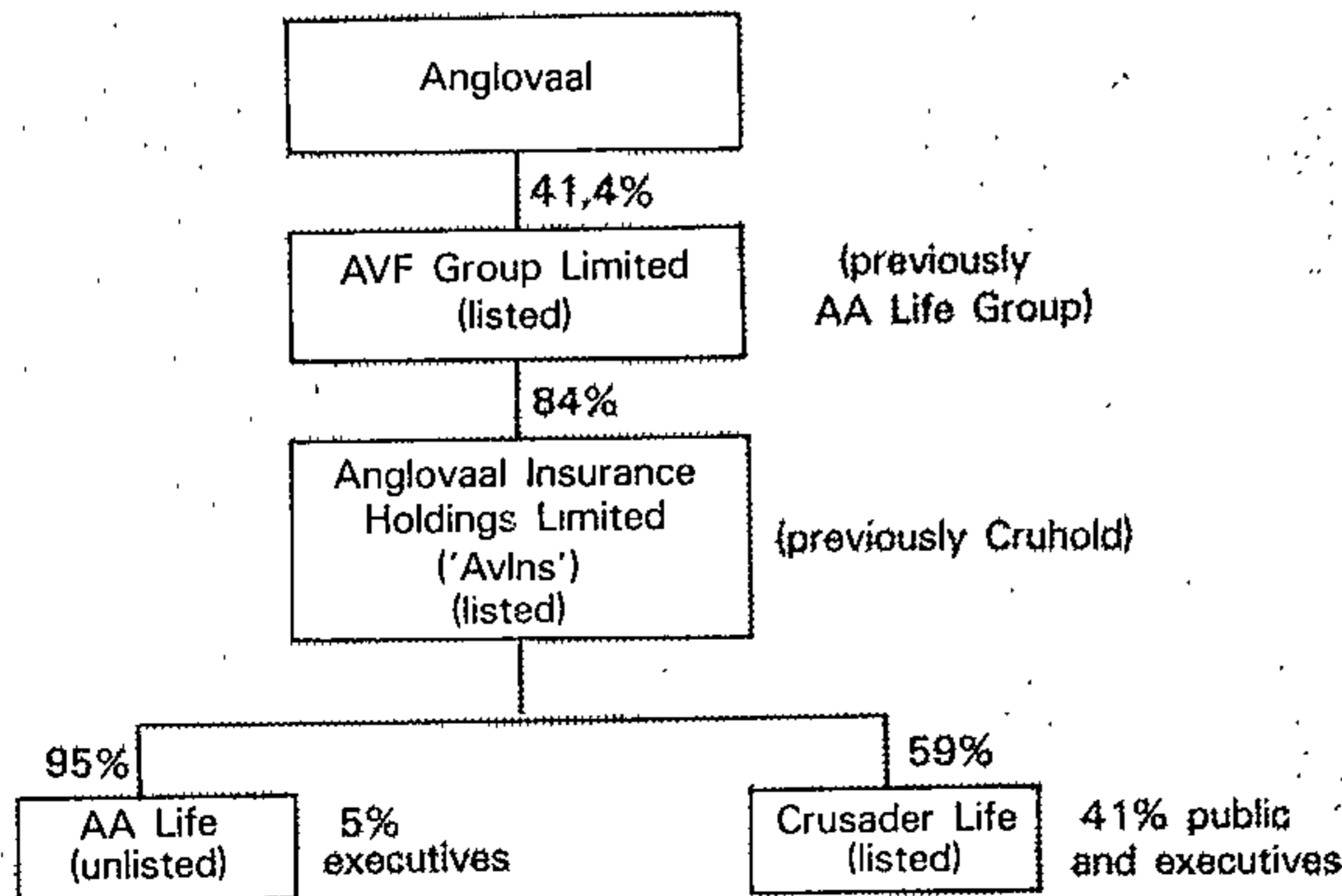
AVF Business Systems, whose MD will be ex-Crulife director Colin van der Meulen, and AA Life deputy MD Pat Felton, will provide actuarial and underwriting services for both. Its computer network will process premiums and claims.

AVF Asset Management will offer joint investment services to give much more clout than either had on its own.

But "this is not a simple merger or takeover, it is the formation of a new insurance group," says Brian Benfield, MD of new holding company Anglovaal Insurance Holdings (AvIns — previously Cruhold), who will oversee all four companies. AVF Business Systems and AVF Asset Management will be wholly owned by AvIns but "the two life offices will operate independently in their specific markets."

Why should they join forces? For some time, Crulife, with a niche market in medical benefits, has looked in need of a capital

**Joining Forces**





## Break-up value

Brokers groaned audibly when Federale Volksbeleggings (Fedvolks) suspended trading in its shares last Friday. Yet another Sanlam company was having to be salvaged from incompetent management — the fourth in something over 10 years, if you count Gencor once and TrustBank twice.

Sanlam is not letting on. But other institutions tell me they have been approached by our second largest insurer, which wants to acquire the 37% minorities at a substantial discount to net worth. Sanlam's wholly owned subsidiary Sankorp holds 63% of Fedvolks. The initial bid is going down like a lead balloon among other institutions, unhappy at the prospect of getting little after holding Fedvolks through thick and thin. They are vociferously reluctant to hand over potentially valuable assets for stripping by Sanlam surrogates Sankorp and Malbak.

Of course, Sanlam may be right to make a discounted price offer. Fedvolks is a classic example of how to do badly on the stock exchange. Its 300c pre-suspension price is no more than it was in the mid-Sixties. A quarter of a century has given shareholders (including Sanlam policyholders) no growth — and that in nominal terms. The collapse in real terms is too horrifying to contemplate.

Of course, there have been rights issues and capital injections, but the abysmal market rating has meant that each issue has been accompanied by earnings dilution. The last was in 1988, when shares were issued at 300c to raise R104m.

The longer record is terrible. Since 1976, Fedvolks has raised just short of R300m from shareholders. Just before the suspension, market capitalisation was about R500m. Effectively, management has added virtually no value in the past 14 years.

Perhaps the main trouble is that Fedvolks is a sacred cow of Afrikaner business. Sanlam has been happy to slot in new assets, but has remained singularly reluctant to address fundamental problems. That may have prevented earlier action by a Sanlam itself lacking direction since Fred du Plessis' death. Signs of concern were clear after Fedvolks chairman Kerneels Human died in a car crash in April last year. His replacement by Sankorp chairman Marinus Daling was a slap in the face for MD Johan Moolman, widely tipped to move into the chair.

The affront was understandable. Moolman's record was less than outstanding. Finally, overseen by Daling, he led the group into a disastrous profit collapse in the financial year to March 31. Second-half earnings crashed by 60% and the year-end attributable profit was 26% down — after a trumpeted 33% rise mid-year. Moolman retires a

year from now and will be replaced as CE by new MD Peet van der Walt.

Fact is, Fedvolks owns some pretty good assets. Net worth of quoted investments alone — Fedfood, SA Druggists, Midas, Interleisure and Teljoy — totals about 320c a share. Unquoted — Tek, Firestone, Fedmech, Continental China, Avis, Fedics, Ga-



**Fedvolks's Moolman**  
... turning out the lights?

briel, Raylite and Price Forbes Volkscas — add another 200c or more a share, making a total net worth of about 550c. The unquoted's contribution to attributable profit fell to R12m last year from the previous R45m, but that does not detract from their worth in a break-up situation.

Betting around Diagonal Street is that Sanlam will come in with a 350c offer to minorities — the highest market price of the past 12 months. That would value minority interests around R220m. That could be a bargain for Sanlam policyholders who, willy-nilly, have been forced to follow each successive capital injection. But it is not a value other insurers seem prepared to accept on their policyholders' behalf.

Jim Jones

Investec continues to be rated among the best on the banking board. And since April, the share price has shot ahead. On a dividend yield of 4,5%, it is bettered only by SBIC (4,1%) while its p:e ratio at 10,1 is the highest.

The share's positive rating comes largely from investors' response to the Corbank acquisition (Fox June 22) and their faith that the company's business can continue to grow in chosen niche markets. MD Stephen Koseff says that a strategy of aiming at specific target markets with specialised products has buffered the group from difficult trading conditions, squeezed margins, pressure from authorities on credit growth and increased competition.

Sharp growth has caused total assets to increase by 38% and earnings by 25%. But net worth rose by only 14%. In 1989, the ratio of shareholders' funds:total assets rose to 13,7 from 11,8. In 1990, it rose further to 16,6, indicating the group was probably in need of a capital boost. Hand in hand goes a decline in return on assets from 2,5% in 1986 after the September listing to 1,6% in 1990. Dividend cover at 2,2 times is still low, though Koseff says this should not be compared with other banks, as Investec relies

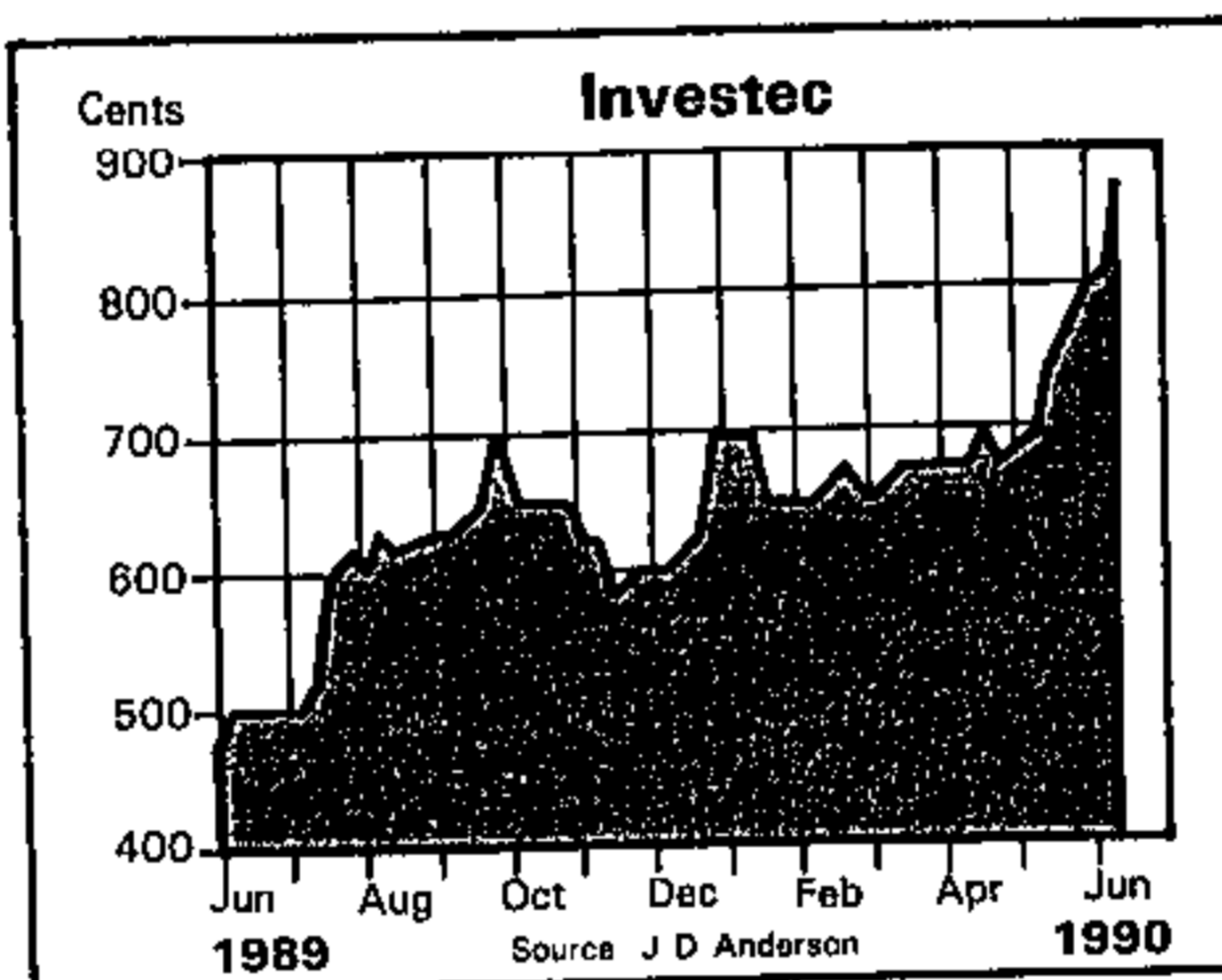
any event, Investec does not divulge comprehensible contributions from its various divisions and is unlikely to change now. The annual report contains a pie chart described as "Contribution Analysis." Koseff says this means contribution to "gross, pre-tax income after overheads and before transfers to inner reserves."

That tells us where the income comes from but, because Investec only discloses income after tax and net transfers to inner reserves, the information is of limited value. It is made even more difficult to interpret by the fact that each division is charged for share capital before its own profits are calculated.

This helps explain why, in the past financial year, the largest contribution to attributable income came from "share capital" (27,3%). Anything above share capital charges is allocated to the division itself. The property division, which includes trading and management, contributed 23,1% and merchant banking, with financial markets trading operation, investment banking, corporate and project finance, 16,2%. This is down from last year mainly because of poor performance from the corporate finance division.

Koseff is reluctant to say how much he expects EPS to change in the 1991 financial year other than "maybe rise a bit more than the historical average of over 25%." What that means in real performance is another matter.

Heather Formby



proportionately far less on margin income.

Koseff believes capital would have been needed in a year had the Corbank acquisition not fallen into place. The problem will be solved by about a R24m issue of shares to pay for the Corbank acquisition while, in the longer run, asset growth (and the need for further capital) could be retarded by securitisation of assets. So, though on-balance sheet assets will increase by R300m post-Corbank, the capital:asset ratio will fall to about 15,6 and the group should not need to raise further capital "for at least three or four years."

Investec's acquisitive appetite is likely to diminish while Corbank is digested. Last year, Duros Merchant Bank disappeared into Investec's fold in June, followed promptly by taking shareholding control of the management company of Metprop property trust fund portfolio and the takeover of property broker I Kuper & Co. It made unsuccessful bids for a shareholding in the Board of Executors and Corbank.

Koseff says it is difficult to judge what effect the now-successful takeover of Corbank will have on the particular divisions. In

## Capital plans

**Activities:** Financial services including merchant banking, portfolio management, property trading and management.

**Control:** Inhold 75,7%.

**Chairman:** B Kardol; MD: S Koseff.

**Capital structure:** 20m ords. Market capitalisation: R176m.

**Share market:** Price: 880c. Yields: 4,5% on dividend; 9,9% on earnings; p:e ratio, 10,1; cover, 2,2. 12-month high, 880c; low, 485c.

Trading volume last quarter, 69 000 shares.

Year to Mar 31	'87	'88	'89	'90
Advances (Rm) .....	215	398	598	982
Total assets (Rm) ....	424	694	958	1 515
Attrib profit (Rm) ....	7,0	11,0	14,0	17,5
Earnings (c) .....	42	55	70	87,5
Dividends (c) .....	18	24	32	40
Net worth (c) .....	266,2	294,4	331,5	379,0



# Call to register brokers

SA INSURANCE Brokers Association (Saiba) president Jimmy Vickers is keen to see the introduction of compulsory registration for insurance intermediaries. He is to press Saiba to take up the matter.

The authorities have previously rejected requests for registration on the grounds that it would create a closed shop, limiting the number of practitioners. *B 10 am 29/6/90*

Vickers believes registration would ensure standards of competence, and also ensure that intermediaries were covered by professional indemnity insurance. He considers it an important measure to protect consumers' interests.

"Insurance brokers are giving ad-

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LINDA ENSOR

vice to the consumer and the public deserves to be protected," he says.

If registration were to be introduced, Saiba would not have to play the dual role of a representative trade association and a disciplinary body. Vickers believes it is wrong for trade associations to perform disciplinary functions.

The law should require all brokers to be registered with a registration council, he says.

According to Vickers, an estimated 80% of all premiums are handled by Saiba members, though numerically there are a lot of intermediaries selling insurance who are not members.



# Police pounce on gang

Star 29/6/90 By Guy Jepson

Police fatally wounded a member of an armed gang and arrested three other men on the premises of the Fochville branch of Volkskas Bank yesterday, recovering nearly R6 000 in stolen cash.

- A fifth suspect escaped with about R1 500.
- The gang entered the bank at about 7.30 am and overpowered manager Jan Horn, whom they gagged and tied up, a police spokesman said last night. They then herded 18 staff members into one of the bank's offices.

- The branch accountant, Elsie Vermeulen, and one of her colleagues were then forced to open the safe.

- Ms Vermeulen managed to trigger an alarm in the Fochville police station. Police arrived within minutes and arrested one of the robbers in the bank's toilet. A second was shot after he opened fire on police. He later died en route to Baragwanath Hospital.

# Profitability ratios

We have seen the role of ratios that measure a firm's liquidity and borrowings (leverage ratios). *Star 29/6/90*

The last type of ratio, and possibly the most important, is the profitability ratio.

We are more likely to be interested in measuring a firm's profitability than anything else, as most companies are geared to make a profit.

As a prospective investor, we would normally want to know whether:

- Our shares will grow in value (that the company is increasing its retained earnings).
- We will be paid a dividend or not.

Both factors ultimately depend on a firm's profitability.

First, let us look at the ratios that compare profitability with sales (turn-over).

These ratios generally measure management's ability to control expenses. They comprise: "gross profit margin", "operating income margin", and "net income margin". As you will see, each of these ratios involves a comparison of an item in the income statement to sales.

$$\text{GROSS PROFIT MARGIN} = \frac{\text{GROSS PROFIT}}{\text{NET SALES}}$$

This ratio may be difficult to calculate because many companies do not disclose their gross profit figures.

What this ratio measures is the overall profit margin the company is making on the goods it sells. Clearly, this is not the type of information that a company would wish its competitors to know about.

$$\text{OPERATING INCOME MARGIN} = \frac{\text{NET OPERATING INCOME}}{\text{NET SALES}}$$

As you know from the previous articles, these figures can easily be extracted from the income statement.

This ratio measures the overall effectiveness of the firm's operations, before interest, tax and other non-"operating" items. Once again, its usefulness is limited to comparisons with other companies and there is no guideline as to what an ideal absolute value should be.

$$\text{NET INCOME MARGIN} = \frac{\text{NET INCOME AFTER TAX}}{\text{NET SALES}}$$

This measures the overall profitability after payment of all interest, taxes and the like, and is usually a fairly small number. Obviously, we would hope that this ratio was positive, otherwise it would indicate that the company was showing a loss.

The second general set of profitability ratios measures the profit in relation to the amounts invested in the assets of the company.

As an investor, you will be making decisions as to what is likely to give you the best return on your money. If investment in the shares of a company is likely to give you less of a return, than, say, a building society savings account, there would be no point in buying the shares.

This is the last article in the popular series by **Richard Buchholz** of chartered accountants **K P M G Aiken & Peat**



The book of this series will be available in about two week's time from: The Promotions Department, The Star, PO Box 1014, Johannesburg, 2000, at R16 a copy, (incl. GST). Orders can also be placed by phone at (011) 633-2320. All proceeds go to Operation Snowball.

We can determine how well a company's funds are employed by using a number of important ratios, the first of which is:

$$\text{(OPERATING) INCOME RATE OF RETURN} = \frac{\text{OPERATING INCOME}}{\text{TOTAL TANGIBLE ASSETS}}$$

This is a ratio that measures how well the tangible assets (assets such as debtors, cash, fixed assets, stock) are generating the company's operating in-

come, and indicates how management is using its assets.

A poor income rate of return could indicate that valuable assets are lying idle, or are not being used effectively.

The second important profitability on investment ratio is known as the "Return on investment" ratio:

$$\text{RETURN ON INVESTMENT (ROI)} = \frac{\text{NET INCOME AFTER TAX}}{\text{TOTAL TANGIBLE ASSETS}}$$

This is one of the most valuable and often used ratios since it measures the company's net return in relation to all the assets that are employed by the company.

Ultimately, the "net income after tax" is the amount available to the shareholders. The way they are able to determine whether this income is reasonable in relation to the assets employed by the company is to use the ROI ratio.

In fact, we can make this ratio even more useful by splitting it further into: 
$$\text{ROI} = (\text{NET INCOME} \div \text{NET SALES}) \times (\text{NET SALES} \div \text{TOTAL TANGIBLE ASSETS})$$

You should recognise the left-hand component of the equation — it is the net profit margin.

The right-hand component measures how the tangible assets are generating sales. Thus, if a company's ROI has changed from one year to the next, we can break down the ratio and find out whether the problem lies with the company's profitability or with its asset performance.

If the ROI declined and it was found that the net profit margin had declined, we could easily trace the reason for it — for example, possibly expenses got out of control this year.

Lastly, as investors, we are likely to want to know what sort of return we are getting on the shares invested in the company. This is essential if we wish to make comparisons with alternative investment opportunities.

The most commonly used such ratio is the "return on equity" ratio:

$$\text{RETURN ON EQUITY} = \frac{\text{NET INCOME AVAILABLE FOR DISTRIBUTION}}{\text{SHARE CAPITAL}}$$

We look at net income available for distribution, which is net income before dividends, because this is the amount that is considered to be available for distribution to shareholders.

Some of this will be distributed to shareholders in the form of dividends while the balance will be retained as "retained income".

The return on equity ratio gives the investor an idea of the sort of return on investment he or she is achieving. This

can be compared with returns on alternative investment opportunities such as savings accounts, gilts and fixed property.

If you have followed this series, you should now have a basic knowledge of what the various captions in a set of financial statements mean and how they can be analysed.

It was not possible to discuss every single balance sheet caption, and all the different types of companies and industries, but it is to be hoped your understanding of the basic terminology and a reading of the notes to the financial statements will ensure that some sense can be made of even the most unusual financial statements.

Remember, however, that there is no substitute for professional advice, and you should never be afraid to ask questions. You are the users of financial statements and they are there to provide information to you.

# Karos slips up on forecast

By Ann Crotty

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As a result of fairly hefty expenditure on refurbishing and upgrading the Karos group didn't quite make the 35c earnings per share forecast for the 12 months to end-March 1990 — its first year on the JSE.

Instead it has reported eps of 30,6c a share — a final dividend of 6c a share has been declared, bringing the total for the year to 12c.

Some shareholders might be a little disappointed that Karos did not make the forecast, particularly as it had been reaffirmed as recently as November when the interim results were released.

But chairman and joint MD Mr Selwin Hurwitz is very happy with the performance. He points out that it was achieved despite the two-pronged knock on financial '90 earnings that resulted from the R42 million refurbishment programme.

There was not only a consequent hike in interest charges but some 25 percent of the group's rooms and facilities were unavailable during a major trading period — Christmas. (The R42 million does not include R20 million spent on the acquisition of the Indaba Hotel.)

The decision to invest heavily in a refurbishment programme during financial '90 instead of extending it over a longer period was based on the desire to place the group in a strong competitive position to meet market needs for hotel facilities: "The long-term benefits will fully justify this action which has allowed the group to reposition itself in the hotel market."

Turnover for the 12 months was R57,7 million with operating profit of R13,1 million. After depreciation (R2,3 million); interest payments (R1,7 million) and tax (R80 000), taxed profit was

R8,9 million with attributable earnings of R8,5 million.

The comparative figures (for financial '89) relate to New Bernica's performance — attributable earnings were R2,8 million equivalent to 19,1c a share.

Mr Hurwitz explains that these figures rather than pro forma Karos figures are more relevant to the New Bernica shareholders who opted to stay with Karos after its reverse listing into the New Bernica cash shell.

In this regard not only are those investors looking like winners on the basis of the earnings performance but the balance sheet shows the net asset value is 331c compared with 199c on the New Bernica balance sheet at the previous year-end.

NAV appears to be stated quite conservatively as it includes no goodwill and does not incorporate the value of the latest refurbishments.



## BoE pinpoints activity areas

§ 10a  
29/6/90 LINDA ENSOR

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BOARD of Executors (BoE) has undertaken a restructuring of its operations, to give greater emphasis to its regional activities in the Cape, Transvaal and Natal.

"These regions have been given greater regional autonomy and delegated authority to enable them to provide prompt decisions and superior service to the rapidly growing inflows of new business in these areas," says MD Bill McAdam.

McAdam says the new structure will enable the regions to more effectively serve their respective market needs.

In terms of the restructuring, McAdam will remain in charge of head office functions and retain his responsibility for the overall management and strategic direction of BoE on a national basis.

Executive director and senior GM Phil Biden will be responsible for investment management.

"The effective management of these interests has become increasingly vital as our capital base has increased from R5m of shareholders' funds in 1982 to R75m today," McAdam says in a statement.

The restructuring follows the recent launch by BoE of a new unit trust, the BoE Growth Fund.

BoE is the first non-bank or life office controlled company to be given permission to launch a unit trust, says senior GM John Winship.

# R1,4m is stolen in 'biggest robbery'

PRETORIA CORRESPONDENT.

POLICE were late last night still hunting for the two armed men who made South African crime history by successfully pulling off what is believed to be the largest bank robbery yet in the country.

The two armed suspects held up bank officials in a city bank and made off with a haul of R1,4 million at noon yesterday — but left the major portion of the cash delivery behind.

Colonel Suiker Britz, head of the Pretoria Murder and Robbery Unit, said little was known about the robbers and the circumstances of the robbery, but police had a number of leads.

The two men, brandishing a shotgun and a .38 Special revolver, intercepted two security officers and two bank officials as they were about to deliver large amounts of cash at the Menlyn branch of Volkskas Bank.

Because of the crowded shopping complex, the armed security guards were unable to put up any resistance. The two men made their escape in a blue Nissan Laurel.

Police liaison officer Lieutenant Marinda Erasmus said this was the largest bank robbery yet in South African crime history.

Theo van Rensburg, chief manager of Volkskas, said the bank had taken all possible security precautions — including armed guards and armoured vehicles — in transporting the large quantity of money, but the officials carrying the cases had been unable to act defensively.

He refused to divulge the exact amount involved, but said the robbers had only escaped with part of the cash being transported.

Anyone with information should call Colonel Britz at 323-8426 (all hours).

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## Councils hit by boycotts could owe R1-bn — TPA

THE 47 black town councils hit by rent boycotts could owe a total of R1 billion, according to a Transvaal Provincial Administration spokesman.

And the councils face another crisis — they owe the TPA R388 million in loans provided during 1989 and 1990.

The TPA's deputy director of community development, Len Dekker, warned the 47 councils last week that bridging finance would be cut from July 1 because there were no longer funds to continue providing this service.

The TPA urged councils to make drastic improvements in the collection of rents and service charges in the townships, failing which they may be faced with electricity and water cuts from the suppliers.

In a statement, the TPA emphasised that the collection of rents referred to were for current accounts starting from June 1.

"It does not relate to the recovery of arrears. It means that the performance of the particular communities will be assessed in respect of all debits levied as from June 1990."





# Unit trusts shares off market blues

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 30/6/90  
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## DEREK TOMMEY

MOST investors in unit trusts are slightly richer today than they were six months ago. An analysis of the performance of the unit trusts in this period shows that a large number of them were still able to show positive growth in spite of a deteriorating investment climate.

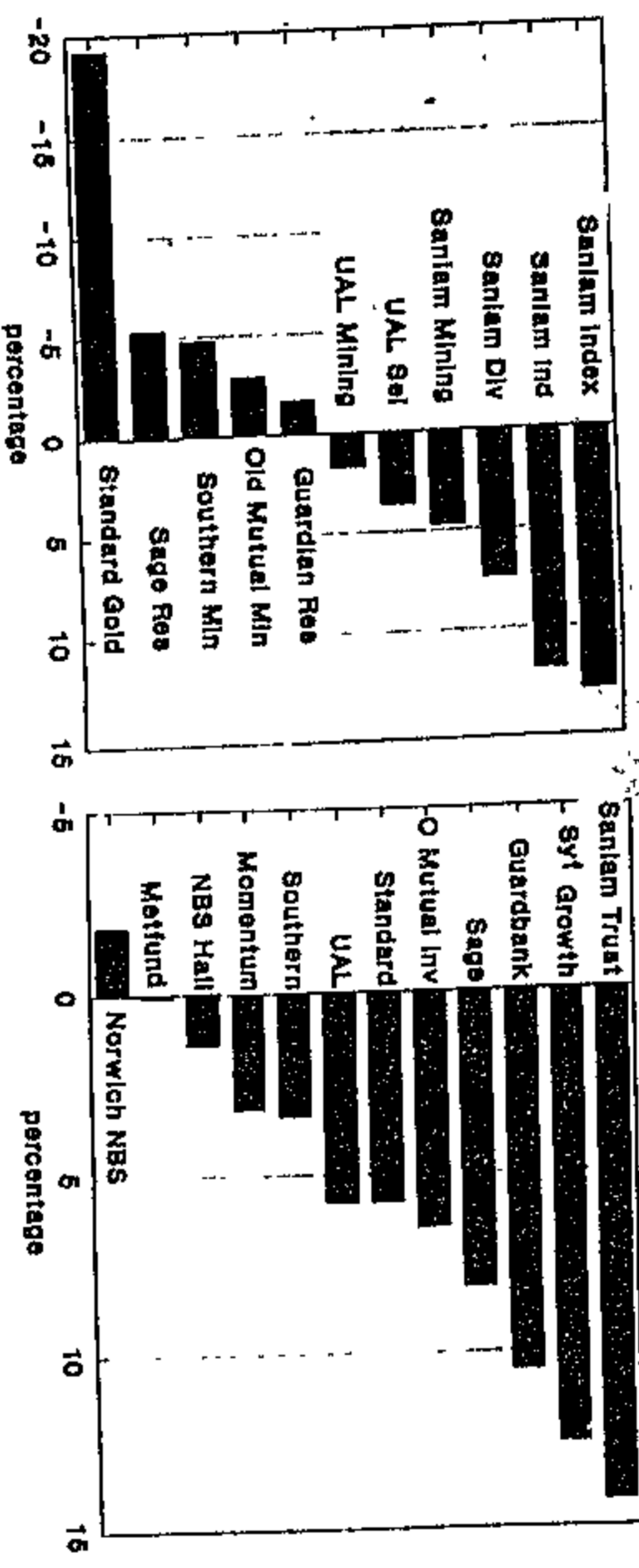
The feature of the past six months' trading was the slump in gold shares. The All Gold index fell 26.8 percent between the end of 1989 and Thursday, this week. This affected the mining financials and overall these share fell 2.5 percent.

However, the fall in gold was partially cushioned by a 26 percent rise in coal shares and a 46.5 percent rise in diamond shares — mainly in De Beers. Metal and mineral shares also firmed, rising 19.1 percent. Financial shares rose by 6.0 percent and industrials gained 5.9 percent.

Together they were responsible for the All Share index, which measures the market overall, gaining 1.9 percent in the first half of this year.

Against this background several of the unit trusts, especially those in the Sanlam stable, have shown significant growth.

The repurchase price of Sanlam Trust rose 14.3 percent in this period, that of Sanlam Index 12.8 percent, Sanlam Industrial 11.9 percent and Sanlam Mining



**TOPS:** The more difficult investment climate in the past six months has not stopped investors in most unit trusts from showing gains. Sanlam Trust, Syfrets Growth and Guardbank headed the general equity fund list with gains of 10 percent or more, while Sanlam Index and Sanlam Industrial were the top two in the speciality unit trust list, also with gains of more than 10 percent. As to be expected, the sharp drop in gold shares affected unit trusts specialising in mining and in gold.

4.76 percent.

It should be pointed out that these percentage increases and others mentioned below do not take into account the reinvestment of dividends or interest. This means they will show slightly smaller gains for the six months period than those that will be reported next week by the unit trust industry.

Mr Stafford Thomas, a portfolio manager at Sanlam and the man whose read-

ing of the market produced these good results, admits to feeling extremely happy about "getting it right".

He said the funds were fully invested in January and following a substantial inflow of cash from investors they were again substantial buyers in the market in February and March.

At no time during the six months were the Sanlam unit trusts more than 15 to 20 percent liquid.

The trusts had been helped by their small gold holdings. This had caused him considerable pain in the December quarter when gold shares rallied and knocked his performance. But this low exposure to gold came right in the end, he said.

His comment suggests that portfolio managers have to be philosophical by nature and be prepared to accept that in the short-term they will not always be right.

Mr Thomas said the funds had also been helped by the demand for the "foreign" shares — Minorco, De Beers, Ana Mint and Pit — which were strongly represented in the unit trust portfolios.

Another institution coming to the fore with a show of considerable investment skill in the first half of this year is Syfrets. Its growth fund gained 12.6 percent in the first half of this year, pipping the old-established Guardbank which gained 10.5 percent in the quarter by a head for second place for performance in the general equity funds.

The gold and specialist funds have suffered from the sharp drop in gold shares. But unit trust investors should note that in spite of gold shares losing a quarter of their value, the losses by the funds were far smaller.

Only Standard Gold, which showed a drop of 19.2 percent in the six months, was really hard hit. But this makes it a good recovery stock should the gold price and gold share market improve.

# FINANCE - GENERAL

1990

July.



# Life offices look to a better deal

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5/Time 117190

WHEN Finance Minister Barend du Plessis announced in last year's Budget speech that the Government had accepted the trustee principle for taxing life offices, the news was widely welcomed by the industry.

Sanlam managing director Pierre Steyn says: "Following this principle would lead to lower taxation being paid on behalf of policyholders. As a mutual company, the lower the tax, the higher the benefits Sanlam would pay to the policyholders."

"In this year's Budget speech, however, Mr Du Plessis failed to implement the principle — in fact, he took a step backwards. Although individuals now do

not pay tax on dividend income, the life offices are one of the few institutions still paying tax on dividends.

"This anomaly has been acknowledged by the authorities."

Mr Steyn adds: "The other retrogressive step was lowering the marginal tax rate for individuals from 45% to 44%, the tax of life offices remaining at 45%."

"Mr Du Plessis recognised this in our discussions and the Government has reaffirmed its acceptance of the trustee principle."

"Japie Jacobs's committee has been set up to look into the taxation of life offices."

"I have no doubt the trustee principle will be fully implemented in due course."



**FINANCE FOR THE FUTURE****Life insurers corner your money will it**

TAKING out a life assurance policy or contributing to pension and provident funds are the most elementary routes by which an individual can profit from the country's wealth.

Through the institutions' vast investments on the Johannesburg Stock Exchange, the returns are

By ANTHEA DUIGAN

sifted down to the individual policyholder or contributor.

Exactly how important is it to protect this system against the possibility of nationalisation of some sectors of the economy and what would it mean to the individual?

Sanlam managing director Pierre Steyn thinks nationalisation of the life business is highly unlikely, but he appreciates that policyholders may be worried and need re-assurance.

"In several African countries, such as Zambia, the life industry was nationalised. But Zimbabwe has not nationalised it," he said.

"There is no suggestion of Namibia nationalising even though Sam Njoma and other Swapo leaders talked about it in the election campaign.

"I think most governments in Africa have learnt from others, including Eastern European countries, that nationalising the life industry does not work. It has been proved that where governments play an excessive role in control and regulation, the economy fails."

**Bonuses**

Said Mr Steyn: "In other countries where free market forces have played their rightful role, economies have flourished.

"SA's life assurance industry plays such an important role in economic development that life offices should be encouraged to grow.

"Not only will policyholders benefit, but everybody will benefit by the generation of capital and the investment of individuals' savings.

"Through these savings the economy will develop and job opportunities will be created.

"ANC leaders have said that nationalisation will be implemented only after

STimes 117190 (58)

## Nationalisation new era self-def

careful study. Any study will show that nationalising the life industry would be detrimental to this country and its economy.

"However, in countries where nationalisation has

occurred, policyholders have not suffered directly. Their policies still provide death cover, attract bonuses and pay benefits.

"So even if I am wrong, individuals need not fear



PIERRE STEYN ... nationalisation unlikely



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## The Need for An Undergraduate Course

**RE**

**A BUSINESS TIMES FEATURE**

# Confident be safe

in the  
eating

will lose their savings  
the benefits  
mulated under their  
ies."

Steyn said of Sanlam's  
in the new SA: "It has  
s been our policy not

only to put money into flour-  
ishing concerns, but to cre-  
ate new ones which provide  
job opportunities.

"We strive to meet as  
many of the needs of all  
South Africans as we can to  
make the process of negotia-  
tion and change easier."

Having studied life assur-  
ance throughout the world,  
he believes SA's is one of  
the most sophisticated.

"Nationalisation would kill  
competition and policy-  
holders would suffer."



**BRIAN BENFIELD ... a life policy that takes some of the sting out of death**  
press

UNIVERSITY OF CAPE TOWN  
DEPARTMENT OF  
ACCOUNTING  
LIBRARY

# Fund of their own for professionals

THE Professional Provident Society is the largest and most visible fund providing sickness and disability benefits, group life, term cover, a retirement annuity scheme and medical aid for its 41 000 members.

Although it is registered as a pension fund, it is regarded by Inland Revenue as a sickness benefit society.

Through PPS membership, individual professionals can obtain the same variety of benefits as those employed by large corporations, with all the advantages of group rates.

However, members score even more because the investments generate surpluses which are paid back to members in tax-free lump sums when they retire.

PPS general manager Etienne Huggett says: "To attract members, our benefits have to match those on the market.

"To augment our permanent incapacity benefits, we have introduced a partial incapacity benefit. It was prompted by instances in which members suffered severe injuries or crippling diseases but were trying to spend some time at their practices.

"Notable was a young professional who suffered a broken neck which rendered him a quadriplegic, but he was able to practise to a limited degree from his wheelchair.

## Overheads

"Members in such circumstances may now get part of the permanent incapacity benefits they would have received had they been permanently and totally unable to work.

"Another benefit is additional payment for up to six months to allow professionals to meet their practice overheads while they are incapacitated."



# Equity links for gurus

CONTROVERSY surrounds equity-linked retirement annuities. ~~300~~ 58

Old Mutual chief actuary Theo Hartwig believes his society's product has received favourable comment and has attracted many new policyholders.

The product is aimed at the well-informed upper-income group as an investment in a form of unit trust while obtaining tax relief.

Mr Hartwig does not think the market is large because the product is for the sophisticated investor. *STimes 11/7/90*

Old Mutual has tried to make this clear because there are no investment guarantees. As a volatile form of investment it should be seen as a complement to — not a replacement for — conventional retirement annuities.

Before the relaxation of the prescribed asset requirement, 53% of capital placed in retirement annuities had, by law, to go to

stipulated low-return investments, such as government stock.

Only 47% of linked retirement annuity money could be invested in equities, which obviously had a stifling effect on the capital growth potential of a fund.

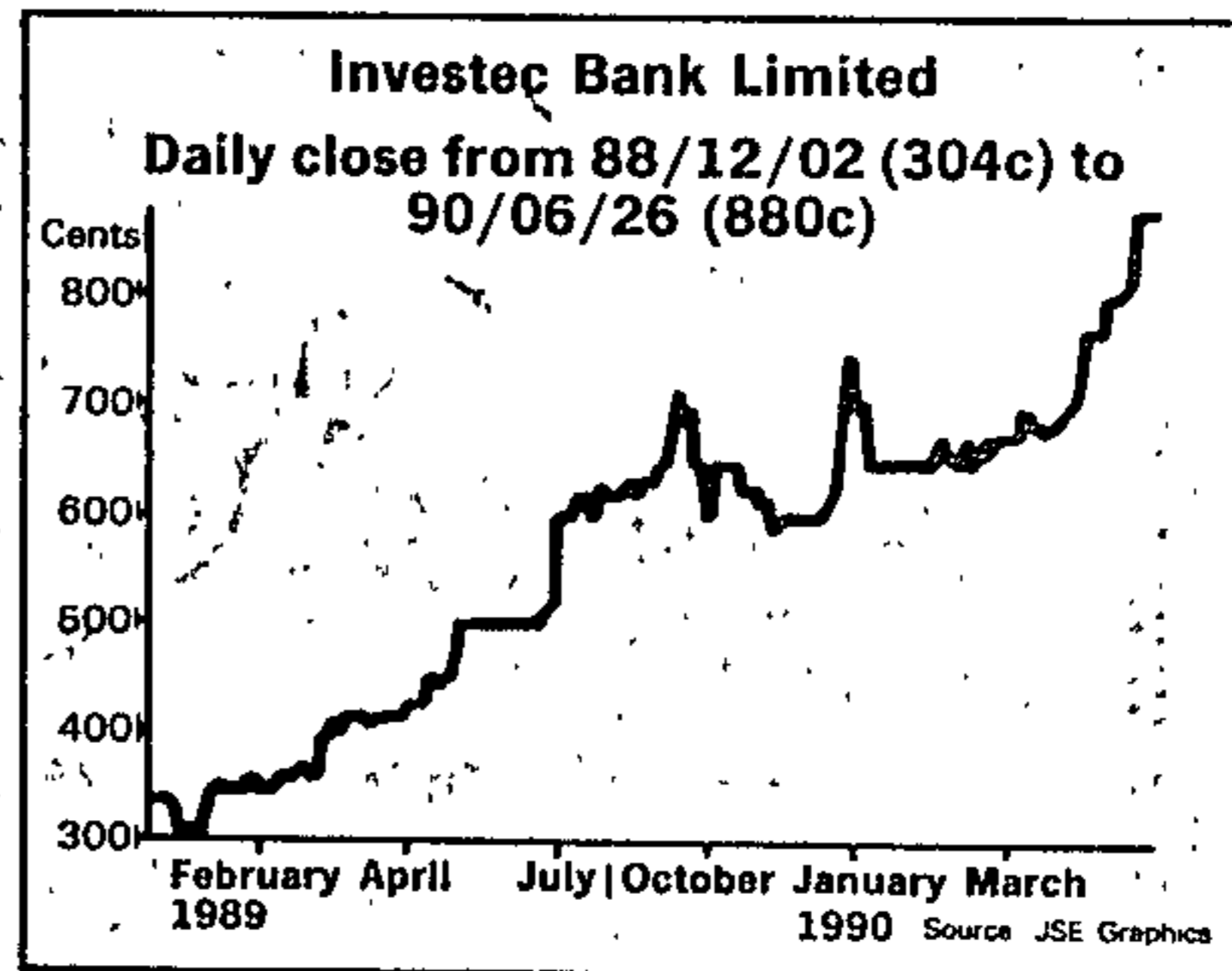
With legislation being relaxed, RAs have become a powerful new investment tool for those who wish to maximise growth on their investment.

John Rigby, assistant general manager of marketing at Fedlife, says that if retirement annuity and pension fund investment is exploited to the full, retirement objectives are possible.

However, contributions should be increased as the rate of income rises. RA investment returns should exceed inflation.

Mr Rigby says: "Fedlife is not the only company looking after contribution increases, but it is important to combat future inflation."

# It's coming right for 58 Investec's *S/Times 1/7/90* chutzpah



INVESTEC's share-price graph looks like the inverse of the gold price.

There is hardly a hiccup in the ascent from R3 at the end of 1988 to nearly R9 now.

So with the banking group's promotion of Investec Merchant Bank in mind I visited managing director Stephen Koseff to sound out prospects.

It seems that at last things are going Investec's way. It bought Duros Merchant Bank without much fuss a year ago, but also attracted unfavourable comment.

## Dotted

It peaked last year with Investec's "hostile" bid for Board of Executors. Cheeky Vaalé upstarts treading on sacred Cape turf is clearly not the done thing.

This was coupled with an abortive bid to take on Corbank — formerly Hill Samuel and a disaster since it came under SA management.

Mr Koseff says the two parties had an agreement subject to due diligence requirements. A few things came up which forced Investec to renegotiate certain elements which were again agreed on.

But after Mr Koseff had put his signature on the dotted line, Corbank chief executive Laurie Korsten refused to put his, alleging cultural differences not in the best interests of his shareholders.

Corbank went on to do a deal with Cape Investment Bank Holdings. CIBH is essentially a trading and investment bank, and wanted the Johannesburg dealing operations. CIBH employed ex-Investec executive Errol Grolman, who saw an opportunity to sell the Corbank group discards to Investec.

So Investec came to buy Corporate Merchant Bank from CIBH at about the same price as previously. Mr Koseff says Investec is better equipped to take on the typical merchant-banking lending activities, such as the property book and advances. Everyone is happy for the moment.

Duros Merchant Bank was renamed Investec Merchant Bank, and is wholly owned. Some restructuring is to take place whereby Mr Grolman will head a special investment banking fund — an opportunity he has long sought, according to Mr Koseff.

Mr Grolman will own a quarter of it, place a quarter, and Investec and CIBH will have 25% stakes in the new venture which will have capital of R10m.

Investec's other assets are its bank, Metboard, a property arm and Investec Investments (II). II has agreed to acquire the Wit Cons shell after Wit Cons distributes its holding in Duiker to members. II will be a closed-end trust buying second-line shares with prospects. Mr Koseff calls such shares green chips — pale blues in my lexicon.

He says there has been rational-

isation in banking and he expects other moves while Investec digests its recent deals.

"There are usually a few months of heartache after an acquisition, but we are quite experienced at it now."

This has led to a position where common sense once more prevails. In the past few years some banks have sacrificed margins to achieve growth in assets — a policy everyone now renounces.

## Risk

The Corbank deal has pushed Investec's assets more than a year ahead of where it expected to be. Investec expects to be able to push margins a little higher in the new climate.

On a general note, Mr Koseff sees a greater role for securitisation in the 1990s. SA's banks are absurd in that even the largest are much smaller than the companies to which they lend.

Securitisation is a way of taking pressure off their balance sheets by parceling loans and issuing debentures against them.

The investor gets a slightly higher return than he would otherwise earn on deposit, and the lender (bank) lays off risk while managing the original debts and earning a fee.

Investec shareholders have every reason to stay aboard. The group has weathered the knocks, and the share has performed in exemplary fashion.

# Equal policies for women

POLICIES for women have not succeeded as expected.

They do not wish to be treated separately, reasoning that their financial needs are the same as men's.

Her Own policy, launched by Old Mutual, enjoyed an initial success. But it soon lost favour because women asked for products not based on gender.

Women need their own policies, but not necessarily policies especially for them.

If a marriage in community of property is dissolved, the woman can claim a share in all policies in the joint estate.

For those married out of community, the position is more complex and financial planning should be given even higher priority.

## Blind

Sanlam women's marketing manager Frieda Botma says more women are taking responsibility for their future, but too many still have blind faith in their husbands to provide for them — forever.

"Women fight for their rights, but they don't want to accept responsibility. Women should become much more involved in retirement planning and make sure they understand all the implications.

"Many marketers direct their efforts at the man of the house and ignore the wife's needs. The wife should have the same policies as the husband.

"Women often prefer a 10-year endowment policy to

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SITmes 117190

pay for an overseas holiday whereas most husbands plan for their wives' and children's needs in the event of premature death. Men think long term, but women tend to think selfishly.

"However, the fault does not always lie with women's ignorance about retirement provision. Men cocoon them, telling them that they will be taken care of.

"How does such a protected wife cope with all the finances when her husband dies if he has never allowed her to be involved in the day-to-day running of the household and all the financial aspects of his personal life?

## Cheque

"Women also tend to foist responsibility on their husbands.

"One widow, left a R1m estate, did not know how to write out a cheque.

"Women who are protected by their husbands often lack an essential identity."

Hanna Boeke, Sanlam's senior technical adviser on product promotion, says the adaptability of The One policy makes any others specifically for women unnecessary, as well as catering for individual needs.



# It pays for itself

S/Time 117190

COMMERCIAL Union has launched a combination retirement programme which becomes self-financing after 10 years, but provides income tax relief until retirement.

The Dual Era plan consists of a retirement annuity and an endowment policy which meets a common concern for people about to embark on long-term private retirement plans — whether they will be able to keep up payments until they retire.

The plan becomes self-financing in the 11th year. From the beginning of that year until retirement it is no longer necessary for the policyholder to make payments. The retirement annuity contributions are funded by capital withdrawals from the matured endowment policy.

Even though policyholders no longer pay retirement annuity contributions from their current income, they qualify for annual tax deductions of up to 44% of the RA contribution.

# Investors and not the heirs enjoy the fruits of frugality

LIVING benefits — those paid to the policyholder while he or she is still alive and not to a deceased estate — have increased dramatically.

Last year 80% of all the benefits paid by Old Mutual were to the living. This is a measure of the move to living benefits and savings.

The investing public is seeking a means to increase a financial base while alive and to enjoy the fruits of investment.

The concept of major medical expenses insurance (MME) is a new and urgent area for insurers. Although it is essentially a short-term form of insurance, it is offered by life companies together with employee benefits.

The Medmaster plan was set up by Old Mutual because of high medical costs for dread diseases and disability arising from accidents.

## ~~Old Mutual~~ Dread 58

A heart bypass operation costs about R32 000 and a hip replacement R16 000, neither being fully covered by all medical aids.

In effect, Medmaster tops up medical aid which often does not pay for all sophisticated services or long-term care.

Crusader Life initiated this type of insurance a couple of years ago. It was the first company in the world to introduce dread disease cover, and is considered a leader in living benefits.

By taking out MME cover, many people are able to reduce their medical aid subscriptions. By self-insuring or carrying their own day-to-day medical costs, they are insuring for the catastrophes when they will have to rely on specialists, surgeons, hospitals and even helicopters in the event of an accident or becoming ill far from home.

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# Old Mutual follows the trend in insurance

OLD Mutual has waded into the growing trend for short-term health insurance with its new Medmaster plan offered by a new short-term company called Old Mutual Health Insurance.

The company enables Old Mutual to offer health insurance cover to individuals through their employers.

The new range of insur-

ance, known as Medmaster, covers a wide range of health-related areas such as income loss, dread disease, convalescence, hospitalisation and major expenses.

Old Mutual says the plan allows employers to tailor health care cover around their existing medical aid scheme.

For instance, in the event of any dread diseases specified by the firm being diagnosed, the Medmaster Convalescence Plan provides cover with a tax-free lump-sum benefit.

The health problems falling under this are heart attack, stroke, coronary artery surgery, cancer, renal failure, major organ transplant and paraplegia/quadriplegia.

The plan also allows for different levels of cover for different groups. All standard short-term insurance exclusions apply to the benefits payable. It also offers a Hospital Plan and Major Expense Plan.

Sanlam has also entered the direct health-care field with its Trauma Benefit, which covers dread diseases.

The maximum initial cover is R150 000. There is an extra proviso in that the amount can be protected against inflation through Cover Growth, in which the sum assured will increase automatically by 60% of the premium growth rate every year.



## PEOPLE WILL PAY FOR PROPER CARE

*Alman 217 90*  
PEOPLE want First World medical care and are prepared to pay for it, says Crusader Life MD Bob Rowand.

His company pioneered SA's health insurance industry in 1982.

It now has four major schemes with more on the drawing board.

One of the four is the dread disease cover.

Rowand says the company began looking at the concept of dread disease in 1982 and developed the world's first life policy for dread disease, which was launched with Standard Bank brokers in 1983 and First Bowring in 1984.

Dread disease cover is now fairly widespread in SA and overseas.

Crusader's life policy pays the full benefit on policies up to R200 000 on diagnosis of cancer, paraplegia, heart attack, stroke, blindness, renal failure and on surgery for coronary artery disease, a disease of the aorta, heart valve replacement and organ transplants.

People may not take out this policy if they have already suffered, for instance, a heart attack



BOB ROWAND

and once they have claimed on the policy they have the option of building it up again.

There are about 60 000 holders of this package.

Crusader also offers a hospital benefit plan marketed directly through institutions such as banks and major companies. This provides hospital cover from day three of a hospital stay.

Major medical expenses cover is also offered based on a formula according to the Medical Association of SA fee guide.

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# Some banks may be bruised today

B/Dan 2/7/70

JUDGING from Friday's spread of rates for call money, squaring month-end positions this morning will be tough going for some of the banks; for others it will be a cakewalk.

While some of the majors claim to have been paying as low as 19,5% for overnight call funds, the general going rate on Friday was 21%, with market sources reporting investors getting 21,5% for cash at the week-end.

With prime at 21% these are relatively punitive rates, but relative only to the 22,75% penalty rate which the Reserve Bank charges banks forced to pledge prescribed assets when getting assistance from the "lender of last resort."

The market estimates that total bank holdings of liquid assets — discountable at around Bank rate — are about R2,5bn. This implies that at the current market shortage of R3,17bn, some banks have already borrowed about R600m from the Bank at the penalty rate.

If the shortage tops R3,5bn when the books are balanced today a few banks will be bruised. Apart from the usual month-end escalation of the note issue, which could increase a further R200m to R8,9bn from Friday's R8,7bn, about R500m in tax money will leave the private sector.

Overhanging the market are queries about Trust Bank's end-of-year window-dressing. Fellow Bankorp subsidiary Santam Bank issued 12-month NCDs (negoti-



## IN THE MONEY MARKETS

Harold  
Fridjhon

able certificates of deposit) at 19,05% compared with the going rate of about 18,95%.

Several smaller banks are also illiquid and are prepared to pay heavily for call money. The institutional lenders are fully aware of this, hence the wide disparity in call money rates.

Reflecting the shortage of liquid assets, Friday's Treasury bill (TB) tender attracted bid of R347m for the R100m bills on offer. The TB rate eased to 17,97% from 18%. This was not a signal that Bank rate might be reduced.

□□□□

ACTIVITY in the bond market, very restrained since last Wednesday, slowed even further on Friday when turnover dwindled to about R500.

Monday and Tuesday were reasonably active as jobbers responded to the improvement in the gold price, but when gold see-sawed they held back and only the brave took a view.

# TrustBank's top posts get major reshuffle

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3/7/90

Bankorp's restructuring programme under its new chairman, Piet Liebenberg, got under way yesterday with a major rationalisation at TrustBank.

The key moves, announced by TrustBank chief executive Dr Chris van Wyk, involve a greater decentralisation of the bank's activity and a restructuring of senior posts.

At the same time the treasuries of TrustBank, Santambank and Senbank are being merged.

Four of the bank's most senior officials will take responsibility from July 16 for the four areas in which the country has been demarcated for banking purposes.

These four areas will be managed as mini-banks.

Gideon Kotze, previously senior general manager, resources, has been appointed senior general manager, Witwatersrand, and will also take responsibility for the credit card division.

Jan Kuhn, previously senior general manager, strategic planning and communication, has been appointed senior general

manager for Natal/OFS.

Andries Swart, previously senior general manager, personal banking services at Santambank, has been appointed to head the Northern Transvaal area.

Jerry van Vuuren, previously senior general manager, general banking services, has been appointed senior general manager of the Cape region.

These four area managers will report directly to Dr van Wyk, as will five other senior managers.

They are Pieter van der Merwe (senior general manager, finance), Freddy Prozesky (general manager, manpower), Hoffie Strydom (general manager, risk management and legal services), Renier van Niekerk (general manager, marketing services) and Derek Louw (general manager, infrastructure).

"With the merging of Santambank and TrustBank's activities the personal and commercial banking activities of the Bankorp group are centralised under the flag of TrustBank," Dr van Wyk said.



# Industry will need strategic thinkers

By Dick Usher

CAPE TOWN — The leaders of industry will be facing challenges in a vastly different economic and socio-political scene than that existing today, says the new president of the Insurance Institute of South Africa.

Cornelius "Oosie" Oosthuizen, MD of Santam, was inducted as the institute's president this month, at a time he believes is unique in the history of the country and the industry he represents.

"What is needed is strong, but innovative, not authoritarian, leadership. I go along with some of the US definitions of a leader in that he must be able to motivate human resources in such a way that he and his people will be in a position to reach at least some of the goals of the organisation.

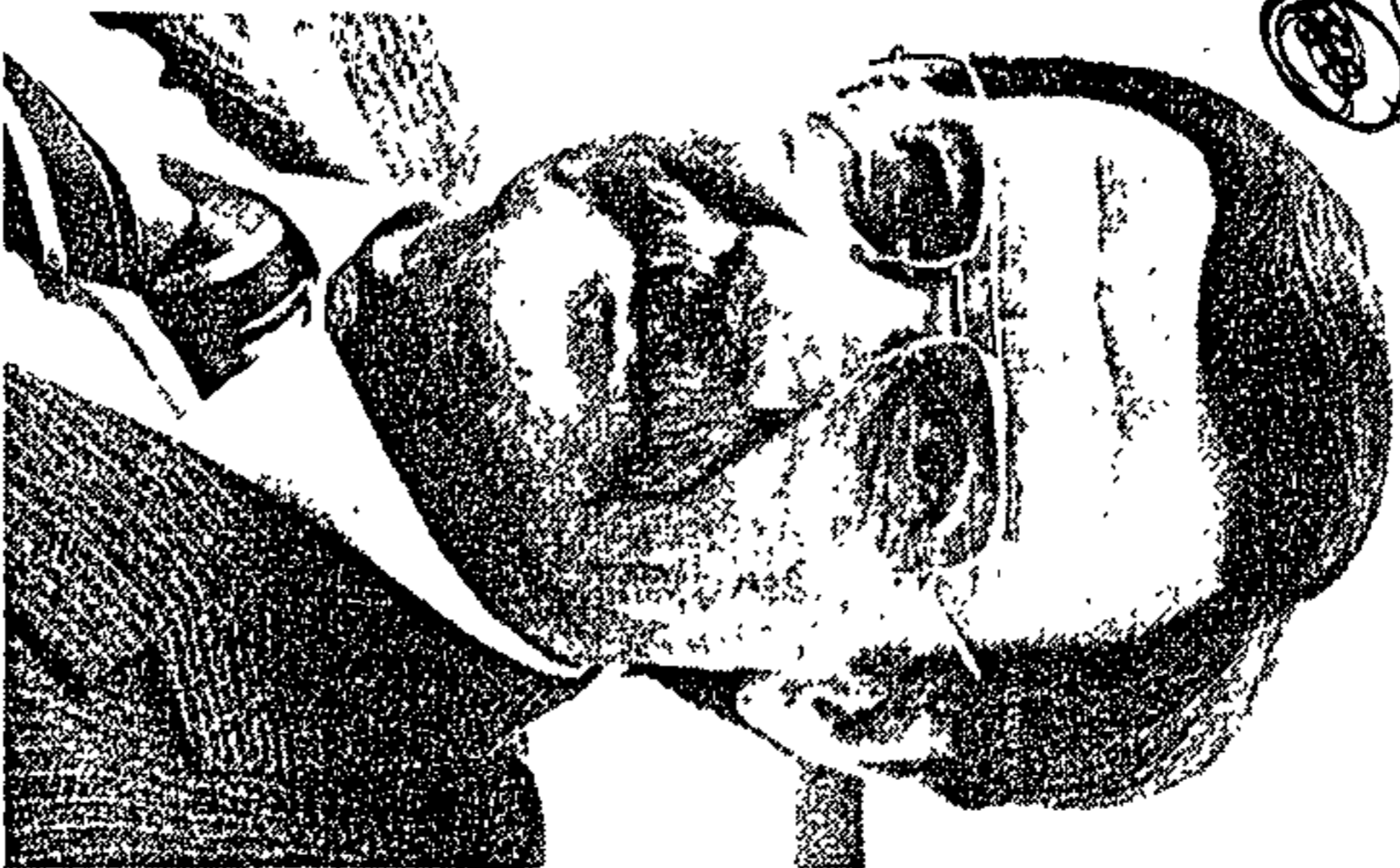
## Strategic thinkers

"Having goals means that you must have a strategy to reach them and we are going to need leaders who are strategic thinkers.

"Which is a leading reason why I'm so mindful of the institute's educational role and the need to expand it."

He believes that strategy is not a theoretical subject which can be taught, but it can be formed by broadening the base of understanding and experience.

For it to be fostered the individual needs an understanding of psychology and the different aspects of marketing, of economics and demographics, the political situation and the environment....  
The aim must be for education to



Cornelius Oosthuizen... The aim must be education.

expand people's horizons so that they have as many possible resources available to them when they make decisions," he said.

The institute is mainly an educational body. Under its auspices is the College of Insurance through which employees in the industry study for professional qualifications by correspondence and it also offers short courses in topical matters and important de-

velopments in the industry.

Beyond that, it has started providing education in more elementary subjects such as numeracy and literacy, a development which Mr Oosthuizen feels will assume growing importance in the next several years and will require development and expansion.

## Dramatic impact

While he will urge this forward during his one-year term as president, Mr Oosthuizen does not see himself as making a dramatic impact on the affairs of the institute.

He rather sees his role as the continuation of a process he has been involved in shaping during his years on the institute's council.

During those years the forces which are now reshaping South Africa were emerging to create the challenges which lie ahead.

"In the past year we have seen the dramatic changes in Eastern Europe which are already reshaping the world in which we live, while the more immediate changes in South Africa will influence our economic, political and social lives.

"Those changes will bring with them a high degree of psychological emotion and stress," he said.

This would require strong leadership in the coming years, placing a heavy responsibility on the leaders of today to identify and train the leaders of tomorrow.

"It is up to us to find those who have the competence and courage to act as leaders in a future that will be charac-

terised by uncertainty and resistance," said Mr Oosthuizen.

He started in the insurance game — "Anyone will tell you that in the short-term insurance business there is never a dull moment" — in 1949 with Santam and rose through the ranks to become managing director in 1980.

En route he gathered a BA, an MBA, an FCII and a CIS. He also served as chairman of Santam Namibia, is director of several companies, past-chairman of the South African Insurance Association, is a member of the advisory committee on short-term insurance and of the board of the International Insurance Society, and is a past-president of the Insurance Institute of the Orange Free State.

## Representative

Membership of the institute is by individuals, not corporate entities, and it represents all arms of the insurance industry — short-term, life companies, brokers, reinsurance brokers and reinsurance companies.

"My main message, specifically for the insurance industry, is that the challenges which lie ahead are the responsibility of all of us, as present leaders, to be prepared for the changes which are taking place across the world and fight on our doorstep.

"To be prepared in changing the hearts and minds of people now and equipping tomorrow's leaders for the times ahead.

"It is long-term, we will not make it in a year but have to go forward in the process of adapting to change and helping other people adapt."



# Monetary policy 'won't work'

By AUDREY D'ANGELO  
Business Editor

THE Reserve Bank's tight monetary policy has "little chance" of reducing inflation substantially in present-day SA, where input price rises have little to do with demand factors, says Senbank chief economist Johann du Pisanie.

He suggests, in his Economic View, that the attack on inflation is "much more likely to bring about lower production and greater unemployment".

And he warns that a great many people will think this to be a consequence of the market system rather than policy intervention, and that this will "strengthen the hand of socialist negotiators".

Meanwhile, the Stellenbosch Bureau for Economic Research says its latest survey shows that "for the first time since 1987 the business confidence of SA manufacturers has turned negative".

It points out that sales orders and profit margins have been under pressure for some time.

And it continues: "According to the survey results the constraint with the highest intensity index has for some time been the current level of short-term interest rates which, being a monetary instrument to curb inflation, are not expected to decrease dramatically in the near future."

Volkscas economists, in their Economic Spotlight, forecast "no growth or even a slight drop in the real growth rate" this year.

Pointing out that "the main purpose in the economy is to attain the greatest possible growth performance", they say that judged merely on this basis, relaxation of policy measures would seem justified.

"However," they continue, "the matter is not all that simple. It is true that the highest possible economic growth rate is, and must remain, the ultimate goal. A clear distinction must nevertheless be drawn between short- and long-term economic growth."

"In the light of the current low level of foreign exchange reserves, the high inflation rate and still relatively low savings, to list but a few examples, it would in our opinion be unwise to propagate deliberate growth-stimulating actions."

"If this happens the country will experience a typical mini-upswing and even greater economic headaches will be in store."

But, their review continues, there is no reason for further tightening of economic policy, since the economy is cooling down rapidly and recessionary conditions are already in force.

"If the inflation rate falls further and, owing to this factor and other economic developments, the market indicates that a lower interest rate is desirable but this is opposed by open market operations or other actions, it would come down to a tightening of restrictive economic policy."

"We hardly think that this is what economic policy-makers have in mind."

Urging greater efficiency and productivity on the part of business the Volkscas review goes on: "For the foreseeable future, policy-makers will not take the lead in promoting economic growth."

"Economic policy is formulated to address structural problems over a period of time, for example by lowering the inflation rate and by bringing about greater economic stability."

"In our opinion this is the correct approach, and we support it. The business sector and individuals must take note of this and also put their house in order."

Du Pisanie, in his review, argues against current monetary policy in present-day conditions in SA because: "Labour costs are rising irrespective of economic conditions."

"Labour unions are making politically motivated demands which hardly take into account that they may eventually bring about job losses. Legal and illegal strikes reduce productivity and increase costs per unit of output."

"Ironically, job losses could lead to greater instability and even higher unit costs."

"Furthermore," he says, "the prices of important inputs would not decline or increase less rapidly because of decreasing SA demand. In most cases, the SA demand is too small a proportion of total world demand."

"Micro-economic analysis therefore suggests that in present-day SA tight monetary policy has little chance of success in reducing the inflation rate appreciably."

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# Sankorp takes over delisted Fedvolks

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THE poorly performing industrial holding giant Federale Volksbelegings (Fedvolks) will become a wholly owned, non-listed subsidiary of Sankorp in terms of a proposed R305m scheme of arrangement to be offered to minorities.

A unique feature of Sankorp's offer is a choice between cash or cash plus shares in Fedvolks' companies SA Druggists, Fedfood and Teljoy.

Sankorp, which currently holds 63% of Fedvolks, said in a statement yesterday that institutional and other investors holding a further 22% in Fedvolks had undertaken to vote in favour of the proposals.

The offer to ordinary shareholders amounts to 460c a share — a 53% premium over Fedvolks's pre-suspension share price of 300c on June 22.

Shareholders have the option of taking a combination of equity and cash: 56 SA Druggists, 12 Fedfood and 12 Teljoy shares worth R260,40 at last night's closing price, plus R205 per 100 Fedvolks shares.

The offer to holders of Fedvolks' 47,5c-dividend convertible cumulative preference shares amounts to 510c a preference share, a 31% premium over the last traded

SYLVIA DU PLESSIS

price.

Preference shareholders can elect to take a combination of equity and cash: 56 Druggists, 12 Fedfood and 12 Teljoy shares worth R260,40, plus R255 per 100 preference shares.

Holders of the 6,5% "E" cumulative preference shares (non-convertible) of 200c each are offered 150c cash only, representing a premium of about 50% on market value.

Sankorp CE and Fedvolks chairman Marinus Dalling said his group was supporting the offer because Fedvolks in spite of "a few problems", had a portfolio comprising sound companies.

"We believe the share price, which before the suspension stood at a significant discount to net asset value, indicates just how negative the view of the investing public is of Fedvolks.

"Although Sankorp is in a position to provide the funds required when necessary to recapitalise the business, another rights issue would be unlikely to find favour with

□ To Page 2

## Fedvolks B10c 31 11 90

minority shareholders and would further depress the company's share rating."

Sankorp has also announced that recently-appointed Fedvolks MD Peet van der Walt becomes CEO with immediate effect to replace outgoing vice-chairman and CEO Johan Moolman, who said last night he was retiring.

Van der Walt, commenting on Sankorp's offer, said a delisting would allow for easier injection of capital into underlying companies, thereby providing faster growth opportunities.

"We need time and capital to strengthen our underperforming companies and do

S8

□ From Page 1

not rule out the possibility of listing other companies in the group in time," he said.

"I have enormous faith in the people in our companies who have the skills and the determination to put Fedvolks' companies back on a profitable path."

The moves follow a dismal performance from Fedvolks in the year to March, during which earnings fell 35% to 56,6c (86,9c) a share due to substantial losses from tractor producer Fedmech and white goods manufacturer Tek.

Directors had earlier revised their earnings forecast of 85,3c to 60c a share.



# Bankorp shake-up begins at senior level

THE shake-up expected at Bankorp kicked off with senior management restructuring this week, specifically in TrustBank (now a division) and in the Bankorp treasury.

At TrustBank, the restructuring reflects a move towards greater decentralisation. CE Chris van Wyk said last night that four of the bank's most senior executives would leave head office to manage the four regions "as mini-banks".

They are former Senior GM Resources (Witwatersrand) Gideon Kotze, former Senior GM Strategic Planning and Communication (Natal/OFS) Jan Kuhn, former Santsambank Senior GM Personal Banking

GRETA STEYN

Services (Northern Transvaal) Andries Swart and former Senior GM General Banking Services (Cape) Jerry van Vuuren.

Specialist functions such as manpower, infrastructure, credit, marketing and international banking services will be managed at area level.

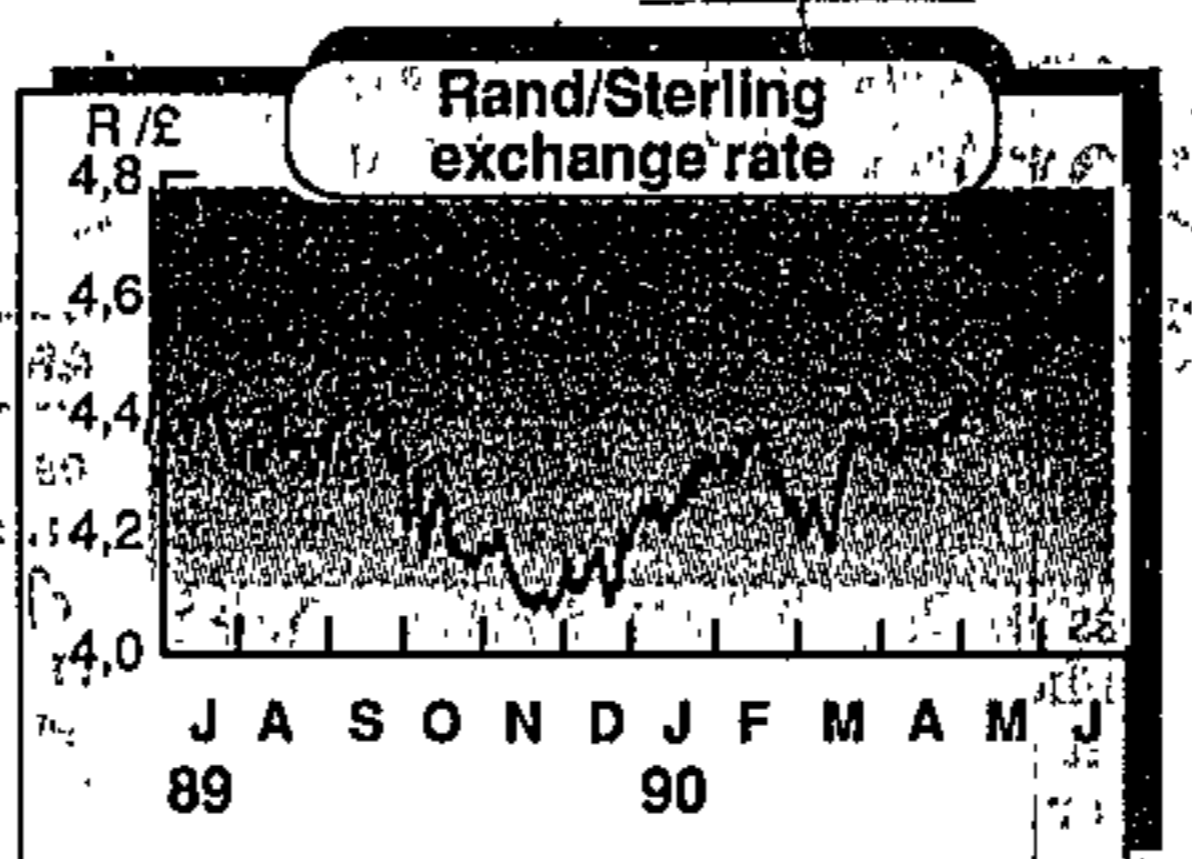
At head office, the following people have been appointed to the TrustBank management committee: Pieter van der Merwe, Freddy Prozesky, Hoffie Strydom, Renier van Niekerk and Derek Louw. They will be responsible for, respectively, finance,

manpower, risk management and legal services, marketing services and infrastructure and report directly to the CE.

At the same time, the three different Treasuries of Trust, Santsambank and Senbank are being merged into one. Market participants are watching appointments with interest as the move means that where there had previously been three senior positions, there is now only one.

Head of funding will be Hendrik van der Merwe, who proved capable in this position at Santsambank. Two Senbank men, Eugene Smit and Charl van Zyl, will head money and capital markets respectively.

3/10/90 3/7/90



Graphic: LEE EMERTON Source: SENBANK

6/04 317/90

## Chances good for a stronger pound

NEIL YORKE SMITH 58

THE pound's recent strength should be maintained, and there is every possibility it may appreciate even further, say the treasury officials of commercial banks.

The pound traded at R4,69 yesterday compared with its R4,20 level at the beginning of the year.

Bank officials say they expect a strong pound largely because the UK currency is expected to enter the European monetary system (EMS) at a favourable rate. Current high UK interest rates and an improved political climate are also lending support to the pound, they say.

First National Bank treasury economist Simon Wilson says: "Market perception is that the UK government has decided on full entry to the EMS; this is putting upward pressure on the currency."

The pound is likely to enter the EMS at a strong rate which, under EMS agreements, will fluctuate very little, Wilson says.

Nedbank international economist Anton Kriel says: "The EMS exchange rate mechanism is designed to keep exchange rates of member countries within agreed limits."

Currencies (except the peseta) already in the EMS may fluctuate only 2,25% of their rate against those of other members.

Limits may not be breached and central banks are obliged to intervene as much as is required to maintain targets.

Standard Bank assistant GM (treasury) Willie Potgieter says UK entry into the system could come as early as October.

"Support for the pound is also a result of current high interest rates, which are attracting foreign investment," he says.

# Bankorp revamp progressing well

Star 4/7/90 (58)  
By Ann Crotty

After yesterday's announcement of widespread personnel changes in TrustBank, chairman of holding group Bankorp, Piet Liebenberg, said significant progress had been made in streamlining the Bankorp group.

"These changes were made to implement Bankorp's strategy of enhancing customer service, sharpening focus and reducing costs of this banking and financial services company."

Mr Liebenberg said the functional reorganisation of the group's operating divisions was the second and last of the major structural changes in the streamlining process.

"From now on it is a question

of giving managers the opportunity to implement the changes at regional and branch level to achieve our strategic objectives."

The new Bankorp has six operating divisions: TrustBank, Santambank, Senbank, the central treasury, infrastructure and risk management.

According to Mr Liebenberg's announcement, the infrastructure division had been established to eliminate duplication of services in the group as far as possible.

Services such as technical, human resources, finance and non-banking assets, are grouped together in this division.



# Volkswagen targets in on motor financing

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St- 4/7/92

By Ann Crotty

Increasingly difficult trading conditions face the banking sector and will lead to a deterioration in banks' credit risks and a decline in the demand for bank credit, says Jan Stegmann in his financial 1990 chairman's review for the Volkswagen Group.

"Severe competition between financial institutions will keep profit margins under pressure, although I would expect interest margins to improve moderately in the second half of the financial year."

Despite this fairly grim outlook, the chairman is expecting Volkswagen to increase its profit during the current financial year.

Referring to financial 1990, Mr Stegmann notes that the group's 26,6 per cent hike in attributable profit was particularly pleasing as it was achieved in a period during which interest margins were under pressure and credit risks tended to deteriorate as a result of the sustained

high level of interest rates."

Volkswagen Bank — the commercial arm of the group — accounted for 66,8 per cent of total after-tax profit. Referring to this division's increased emphasis on home loan activity the chairman noted: "Volkswagen aims to extend its relative market share in its non-traditional markets."

Another area in which the group is taking a more aggressive stance is in the vehicle and motor dealer financing business: "The necessary skills are being concentrated in Volkswagen Industrial Bank which will become the group's wheels bank."

Looking to wider issues Mr Stegmann notes that "High demand will be placed on the management of the economy if justified social needs are to be met in future. This will however only be possible if the main thrust of economic policy is at all times directed towards sound economic growth."

7/19/92

# State's pension scheme 'needs complete review'

By Magnus Heystek  
Finance Editor

The chairman of one of the country's largest life insurance companies has called for a complete review of the State's old age pension system.

Writing in his annual report Neal Chapman, chairman of the Southern Life Association says: "The state age old pension system is in need of a complete review: the current racial differentiation in respect of benefits is unacceptable, there are administrative problems and delays in the distribution of payments, and the means test treats people with income from other sources more harshly than those with accumulated assets."

However, Mr Chapman says it is unrealistic to expect any government of the future to provide comprehensive pensions for all its people. "The man in the street needs to be encouraged to save for his retirement and to this end it is important that the government and financial institutions work closely together to facilitate matters.

## TRANSFERS

Mr Chapman also raises the issue of the transferability of pension benefits, long a bugbear of the pensions industry. "In some cases the benefits paid to members on early withdrawal from retirement funds are penal. Improvements in this area, although they may involve additional costs, are important if retirement funds are to be regarded as equitable savings vehicles.

"Provided such improvements are coupled with the encouragement for voluntary preservation of benefits until retirement, this will assist with job mobility and help ensure that withdrawing members accumulate ade-



Neal Chapman

quate retirement benefits.

"With continued high inflation, pensioners and others with fixed incomes are suffering. Retirement funds should regularly review pension payments and allocate funds to alleviate the plight of pensioners," he says.

While commending the state for the withdrawal of the regulated prescribed asset requirements, which were subsequently replaced by the prudent investment guidelines, Mr Chapman feels that the new regulations have not gone far enough and remain too restrictive.

The changes in the investment guidelines are also evident in Southern's changed investment mix. Investment in government and other fixed interest stock reduced from R2 091 million to R1 565 million while equity investments showed a substantial increase of R2 850 million.

In the year under review Southern's taxed surplus grew by 21 percent to R115 million (R95 million) while a final dividend of 27c a share (1989:22c) was declared, an increase of 21 percent.

Distributable reserves grew by 28 percent to R176 million while shareholders' funds grew by R38 million.

Total group assets grew by 31 percent to R14,0 billion.



# Sanlam trusts maintain inflation-beating pace

Finance Staff

The five unit trusts in the Sanlam stable continued their recent strong trend in the three months to June, offering returns which beat the ruling inflation rate and overall growth in the stock market.

The portfolio manager of Sanlam unit trusts, Stafford Thomas, said yesterday the group had concentrated their new investments in blue-chip shares and maintained fairly high cash levels.

"This strategy protected investors against unfavourable market conditions and was responsible for the satisfactory returns," said Mr Thomas.

Three of Sanlam's five unit trusts raised their cash levels in the quarter.

Sanlam Trust's level went up from 18 to 20 percent, Sanlam Index Trust's from 14 to 16 percent and that of Sanlam Dividend Trust from 12 to 15 percent.

Sanlam Industrial Trust's liquidity level remained unchanged at 20 percent, while Sanlam Mining Trust's level of 20 percent was lowered to 15 percent.

"The higher liquidity levels enable us to use the good opportunities existing in the market, to the advantage of investors."

Investors in the Index Trust and the Industrial Trust had an increased income yield for the six months to June, compared with the same period last year.

Mr Thomas ascribed the increases to the strong dividend growth of some

larger shareholdings like De Beers, Rembrandt and SAB, and the higher interest rates on cash balances.

These income declarations from the Sanlam stable continued a rising trend. Over a period of three years the annual growth in income was, on average, 31 percent for Sanlam Industrial Trust, 27 percent for Sanlam Index Trust and 22 percent for Sanlam Mining Trust.

The Mining Trust's income per unit to end-June showed a slight drop. Mr Thomas said this could be attributed to various factors, including a lower cash content.

"Because interest rates are so high, even a small change in cash content can have a significant effect on income."

The income distributions declared by the three trusts are as follows:

Sanlam Industrial Trust will pay investors 16,1c per unit for the six months to June, which raises their income for the year to 29,1c per unit (1988/89: 27,6c). The income will be paid out on August 17.

Sanlam Index Trust will pay 23,8c per unit on August 10. This means an income of 41,4c (32,6c) per unit for the year. On August 15 Sanlam Mining Trust will pay investors 7,7c per unit, raising their income for the year to June to 16c (15,7c) per unit.

Further strong sales of units in the June quarter, with the fund's value increasing from R10,6 million to R12,2 million, has been reported by NBS Hallmark Mutual Fund.

# Revamp for decentralisation

Finance Staff

The South African Decentralisation Board is to be streamlined and revamped, says Minister of Trade and Industries Kent Durr.

At the same time the Regional Industrial Development Programme (RIDP) will not consider any new application in the 1990-91 fiscal year.

In a statement issued yesterday Mr Durr says: "The Cabinet has decided to restructure the Decentralisation Board from its current large membership, mostly of vested interests, to a leaner body operating along corporate business lines."

"At the same time stricter adjudication procedures based on cost effectiveness, the merits of proposed establishments or the expansion of industries and the availability of funds, are to be introduced to bring the financial open-endedness of the scheme under control."

Mr Durr has appointed eight private sector members in the field of regional industrial development to serve on the board under the chairmanship of Mr JJ de Bruyn, senior general

manager of the Industrial Development Corporation. Mr Durr says: "The Government is resolved to remove distorting elements from the RIDP, notably the ill-effects of the financial open-endedness which defeats orderly budgeting and the subsidised cross-traffic of goods in the regions, which militates against the essential util-

sation of natural markets." The RIDP has already exceeded its budgeted expenditure of R826 million as the rate of approved projects that have been completed has risen from 45 to 84 percent of concessions approved. It has been decided to halt the RIDP for the year as funds for the project have dried up.

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# GDM lifts earnings

Star 4/21/90

## 38 percent

Finance Staff

Trade finance house GDM Finance reports good results in the year to end-April with attributable earnings rising by 38 percent to R7,5 million (R5,5 million).

Earnings a share were 29,3c (21,3c), while the total dividend is up 41 percent to 12c (8,5c).

Managing director John Cowper says the group's performance was satisfactory given the recession in the economy.

Pre-tax profits were 22 percent ahead at R9,8 million (R8,1 million) and return on shareholders' equity was up from 29,3 to 33,3 percent.

GDM remained conservatively geared with a gearing ratio of four to one at the year end.

"However, we expect to achieve another real increase in earnings in the current year, subject to there being no further deterioration in economic conditions," he says.

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# R13-m injection for Pichold

Sta. 4/7/90

By Ann Crotty

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Pichold has announced a reorganisation of its interests that results in it receiving a R13,1 million cash injection from one of its subsidiaries. In addition, 78 percent-held Picprop becomes the holding company for Pichold's financial/banking investments.

Following the disposal of Picprop's investment and operating assets, that company was left with cash resources of approximately R15,3 million. Some R13,1 million of this has been used to acquire 100 percent of unlisted Sagin whose main investment is a 30 percent stake in Cape Investment Bank Group.

The remaining R2 million can be used to exercise Sagin's option to acquire an additional 1 million CIBG shares at 210c a share and thereby increase its stake to 35,5 percent. The R13,1 million due to Pichold was paid on July 1, which means Pichold is now better placed to inject needed funds into 93 percent-held Picapli.

# Dhlomo named bank director

CAH-TWB 4/7/90 58

**JOHANNESBURG.** — Former Inkatha secretary-general and KwaZulu education minister Dr Oscar Dhlomo has been appointed a director of the Development Bank of Southern Africa.

The announcement follows Dr Dhlomo's silence about his plans since he resigned his KwaZulu posts last month.

Another appointment to the bank's board was the managing director of the Ciskei People's Development Bank, Mr Thamie Sondiyasie.

The bank broke through the R700 million mark in annual disbursements in the 1989/1990 financial year ending March 31 this year, it announced in a statement issued yesterday.

The R730m disbursed in the past financial year, said the statement, represented a 49% growth for development projects, compared with R490m disbursed in the previous financial year.

The first signs of overseas participation in funding South African development and increased cooperation from private corporations had raised hopes that more funds would be available for redressing economic disparities to accompany political change, said the bank. — Sapa



# Advice on Sankorp offers

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58

SYLVIA DU PLESSIS

FEDVOLKS shareholders should take up parent Sankorp's cash-plus-shares offer rather than its cash offer.

Ed Hern, Rudolph analyst Sid Vianello recommended this yesterday despite the fact that neither SA Druggists (SAD), Fedfood nor Teljoy — whose shares investors have the option of taking up — offered good short-term prospects.

He was commenting on Sankorp's proposed offer to minorities, in terms of which it plans to increase its 63% stake in the ailing Fedvolks to 100% and delist it in a bid to restore it to profitability.

Holdings of ordinary Fedvolks shares are offered 460c a share, or 56 SA Druggists, 12 Fedfood and 12 Teljoy shares — valued at

an unchanged R260,40 last night — plus R205 per 100 Fedvolks shares held.

Vianello said both SAD and Fedfood had problems which would hamper growth in the current year, but were "fundamentally good long-term investments".

"Teljoy also offers a good long-term investment. While it is burdened in the short-term by heavy debt financing costs which will dampen profit growth in the current year, the TV rental business as a whole has a bright future," Vianello said.

"In addition, both SAD and Fedfood shares are difficult to trade in, and shareholders taking up shares in

these companies will be circumventing this problem. The shares are also not over-priced at current levels."

Meanwhile, Fedvolks' shares — reinstated yesterday — closed at 425c, a 41% gain over their pre-suspension price of 300c on June 22.

According to Vianello, past history has shown that new management in any company tends to begin by writing off "everything they can find above and below the line".

If Fedvolks's new management decides to start with a clean slate, results for the current year will be "a near-disaster", he says.

But financial 1992 should reflect a significantly better performance, aided "hopefully" by a better economy, he adds.

# Sanlam's five unit trusts outstrip indices, inflation

LINDA ENSOR

ALL five of Sanlam's unit trusts outstripped important indices as well as the inflation rate in the quarter to end-March. This was despite the listless stock market, said portfolio manager Stafford Thomas, adding that the strategy adopted was to concentrate on blue-chip shares and to maintain cash levels.

Share purchases for the five trusts — Sanlam Mining Trust, Sanlam Trust, Sanlam Index Trust, Sanlam Industrial Trust and Sanlam Dividend Trust — were focused on mining and industrial shares with the most important purchases being De Beers, Palamin, Anglovaal and Minorco.

The emphasis was on rand-hedge stocks which have performed well relative to the market, Thomas said.

He added that no gold shares were bought but a significant penetration was made into the coal sector on a weak rand, hopes that sanctions would be lifted and heightened export prospects arising out of European integration which is likely to see a cessation of subsidisation and the closure of some coal mines.

The interim income distributions declared were: Industrial Trust 16,1c bringing the income for the 1989/90 year to 29,1c (27,6c) per unit; Index Trust 23,8c, giving a yearly income of 41,4c (32,6c); Mining Trust

7,7c, translating into a yearly income of 16c (15,7c).

The Sanlam Trust and Dividend Trust declare income distributions in March and September.

Thomas attributed the increased income yield in the Index and Industrial trusts to strong dividend growth of the larger shareholdings, such as De Beers, Rembrandt and SA Breweries, and the higher interest rates on cash balances.

Three of the unit trusts increased their cash levels in the last quarter — Sanlam Trust from 18% to 20%; the Index Trust from 14% to 16% and the Dividend Trust from 12% to 15%.

Sanlam Industrial Trust's liquidity level remained unchanged at 20%, while the Mining Trust's level was lowered from 20% to 15%.

Thomas said one of the reasons for the slight drop in the Mining Trust's quarterly income per unit was its lower cash content.

"Because interest rates are so high, even a small change in cash content can have a significant effect on income," he said.

Thomas did not envisage any significant change in the portfolio in the coming quarter.

## GDM serves up a 38% increase in earnings

GDM Finance, a financial services group providing trade finance, letters of credit and related services, has increased attributable earnings by 38% for the year to April 1990, the company announced today.

Pre-tax profit increased from R8m last year to R9,8m. Taxation fell to

6/24/90 417190  
**EDWARD WEST**

R2,2m (R2,6m). After preference dividends worth R79 000 and profits of R42 000 attributable to minority shareholders were paid, attributable earnings were R7,5m (R5,5m).

Earnings a share

amounted to 29,3c (21,3c). Attributable earnings produced a return on shareholders average equity of 33,3% (29,3%).

A final dividend of 8c (8c) a share was declared bringing the total dividend for the year to 12c a share. The dividend was covered 2,4 times.



# Volkscas growth <sup>(58)</sup> overcomes <sup>Blom 4/17/90</sup> adversity

NEIL YORKE SMITH

VOLKSKAS achieved good growth last year despite the turbulent conditions experienced by the whole financial sector, Volkscas chairman Jan Stegmann said in his annual review published today.

He attributed the 26,6% increase in attributable income, which reached R115,2m, to careful expansion of group assets and effective cost controls.

Relocation of executive management and head office as well as some support services to Johannesburg matched Volkscas's aim to boost its share of the corporate market, he said.

Stegmann welcomed the proposed Deposit-Taking Institutions Act which is to supercede the existing Banks Act.

The new Act would level the existing financial services playing field, he said.

He cautioned against excessive regulation which might undermine the key role played by a stable market environment.

Volkscas was currently consolidating its capital base and simultaneously embarking on rationalisation programmes.

The slowing economy would result in increased bank credit risks in the year ahead and reduced demand for bank credit, Stegmann said. Severe competition between financial institutions would keep profit margins under pressure, although interest margins might improve in the second half of the year.

Group profits were expected to exceed those of the past year, he said.

# Development Bank of SA raises project expenditure

BID 417190

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THE Development Bank of SA's (DBSA's) R729m (R493m) expenditure on development projects in the year to end-March represented a 48% rise, the bank said in its annual report released yesterday.

A total of 107 new projects representing R1,2bn were approved during the year, and a further R142m was approved to provide for cost escalations on implemented projects. The total cumulative commitment on projects at year-end amounted to R4,9bn (R3,8bn).

At year-end the DBSA's Development Fund stood at R1,9bn, (R1,5bn) being boosted by additional grants totalling R375m from government.

According to the report, strict asset management was undertaken especially with regard to the burgeoning loan book which has increased at a compound rate of 53% a year over the last six years to R2,4bn. At year-end it represented 92% of the DBSA's total assets.

Policy on liquidity during the year was to bring levels down from 18% of total outstanding commitments to 5% at year-end.

An operating surplus of R56m (R54m) mainly attributable to the 13% rise in interest received on development loans was achieved.

## LINDA ENSOR

To strengthen the DBSA's financial structure, the R50m net surplus was transferred to the non-distributable general reserve, which totalled R218m at year-end.

In the current financial year the DBSA embarked on a programme to raise R1,5bn over five years from local and foreign markets, with R300m targeted for this year. Already R178m has been raised.

DBSA chairman and CE Simon Brand says in the annual report that government has also committed itself to provide R2,5bn over the five year period up to 1992/93 while funds generated by the DBSA are projected to average R260m over the next five years.

"The funding of the rising level of commitments entered into by the Bank is thus well secured."

He says the first signs of willingness are evident on the part of foreign governments to direct increased funding to SA for development purposes in response to local political changes.

Brand says the DBSA has begun talks with representatives of "the new independent development fund set up by government, private corporations that have set up de-



● BRAND

velopment funds and with foreign development funding agencies".

"Specific ways of interaction that have been explored in these discussions range from the exchange of information to co-financing arrangements and the contracting of the Bank's project appraisal capacity to other development funding agencies."

Brand says the DBSA has undertaken a self-assessment to adjust to the socio-political changes.

"The indications of possible changes in the constitutional status

of some of its member countries and of the self-governing territories and emerging local authorities in SA, all of which are among the Bank's main borrowers, make it necessary in the first place to anticipate and adjust to changes in its institutional environment, in both the public and private sectors."

For one thing, the DBSA's staff composition would have to become more representative of the populations in the areas of its operations.

In addition to its support for viable and innovative government institutions, the bank has also shifted towards supporting non-government organisations involved in development. It has found that several of the government organisations which it has supported came under severe pressure during social unrest.

The DBSA also started focusing on the integration of its urban and rural projects to multiply benefits.

In line with the changes and the DBSA's wish "to play a constructive role in supporting the newly emerging order" Brand says its management during the year explored ways of expanding the bank's involvement in southern Africa, though this would depend on sufficient funds being mobilised.

1 R200m loss f C1

# Southern Life's assets BID on 4/7/90 soar by 31% to R14bn <sup>58</sup>

SOUTHERN Life's total group assets during the year to end-March, grew by 31% to R14,1bn (R10,7bn), according to the life assurer's annual report.

The market value of its equity investments, other than property, soared by 58% to R7,9bn (R5bn) and net investment income after tax rose 21% to R818m (R676,5m).

Chairman Neal Chapman said the change in prescribed asset requirements allowed the life office to reduce its investment in government and other fixed interest stock from R2,1bn to R1,6bn, and to substantially increase its equity investments by R2,9bn.

"While we welcome this change we nevertheless feel that the new regulations have not gone far enough and remain too restrictive."

Southern's investment strategy in the year to end-March was to be fully invested in shares generally with a

LINDA ENSOR

heavier weighting in mining financial and gold shares in particular.

"The mining financial sector recorded an outstanding total return of 42,9%. Our investment portfolio thus enjoyed the double benefit of high share exposure coupled with significant sectoral outperformance of the JSE overall index," Chapman said.

As regards the capital market, Southern maintained a hedged position, "enjoying attractive returns in the money market while employing call options to raise exposure to the long end of the capital market which was, at a total return of over 27%, the best performing segment".

The inflow of funds in the form of off-balance sheet portfolios for group schemes totalled about R600m.

"Whilst some of these funds came from our internal portfolios in addi-

tion to new sources we also experienced a larger outflow than has been the case in the past," Chapman said.

"In the coming year we expect outflows to decrease and the inflow of funds towards the Southern to increase given the outstanding performance of our investment portfolios."

The life division experienced a declining rate of growth in large single premium investment business caused primarily by the high level of interest rates.

"Consequently the mix of business produced during the year shifted towards our traditional areas of production, including longer duration conventional business which now occupies the dominant position."

The employee benefits division recorded a 25% growth in recurring premiums.

Chapman said Southern's shareholders could expect earnings and dividends to continue to grow.



B/day 4/7/90

(58)

# Allied share price rise fuels takeover rumour

**NEIL YORKE SMITH**

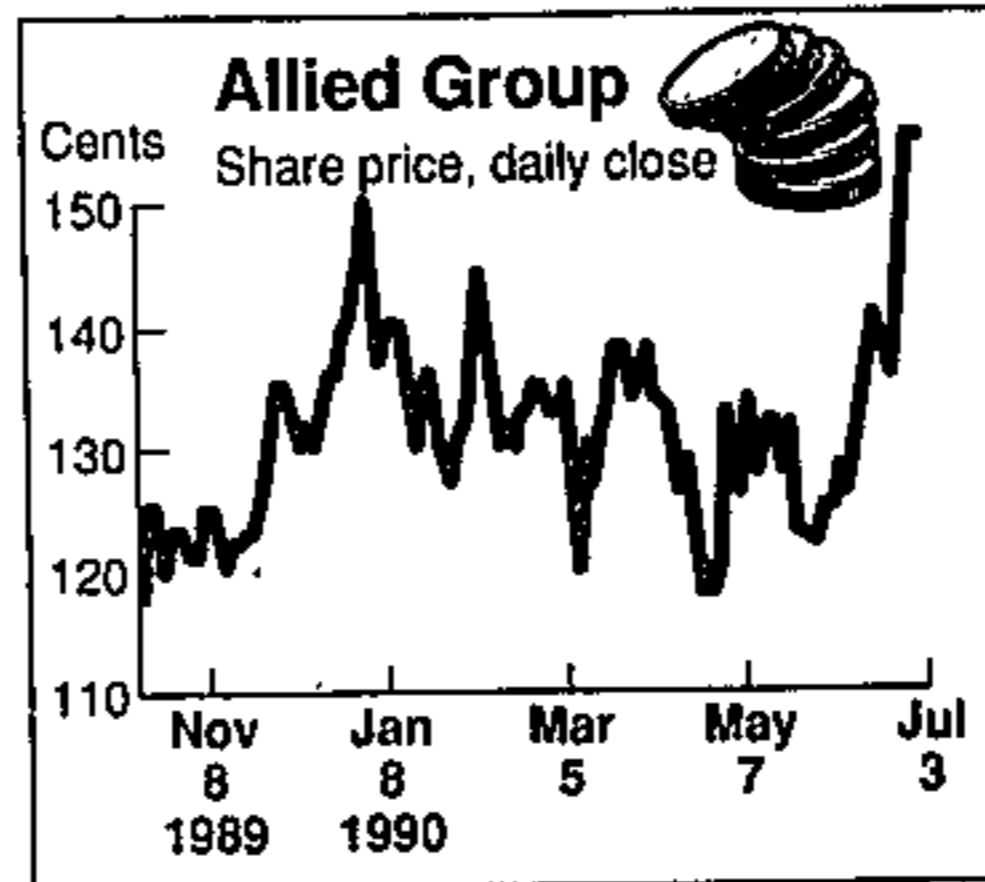
THE recent surge in the Allied's shares has triggered renewed rumours of a takeover of the Allied Group, fuelled by recent conflicts at board level.

Allied shares have been actively traded. In the past month, 4,4-million shares worth R6m changed hands, compared to the average for the past 12 months of 3,2-million shares worth R4m.

But brokers and Allied MD Kevin De Villiers stress all talk is purely speculative at present.

Allied would make an attractive acquisition for any of the five major banking groups, said analysts.

Allied's capitalisation is a healthy 5,9%.



Graphic FIONA KRISCH Source JSE

Allied shares have traded at 155c this week. Upon listing in mid 1987, Allied issued shares to deposit holders at 100c a share and the initial trading level was about 200c.

Net asset value according to the March year-end figures was 193,6c a share, so they are still trading at a discount.

However, De Villiers contends that "total volumes have been insignificant compared to the 300-million Allied shares in issue."

"We monitor shareholdings on a regular basis. A wide range of institutions have been buying — there is no large single buyer," said De Villiers.

Recent gains reflected the extent to which Allied shares had been undervalued previously. Given Allied's performances and prospects the shares were still undervalued, De Villiers said.

Analysts believe the share price will maintain its upward trend.

# Southern Life AIDS reserve reaches R125m

SOUTHERN Life has established a special AIDS reserve which, after the R50m transfer made in its last financial year to end-March, now totals R125m.

Annual transfers to the fund would be made, said chairman Neal Chapman in the assurer's latest annual report.

"Until such time as we have a picture of what the situation will be in about 10 years' time, we feel it prudent to continue to strongly build up the AIDS reserve," Chapman said yesterday.

He said in the annual report that AIDS and the HIV virus were spreading rapidly to the heterosexual population.

This would have "a significant impact on

58 LINDA ENSOR

the economy in particular where it affects the skilled and semi-skilled workforce. There will be an increasing demand on already insufficient medical resources".

Chapman said yesterday that to date the number and size of claims experienced by Southern was still "miniscule".

He said the transfer to the AIDS reserve, the contingency reserve and the earnings stabilisation reserve was made from gross actuarial profits before arriving at disclosed earnings figures and would not affect earnings or investment income.

● See Page 6

03/11/87  
Linda Ensor

## Dhlomo appointed to Development Bank

FORMER Inkatha secretary general Oscar Dhlomo has been appointed to the board of the Development Bank of Southern Africa. *B1 Day 41790*

Dhlomo, who resigned from Inkatha and as KwaZulu Education Minister last month, will become one of the SA representatives on the bank's board, a vacancy left by Administration and Economic Co-ordination Minister Wim de Villiers.

Development Bank spokesman Frans van Rensburg said that in addition to Dhlomo's personal qualities and links with self-governing homelands, he had considerable experience in regional development.

The bank said in a statement yesterday

PETER DELMAR

it had disbursed R730m during the past financial year, exceeding by 49% the R490m disbursements made in the previous financial year. (58)

Sapa reports the SA government had committed R2,5bn to the bank for the five years to 1992/93.

The first signs of overseas participation in funding SA development and the increased co-operation from private corporations had raised hopes that more funds would be available for redressing economic disparities that would have to accompany the process of political change, the bank said.



# New moves in big Bankorp shake-up

8 (201 417790)  
THE shake-up at Bankorp continues with further restructuring and the appointment of senior management to fill key positions in the group's new structure.

In some cases, where there had previously been three positions — for each of the subsidiaries TrustBank, Santambank and Senbank — there is now only one. In other cases, new divisions have been created with new appointments.

Instead of three treasuries, there is now a Central Treasury with Jurie Bester head of local treasury, Martin Croucamp (international), Quintus Truter (financial accounts) and Nick Barnardt (economics).

The new risk management division is still without a head — executive chairman Piet Liebenberg is acting chief. There is

58  
**GRETA STEYN**

also a new central infrastructure division.

A major thrust of Bankorp's reorganisation has been decentralisation and staff changes to give people new roles more suited to their strengths.

The corporate division, Senbank, will concentrate on strengthening specialised areas. Operational and support services have been separated to enable marketing people to concentrate on marketing alone.

At Santambank the idea is to focus on key market segments. Two new departments were created at Santambank — one for commercial and industrial finance and the other for credit and risk management.

# Picprop applies to change sectors

*BLOM 4/7/90*  
PICARDI Holdings (Pichold) subsidiary Picprop has applied to the JSE for a transfer of its listing to the banks and financial services sector.

The move follows the disposal of its investments and operating assets, excluding its interest in a property-owning company, for about R17,6m cash and the acquisition of Pichold's indirect investment in Corporate Investment Group (CIBG).

Directors said the disposals were motivated by the

*BLOM 4/7/90*  
**ACHMED KARIEM**

fact that the growth potential of "the company's operating assets was limited by capital constraints and extensive competition within their industries".

*BLOM 4/7/90*  
**Expand** *55*

The acquisition of the stake in CIBG has been accomplished by Picprop's purchase from Pichold of the entire share capital of SA & General Investments

& Trust Company (SAGIN), which has a 30% interest in CIBG, for R13,2m.

The directors said the effect of the transactions has been to create a company well-positioned to expand further in the financial services sector. Pichold's name will be changed.

Had the transactions been in place in the year ended June 1989, and on the basis of other assumptions, Picprop's earnings would have decreased from 25,6c to 25c a share and net asset value to 275c from 316c.

# Uncertainty still restricting foreign loans, says Stals

PRETORIA — International banks have relaxed their attitudes towards South Africa but political uncertainty is still restricting long-term loans, Dr Chris Stals, governor of the Reserve Bank, said yesterday.

He said foreign banks no longer wanted to reduce loan exposure to South Africa or to withdraw, and the country had been able to roll over some maturing loans and improve access to short-term funding, such as trade finance.

"But there are still too many uncertainties on where we are going on the political road for the banks to make new, long term commitments in South Africa," Dr Stals told Reuter.

"It would be a bit unrealistic for South Africa to expect, to rely on, to hope for a big inflow of long term capital in the near future," he said.

International banks declared a boycott on new loans to South Africa in August 1985.

Despite a more relaxed attitude generally to-

wards South Africa, it did not seem appropriate yet to approach the International Monetary Fund (IMF), Dr Stals said.

Analysts say that as long as sanctions remained an international political issue, Pretoria is unlikely to turn to the IMF, which is affiliated to the United Nations. "The timing should be right," one analyst said.

Dr Stals said despite a slump in recent months in world prices for gold, South Africa's chief export, the country was over the worst of its debt problems for this year.

A decline in capital outflows and lower import bills due to a slowdown in the economy would help offset the gold slump and avert pressure on the balance of payments.

It was expected South Africa would generate a surplus on its current account of R5 billion to R6 billion in 1990, enabling it to meet its debt obligations comfortably.

Foreign debt totals about \$20 billion. — Reuter.



# Bidcorp maximising value of its assets

By Ann Crotty

Bidcorp has announced a reorganisation that will clean up its structure and inject approximately R48 million new capital into the group.

The crux of the deal is that it enables Bidcorp to capitalise on the appreciation of assets that have been under its control for the past two years.

At this stage no acquisition has been identified for the R48 million but it will be in Bidcorp's general field of light manufacturing and distribution.

The deal, which involves rights issues at Bidvest and Africom will see Bidcorp remaining as the top holding company and having a 60 percent stake in Bidvest. Bidvest then becomes the holding company for all of the group's operations.

Bidcorp will sell its 100 percent stake in Caterplus to Bidvest for R80 million. It will also sell to Bidvest, for R2,5 million, its 50 percent stake in unlisted Justine and certain minor subsidiaries.

Afpac, which ahead of the reorganisation was a 73 percent subsidiary of Africom (which in turn was a 53 percent subsidi-

ary of Bidvest) and was the only operating asset held by Bidvest, will sell all of its businesses to Africom for R48,7 million.

Afpac will then be a cash shell and the 73 percent stake held by Africom will be sold to Bidvest for R35 million.

The result of all of these transactions will see Bidvest as a holding company with four subsidiaries — 100 percent-held Caterplus; 50 percent of Justine; 53 percent of Africom and 73 percent of Afpac.

Caterplus which was formerly Chipkins was bought by Bidcorp for R23 million just under two years ago. It acquired Sea World about 18 months ago.

Caterplus is estimated to account for about 70 percent of Bidcorp's earnings which suggests that the R80 million price tag represents a P/E rating of 9 times.

Justine manufactures and distributes skin care products and cosmetics.

Africom, which will have the Afpac assets, is involved in packaging.

Bidcorp paid R20 million for 55 percent of Africom back in November 1989.

Afpac will be a shell with R48 million cash.

The whole deal involves Bidvest spending R117,5 million and will be funded by a R106 million rights issue. (Bidvest had cash of R23 million ahead of deal and after spending R7 million following its Africom rights, it will be left with R4 million cash).

Some 5,9 million convertible debentures will be issued at R18 per CD. The CDs will be convertible on a one-for-one basis at the holders option on June 30 1992 or '93. Conversion of all outstanding CDs is automatic on June 30 '94.

The interest on the CDs will be equivalent to 68 percent of the prior year's fully diluted earnings per share. Assuming Bidvest is on a 50 percent tax rate, this interest payment (which is pre-tax) is in line with a (post-tax) dividend payment equivalent to 34 percent of earnings which conforms with the Bidcorp group's dividend policy.

Africom is raising R14 million. This is the difference between the R48,7 million it's paying for the Afpac assets and the R35 million it's receiving for the sale of its holding in the Afpac cash shell to Bidvest.

It will be issuing 13,3 million CDs at 105c a share with the same conditions that are attached to the Bidvest cds.

Yesterday Bidvest was trading at R21,50 and Africom at 95c.

SR 5/1/90

# DBSA sees signs of support in foreign capital markets

**By Jabulani Sikhakhane**  
 While the Development Bank of Southern Africa (DBSA) has not yet tapped the foreign capital markets, there have been indications of support from the international financial community, it says in the 1989-90 financial report.

Chairman and chief executive Dr Simon Brand says the overseas markets present a major opportunity, especially as South Africa emerges from the economic isolation of the past. The bank has broken through to a level of disbursements of about R800 million a year, leading to the activation of the third

leg of the bank's financial mobilisation model — capital market funds.

The DBSA has raised R178 million of the envisaged R300 million to be mobilised in the local capital markets in 1990-91.

About R1.5 billion will be raised in the local and overseas markets over the next five years.

In the past year the Government's allocation to the DBSA was R375 million and to date the bank has received R746 million from the Government as part of the five-year funding pro-

gramme which began in 1988-89.

Over the past six years, the DBSA's loan book has risen by 53 percent a year to R2 400 million — equal to 92 percent of the bank's assets at year-end.

The annual report says the bank's liquidity levels were deliberately scaled down during the year from 18 percent of total outstanding commitments at the beginning of the financial year to five percent at year-end.

"This departure from the stated policy of maintaining liquidity at higher levels was motivated by the increasing degree of accuracy with which the bank has been able to programme its

loan disbursements."

Also, with interest rates at high levels for most of the year, the bank's liquid resources represented a less costly source of funding for loan disbursements.

Boosted by an escalation of 13 percent in interest received on development loans, the DBSA showed a surplus of R56 million, compared with R54 million the previous year.

The servicing of loans contributed 20 percent of the total cash flow of the bank in 1989-90.

Forecasts are that they will contribute a third of the total sources of funds within the next few years.

## Adjustment needed to changing times

**By Jabulani Sikhakhane**  
 Recent political changes and social unrest are putting the already fragile capacities of many institutions in developing areas under severe pressure.

In response, the Development Bank of Southern Africa (DBSA) is looking at its own processes and structures so as to adjust to the changing political environment in which it operates.

Chairman and chief executive Dr Simon Brand says indications of possible changes in the constitutional status of some of its member countries and of the self-governing territories and emerging local authorities,

which are among the bank's borrowers, make it necessary to anticipate and adjust to changes in its institutional environment.

In his 1989-90 annual review, Dr Brand says recent changes are a challenge to devise institutional arrangements that can during political transition effectively carry out development programmes and projects and be consistent with future political developments.

The recent political changes also require timely measures to adapt the governing structures of the bank to changing circumstances. The bank must lend even

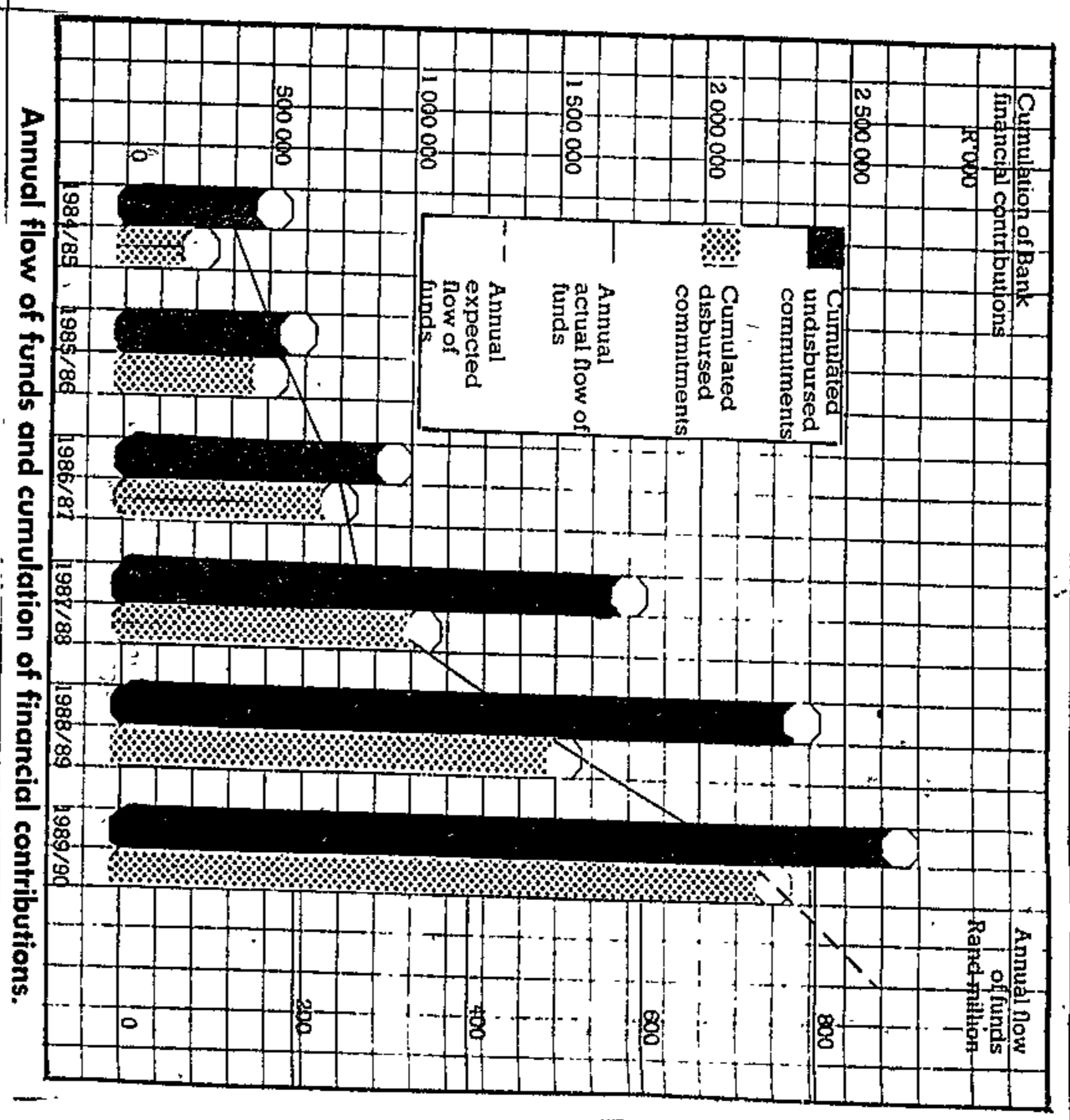
greater urgency than before to the goal of achieving a staff composition that is more representative of the population make-up in its area of operation.

The Development Bank has interacted with representatives of all shades of all political opinion in an effort to make a constructive contribution by taking part in the process of institutional adjustment required to underpin economic development in the midst of political change and by contributing to the debate about the future economic order, economic strategies and policies in Southern

Africa.

Dr Brand says there is hope that the demand for redressing of economic disparities that accompany the process of political change can be addressed to a meaningful extent.

This hope is based on the funds allocated by the SA Government towards social upliftment programmes, the increasing willingness of private corporations to augment and create new funds dedicated to development and the first signs of willingness on the part of foreign governments to direct increased funding to South Africa for development.





# Black accountants want more university teaching facilities

Star 5/7/90 (57) (58)

By Jabulani Sikhakhane

The Association of Black Accountants of South Africa (Abasa) has called on the Public Auditors and Accounting Board (PAAB) to accredit more black universities to provide the Certificate for the Theory in Accounting (CTA).

Abasa says only two black universities — the University of Durban-Westville and the University of the Western Cape — are accredited.

It estimates there are 13 000 accountants in South Africa, but only 29 are black (of whom only one is a woman).

But the PAAB says the 14 accredited universities — because of poor salaries — are having a problem in attracting good teachers.

Instead of accrediting more universities, the numbers should be cut down to meet the available teaching resources.

The University of South Africa (Unisa), regarded as the bastion of black education in South Africa, is accredited.

ABASA executive director Mashudu Ramono says: "ABASA is looking for funds to research the whole system of accreditation in South Africa so that it can make

recommendations to the PAAB to right the situation.

"We know that there is a system called subvention whereby the PAAB provides a certain sum of money to pay lecturers teaching accountancy in accredited universities.

## Cream of crop

"There is little or no subvention in black universities — we suspect none. This means there is the added problem that the cream of the teaching crop is not found at black universities.

"There are no CTA courses at black universities, only B Comm (three years). This degree is not recognised at white universities.

"So if a student wants to do a CTA at an accredited university, he must repeat at least two years' study before he can study for a CTA or equivalent.

"For a black to enter a B Comm degree at a white university, he must meet the stringent selection entry criteria. His bantu education places him at a severe disadvantage in this selection process."

Accountants are at the nerve centre of the economy and if black

accountants are to play a role their numbers must be increased.

"The problems in attaining a CTA — financial disadvantage, a poor educational background and adjustment problems in the university — are factors which discourage this increase in numbers."

PAAB director Lucas van Vuuren says: "The PAAB's criteria for accreditation is concerned with the quality of teaching staff, training facilities, infrastructure and availability of computers.

"There are also five core courses — financial accounting, management accounting, income tax, auditing and computers (business information systems). Before accreditation the universities must have sufficient staff in all the five core courses.

"The 14 accredited universities are already faced with staff shortages. We should be cutting down on the numbers of already accredited universities and concentrate the available manpower at accounting centres."

The PAAB is negotiating with the Human Sciences Research Council (HRSC) to investigate what the country's needs are for accountants.



# General Accident Insurance 'will not chase market share' <sup>(58)</sup>

IT WAS possible that General Accident Insurance — which increased its gross assets 38% to R255m in the year to end-December — would lose market share as it was not going to chase premium income at the expense of profitability.

Chairman Justin Mackeurtan said in the unlisted short-term insurer's annual report it was necessary to adopt this strategy until such time as realistic rates came into effect, as unrealistically low premiums would contribute to a further deterioration in underwriting results.

During the year to end-December, General Accident's underwriting surplus before contingency reserve fell 34% to R4,3m (R6,4m).

## Clear

According to the annual report, the decline was due to deterioration of the earned loss ratio from 66,7% to 70,7%.

"It is clear that the market as a whole cannot continue to write business at current premium rates in the face of the increased incidence of claims, as well as the higher cost of each claim.

"It is essential that more

LINDA ENSOR

realistic rates be charged by all short term insurers in order to maintain a healthy industry," said Mackeurtan.

General Accident Insurance, owned by General Accident Fire & Life Assurance Corporation, First National Bank and Southern Life, increased its gross premiums 20,7% to R226,3m (R187,7m), and according to Mackeurtan increased its share of its target markets of motor and personal lines.

DIRAM 577190  
Value

Investment income increased 85% to R19,8m (R10,7m). Total market value of investments at year end was R138,8m (R111,6m).

Attributable profit, which rose 13,6% to R12,1m (R10,6m), generated earnings of 458c (403c) a share. A dividend of 67,5c (50c) was declared. Net asset value at year-end was 2955c (1651c).

"Great emphasis continues to be placed on technical reserves, which were increased further during the year from R121,6m to R131,7m," said Mackeurtan.

# Firms screen new recruits for AIDS

CAPE TOWN — Leading companies in the life assurance and other industries have started applying compulsory AIDS tests to new employees in an attempt to protect employee benefit schemes from high risk members.

Old Mutual and Southern Life recently revised their employment procedures to include full medical tests for certain age groups and AIDS blood tests for all new recruits. Previously, applicants were asked to complete confidential medical questionnaires which were followed up by medical examinations where necessary. Sanlam has not yet instituted compul-

LESLEY LAMBERT

sory AIDS screening, but its chief medical adviser, Altus van der Merwe, said it would not hesitate to do so if the incidence of AIDS reached levels where screening became "cost effective".

"When the AIDS epidemic reaches proportions where it becomes cost effective to screen every newcomer, I am sure most companies would introduce compulsory screening," he said.

An industry spokesman said a number of other companies, mainly in the assurance

□ To Page 2

## AIDS screening

industry, had introduced, or were considering introducing, compulsory screening.

The life industry started insisting on AIDS tests for policies exceeding R200 000 a few years ago and has reduced this amount as the incidence increased.

Old Mutual and Southern personnel managers said the rationale behind the new procedure for employees was to protect significant employee life and pension benefit schemes from the effect of life threatening diseases.

They argued that the majority of employee scheme members could be financially disadvantaged by risks of which the actuaries were not aware. To ensure the

actuarial soundness of its employee schemes, Old Mutual also tested for high cholesterol — another major life-threatening condition.

An industry spokesman ruled out any suggestion that the companies were carrying out AIDS tests to avoid AIDS carriers affecting the morale of other employees. One life assurer has monitored the effects of an AIDS carrier on other staff and found that rather than disrupt office relationships, his condition encouraged colleagues to be more supportive.

Unlike other countries, particularly the US where compulsory AIDS tests evoked a public outcry, there appears to have been little resistance in SA.

□ From Page 1

# Foreign bankers still cautious

Cap. Tmt's 5/7/90  
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PRETORIA. — International banks are expected to remain cautious about extending new, long-term loans to SA until the political future is clearer, Reserve Bank Governor Chris Stals said yesterday.

"It would be a bit unrealistic for SA to expect, to rely on, to hope for a big inflow of long-term capital in the near future," he told Reuters in an interview.

He said foreign banks had become more relaxed about their current loan exposure to SA and there appeared to be very little desire to reduce this, or to withdraw.

"That is different to what it was a year or two years ago," he said.

The more relaxed attitude of creditor banks had enabled SA to roll-over some of its maturing loans. And it had more access to short-term funding, such as trade finance.

"But there are still too many uncertainties on where we are going on the political road for the banks to make new, long-term commitments in SA," he added.

Stals said in spite of a slump in recent months in world prices for gold, SA's major export, the country was over the worst of its debt problems for this year.

It had cleared some \$1,6bn in debt dues in the first half, including \$1,2bn worth in the second quarter. It faces much smaller repayments of \$600m for the rest of the year, out of a total foreign debt bill of \$20bn.

A decline in capital outflows and lower import bills due to a slowdown in the economy would help offset the gold slump and avert pressure on the balance of payments, Stals said.

He envisaged that SA would generate a surplus on its current account, a broad measure of trade and services, of R5bn—R6bn in 1990, enabling it to comfortably meet its debt obligations.

"We don't have any problems with foreign exchange at this stage and we may even be in a position to increase our foreign reserves over the next few months," he said. — Reuter

**F W RAINBORN INC**



## Senbank's new deal

Senbank seems to have been pushed willy-nilly into a deal to salvage an ailing Rand London. The mining company's UK parent, NSM Plc, had pulled the plug by putting its 49,9% shareholding up for sale and making plain it will no longer finance the company. Senbank, Rand London's largest creditor and a large shareholder, was up against the wall.

Bankorp, Senbank's parent, has taken indirect control of 49,9% of shares via a joint venture equity holding company, Prism, owned equally by Bankorp and Mercantile Nominees. Rand London did not slot into NSM's new diversified structure, nor was NSM happy with UK pressure on it to divest from SA.

Senbank is already deeply involved with Rand London through loans it has made to the company as well as shares it picked up during two rights issues, one in February 1983, which it underwrote, and another in May 1988. In 1989, according to the Rand London annual report, CMB Nominees owned 23,7% of the issued share capital. CMB stands for Central Merchant Bank, of which Senbank is a derivation, though this does not necessarily mean the entire 23,7% is owned by Senbank.

Furthermore, the report states, "one of the

banks (plainly Senbank) granted the company a working capital facility of R5m." So the merchant bank would obviously not like to see controlling capital in unfriendly hands. Senbank says the 0,5c/share purchase price is low. But it's not as low as it looks even when compared to Rand London's 16c market price. For Senbank has also taken over the responsibility of the R4m standby loan facilities previously provided by the British company. But in return Senbank will be owed the "amount due to associated companies" — namely NSM.

This loan was granted by NSM to cash-short Rand London to pay for services rendered by the British parent. It stood at R4,4m in 1988 but was cut drastically that year by converting R4,2m into 8,4m ordinary shares. Management charges and exchange rate fluctuations since then have increased the loan account to R873 000.

Senbank refuses to comment on the deal but the press announcement last week stated that "Prism is investigating various proposals regarding its shareholding in Rand London..." Obviously Senbank would prefer to find its own buyer for shares of a company in which it has such a large interest.

But the merchant bank presumably hopes to sell the shares in a favourable deal. It will have its work cut out, though, because the anthracite market remains in the doldrums and there is only a remote possibility Rand London will improve on the past financial year's R3,1m attributable loss.

Heather Formby

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(58)

that only about 25% of premiums placed locally find their way overseas as reinsurance. This may be so for personal lines but large concerns, which have to manage mega risks, find over 80% of locally placed premiums leave SA via reinsurance.

Vernon and Sarima turn the offshore captives argument on its head: now that exchange control requires repatriation of premium income paid to all recently registered offshore captives into non-resident commercial rand accounts, the effect on our reserves is sterilised. The stronger captives are allowed to become, the smaller the amounts that will leave in the form of reinsurance.

Tony Valsamakis, MD of CRM Risk Finance Consultants, in the Price Forbes Group (PFV), says full disallowance, as a deductible expenditure, of premiums paid to offshore captives would be inequitable and prevent companies which need an offshore facility from building up reserves.

Valsamakis says offshore captive insurance has become a powerful force internationally and accepted as part of corporate risk management. This applies equally to countries not burdened with exchange controls or SA's political problems. Three hundred of the *Fortune* Top 500 US corporations operate offshore captives.

He agrees deductibility of premiums should be tested by normal tax criteria, including whether rates are market-related. Fears that offshore captives might be used to outwit the Act should be met by the existing tie between exchange control authorities and the Registrar. Valsamakis suggests a possible compromise in the form of a withholding tax on premiums paid to offshore captives.

Shaw points out that if large concerns are to operate risk management activities through onshore captives with a limited licence these captives may seek to expand into general insurance. This risk is absent with offshore captives.

Fedgen MD Richard Carter argues local insurers would be able to operate on an equal footing if allowed to form offshore subsidiaries to gain access to the tax benefits and freedom from exchange controls.

The overriding considerations in this duel of policy-making lie on the side of free trade.

Any interference with risk management by large manufacturing or mining groups can serve only to put up their costs. Lower costs make it easier for large groups to compete on world markets. Revenue's concern with the micro picture (the tax on insurance premiums forgone if they are paid offshore) blinds it to potential increments to future tax paid if SA companies are competitive as exporters through efficient risk management.

Moreover, the restrictive measures suggested by the commission would damage the relationship between SA companies and the international primary and reinsurance industries. These international concerns have stood by SA through thick and thin over the past decade and more of isolation.

Robin Friedland



FIM 617/90

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## SHORT-TERM INSURANCE

# The case for captives

Is SA about to impose its own sanctions on the short-term insurance industry and damage essential links to international insurance and reinsurance markets? Proposed moves will not, of course, be described in this way. They will be termed measures against tax avoidance and exchange control abuse and promotion of a strong local industry.

Three months ago the Melamet Commission published its report on offshore captive insurers — companies set up in a tax-friendly overseas domicile to act as self-insurers to local businesses. Apart from Judge David Melamet, the commissioners were UBS Holdings chairman Herc Hefer (also a member of the Tax Advisory Committee) and SA Eagle former GM Ken Raine.

Complaints against offshore captives are that they are vehicles for tax avoidance and exchange control evasion, rather than legitimate business operations.

The report established that 22 captives have been registered in various jurisdictions, with permission of the local authorities. There is also one captive in a TBVC country, for which no approval was necessary. Some witnesses suggested further offshore captives might exist but the commissioners found it impossible to confirm this.

The report says identifiable gross premiums of R100m were remitted to offshore captives in 1987 and R200m in 1988. But it

suggests the real figure could be R300m or even much more, because many premium remissions are disguised as reinsurance premiums (which go out freely).

The commission took informal evidence from many people locally and abroad. It concluded the status of offshore captives — as well as reinsurance arrangements and payment of premiums to overseas insurers — is against the national interest.

On the specific issue of captive insurers, the commission proposed:

- Funds accumulated in offshore captives should be returned to the SA parent;
- Unjustified tax claims for deduction of premiums should be referred to Revenue;
- Payment of premiums direct to offshore captives should be referred to the Registrar of Financial Institutions to consider whether the procedure contravenes the Insurance Act ban on placing insurance business with non-licensed insurers;
- When exchange control authorities allow the export of funds to operate an offshore captive, the parent should submit annual returns to the Registrar and exchange control authorities on the captive's activities. The captive should repatriate as much of its offshore funds as exchange control authorities direct (this is already being done); and
- Premiums paid to offshore captives should be disallowed as a deduction for income tax purposes except for amounts spent on reinsurance, after deduction of commission.

The commission also recommended a limited licence for registration of captives within SA — subject to conditions. The Registrar would be entitled to prescribe the classes of risks the captive could insure.

If, however, the Registrar is persuaded that anonymity is required by a local corporation in foreign dealings, he should be able to award a limited licence to establish an offshore captive, to gain access to the international reinsurance market and cover offshore risks. But the captive should be allowed to operate only as a "reinsurance conduit" and not build up finances of its own through export of funds.

The findings open a profound cleavage of opinion between the local industry and other parties, particularly large groups which engage in self-insurance and co-ordinate interests through the SA Risk & Insurance Management Association (Sarima).

SA Insurance Association director Rodney Schneeberger says his members are content with the report. But many feel it is strongly protectionist. For example, it recommends standardisation of policy wordings and prohibition of certain policies cover-

ing more than one type of risk.

Barlow Rand group risk and insurance manager Des Vernon says the tone of the report is "insensitive to the customer." It does not refer to amounts paid by foreign reinsurers to settle claims — notably the Natal floods, Sappi (Ngodwana) and the two Sasol disasters, which ran into hundreds of millions of rand.

Hannover Re local representative Robert Shaw says that for a long period in the Eighties there was a net inflow of funds arising out of short-term insurance activities.

Vernon raises the lack of local insurance capacity. Admittedly, the commission accepts the inadequacy of local capacity to insure "mega risks." Nevertheless, the report recommends that the Registrar's consent should be obtained before an insurer is allowed to cede more than 50% of reinsurance premiums to overseas reinsurers. And a premium tax is to be imposed on direct overseas insurance.

He points out many groups established offshore captives because some years ago the then Registrar had a restrictive attitude to the registration of new insurers onshore. Had Barlow Rand been able to form an onshore self-insurer it would not have gone offshore, says Vernon.

He also argues that the commission hinted at the possibility of retroactive tax changes to penalise premiums paid to offshore captives in earlier years. He notes the finding



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S8

take Sanlam six years to fully repay him, excluding interest accrued on the diminishing balance.)

The saga began last November, when several Liberty Life annuities, worth over R150 000, neared maturity (December 26). As only R50 000 would be tax free, Borneo looked at alternative investments for the remaining amount (precisely R102 109).

"Independent consultant" Matt Thomas, representing Liberty Life, sent his client a letter offering a non-escalating R1 777 a month, which meant a guaranteed 10-year sum of R213 240.

Not entirely happy with Thomas, Borneo accepted the services of another Liberty representative Nico Kleynhans, who said the Liberty quote at that time was only R1 540 a month on the same terms (R184 800 assured

over 10 years). Thomas told the *FM* he based his estimate of R1 777 "on experience."

Believing he could get a better deal, Kleynhans shopped around on Borneo's behalf and, on November 22, received the Sanlam quote. The offer was so much better than Liberty's that, despite his Liberty connection, Kleynhans contacted a broker to confirm the figure.

Reassured, Borneo completed the forms which, along with the quote, were handed over to Sanlam on November 28. Liberty was to send a cheque for R102 109 upon maturity of the retirement annuities.

Six weeks later, Borneo received his first intimation that things were not what they seemed. He was told the offer was now R822 a month on the same terms (R120 102 less

over 10 years).

Sanlam argued (correctly) that the cheque from Liberty was dated January 1 (because Borneo's annuities matured December 26), while the provisional quotation clearly stated the R102 109 was to be invested no later than December 1 1989. This was a point initially overlooked by all the parties.

But even had the cheque been correctly dated, Borneo would have been disappointed — Sanlam's November quotation should have read R904 a month for that type of annuity, not R1 450. The error was the result of a nationwide computer problem, says Sanlam, and at least 20-30 people would have been affected for each day the misquote remained undetected.

By January, the rate was down to R822 and a policy for Borneo was processed, based on this figure. Challenged by Borneo, Sanlam said it could not be held responsible for either mistake. But it offered R904 a month, with a 10% annual escalation and included his wife.

Sanlam, at that point, was offering R26 160 less over the first five years than the original Liberty offer. Borneo said he preferred more money sooner than later and the computer error denied him that choice. Nor could Sanlam explain why a month passed, the cheque was cashed and another two weeks went by before Borneo was told the quoted sum would not be paid.

In early April, after the *FM* contacted Sanlam, it made Borneo the offer he finally — reluctantly — accepted.

A consulting actuary says: "At the end of the day, Mr Borneo has as good value for his money as he could expect, but his disillusionment with the life assurance industry is well founded. It remains to be asked how Sanlam and the brokers managed to make mistakes as serious as the above and what rights they have to summarily escape the consequences."

The ombudsman to the life assurance industry, retired Judge J P C Kotze, could mediate such a dispute but, though his recommendations are not binding, Sanlam had not agreed to be part of this process.

At the time, Sanlam MD Pierre Steyn said no independent mediation was needed. He argued the company is owned by policyholders rather than shareholders, so there is no conflict of interest. "Sanlam holds regular policyholder meetings and clients have direct access to the top levels of Sanlam to voice their problems."

On June 5, Sanlam announced it will in future support mediation by the ombudsman.

Detmar Schwichtenberg

LIFE ASSURANCE FIM 6/7/90

## Neither safe nor sure

Before investing your money with a life assurer, remember: what you see is not always what you get and professional advice is no guarantee everything will run smoothly.

Cape Town resident Johannes Borneo, 69, found out the hard way after striking a deal — or so he thought — with Sanlam last November. He expected an annuity of R1 450 a month, escalating 10% annually, guaranteed for 10 years (assuring R277 308) and continuing for life and that of his wife. What he got was a guaranteed 10-year sum reduced to R192 120 (R1 601 a month non-escalating) which no longer included his wife.

Sanlam held Borneo's R102 109 investment for three-and-a-half months before making the first payment. This would have brought in R5 926 interest, placed on call at the average annual 19,9% prevailing at the time. To compensate for the loss of interest, Borneo was given one extra R1 601 monthly cheque, with the remaining R4 325 to be paid at the rate of R60 a month. (So it will

FINANCIAL MAIL JULY 6 1990

FEDVOLKS (S8) ~~180 2232~~ FIM 6/7/90

## Thank the Mutual

Minorities have Old Mutual to thank for the revised offer for Fedvolks from the Sanlam group. The Mutual, which for years has held an 11% interest in faltering Fedvolks, flatly rejected Sankorp's original cash bid and demanded that underlying quoted assets — SA Druggists, Fedfood and Teljoy — should be distributed in specie. Once Sanlam had given Sankorp the green light to accede to the demand, the offer had to be extended to others.

The net effect is that minorities are being offered R460 cash for every 100 Fedvolks held. Or they can take R205 cash plus 56 SA Druggists shares, 12 Fedfood and 12 Teljoy. Before Mutual's intervention, Sankorp was hoping to succeed with a bid in the region of 350c (*Fox* June 29), the top of Fedvolks' trading range of the previous 12 months.

The revised bid will be pushed through willy-nilly. Old Mutual has accepted for its 11% and so has Southern Life for its 5%.



**Fedvolks vd Walt ... restoration after delisting**

Other institutional acceptances bring the total up to 22%, which lifts Sankorp's support from its own 63% to about 85%. Other minorities will accept without demur, and those who don't will be flushed out in terms of Section 311 of the Companies Act.

Sankorp's Anton Roets makes no bones about the fact that a complete take-out was his group's best option. He makes the points that Fedvolks, or at least some of its subsidiaries, needs to be refinanced and that minorities would be unlikely to follow a rights issue. The market has been unforgiving about Fedvolks' operating performance and rates the conglomerate's share way below net

worth. So a rights issue based on market price would be impractical, while one based on net worth would leave all the shares with the underwriter.

Roets adds that Sankorp was reluctant to give minorities what he describes as a free ride of an effective refinancing by Sankorp.

Sankorp's plans for restructuring Fedvolks are still in the melting pot. It has not decided how necessary finance will be injected into underfunded subsidiaries. Nor, it seems, has a decision been taken on the eventual resting place of Fedvolks' ill-matched subsidiaries. Some will go directly to Sankorp, others could end up in another Sanlam company, Malbak.

Roets says there will be no bid for SA Druggists minorities. If a transfer of the controlling shareholding in the pharmaceuticals company seems to require a bid to minorities, ownership will be left with Fedvolks.

The only part of the restructuring to be disclosed is the immediate appointment of Peet van der Walt as CE in place of Johan Moolman, who is retiring a year earlier than he'd planned. Roets assures me Moolman, who led Fedvolks into its latest troubles, has not be pushed out. Rather, he says, Moolman himself decided to leave early to give the new CE as much time as possible to put his mark on the company.

Minorities are best advised to accept the cash and share offer.

*Jim Jones*

### M-NET

#### More enjoyment

The M-Net share offer could be oversubscribed two or threefold. This translates into between 60 000-90 000 of the 430 000 subscribers. Stockbrokers say the offer could even surprise with a higher oversubscription.

The offer is 20m new ordinary shares of 2c at R1, to subscribers (15m shares) and business associates (5m). The R20m proceeds will help the company cash up for satellite broadcasting, and possibly expansion of broadcasts beyond entertainment and sport, and cut gearing from 217% to 22%.

After the August 1 listing the public will hold 13,2% of M-Net's 152m shares, management 7,9% and M-Net Holdings (in turn owned by the major press groups, including the *FM* proprietor Times Media Ltd) 78,9%.

Wynand van Niekerk, of Senekal, Mouton & Kitshoff, one of the sponsoring brokers, says the most attractive reason to invest in M-Net is that downside risk is limited; but there are significant opportunities and



# State comes to aid of ERPM — a special case, Barend says

By Sven Lünsche

In a surprise announcement yesterday the Government said it had decided to provide further financial assistance to Rand Mines' marginal ERPM gold mine.

This follows recommendations by the Melamet Commission of Inquiry into the financial situation of the mine, which has been producing gold at a substantial loss and has accumulated debts of R220 million.

Analysts were surprised by the announcement which clashes with tough proposals made earlier this week by the Marais Committee into Marginal Profit Mines.

The committee, headed by Deputy Finance Minister Dr Org Marais, recommended that only gold mines which showed long-term viability

should be supported by the government.

In a press statement yesterday the acting Minister of Mineral and Energy Affairs, Barend du Plessis, said ERPM would be treated as a special case.

"ERPM has a reasonable prospect of being re-established as a viable mine, but the position must be monitored regularly," he said.

"In view of the substantial financial commitments which the state has already made and in view of the socio-economic implications it is recommended that the state join with Rand Mines and First National Bank (FNB) in providing further financial assistance to ERPM.

"This will enable the mine to complete its drastic reorganisation

and to continue its operations on the rationalised basis."

As part of the rationalisation-ERPM will sell R40 million in assets.

The financial assistance will consist of a R35 million loan from Rand Mines, the deferral of certain of the interest on the existing R60 million loan by FNB until all loans are repaid, and an undertaking by the state, if necessary, to assist in the payment in December 1992 of the deferred interest.

Commenting on the government's move, Rand Mines gold division chairman Clive Knobbs said keeping the mine going would provide the opportunity of examining at a later stage the possibility of expanding the scale of operations.



# Hillbrow Hospital gets cancer aid

By Carina le Grange

Radiation therapy equipment, costing more than R6,5 million and used in the treatment of cancer, was officially taken into use at the Hillbrow Hospital yesterday.

The equipment put the hospital at the "forefront of radiotherapy treatment in the country", superintendent Dr Joe Nach said.

Officiating at the ceremony was the MEC in charge of Hospital Services in the Transvaal, Fanie Ferreira, who referred in his speech to the strike by hospital workers in May which caused the ceremony to

be delayed from May 5 until yesterday.

Mr Ferreira said there was presently a greater awareness of the importance of better health care delivery. Three factors most important to the welfare of the future South Africa were education, health care and housing, he said.

## Rare equipment

The equipment, rare in South Africa, consists of a linear accelerator and a simulator which require special premises called a bunker, the cost of which runs to more than R1 million. Fully functional, 60 to 70 pa-

tients a day can be treated. At present there is a patient waiting list of up to eight weeks.

Hillbrow Hospital is a leading and the largest radiotherapy centre in South Africa. It has always served all race groups in the whole of the Witwatersrand, Vaal Triangle, western and south eastern Transvaal as well as patients from Swaziland and Botswana.

Dr Ferreira said one in three or four people get cancer, and 80 percent of them require radiotherapy treatment.

He said there were only two radiotherapy

centres in the Transvaal and only one private practice in South Africa that has a linear accelerator. No private practices have a simulator.

He said that, due to deeper penetration, accurate localisation and shorter duration of treatment, the equipment was of the greatest advantage in the treatment of deep tumours.

Dr Nach lauded the Transvaal Provincial Administration for responding to the hospital's need although the equipment had not been budgeted for and thanked the company who installed for doing this in in record time.

# Mixed showing by Guardbank unit trusts

LINDA ENSOR

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THE three unit trusts in the Guardbank fold turned in a mixed performance for the six months to end-June, partly determined by the extent of the specific fund's exposure to equities generally and gold related shares specifically.

Total assets of all three funds at end-June totalled R1,04bn.

The performance of the Guardbank Growth Fund was satisfactory with the unit price, reflecting both income and capital appreciation over the six month period, increasing by 11,42%. The fund declared an income distribution of 44,29c per unit, an increase of 25% over the previous 35,47c.

Specialist mining fund Guardbank Resources Fund, which focuses on investments in mining and natural resources, had a difficult six months with the overall increase in its unit price restrained to 2,6%. The rise of 6,6% in the first quarter retreated to fall 3,8% in the second.

The fund declared a distribution of 4,48c for the six months to end-June. On the other hand, against a background of very high short term interest rates and the rising trend for long term rates, the Guardbank Income Fund had an "excellent quarter", says Guardbank's Roy McAlpine.

An income distribution of 9,45c per unit was declared, an increase of 16,8% over the previous 8,09c, resulting in an overall increase in the income and capital appreciation of the unit price of 9,31%.

The Growth Fund's investments in short-dated gilts, cash resources and liquid assets as a proportion of the portfolio's total market value of R975m (R990,3m) increased slightly to R164,5m or 16,87% (R160,3m or 16,19%).

The equity content of the portfolio declined marginally to R810,6m (R830m) representing 83,13% (83,81%) of the fund's total market value.

"Taking into account the performance of the major indices, Guardbank Growth Fund enjoyed a satisfactory quarter."

The weaker gold price and political uncertainty meant all sectors of the equity market declined in the second quarter after rising strongly throughout 1989 and the first quarter. However, the growth in the first quarter offset the declines in the major indices in the second.

A new investment in 400 000 Anglovaal 'N' shares was made by the Growth Fund, and advantage was taken of the sharp drop in the mining sector to marginally increase the funds' holdings in Kinross, Vaal Reefs and Western Deeps.

A total of 600 000 Richemont shares were sold off on the view that the fund's exposure on this front was excessive due to the vast capital appreciation of the share in recent years. However, the stake in Richemont representing 7,97% of the fund's total assets, is still its largest single investment.

McAlpine believed the volatility of the equity market would increase in future and would continue to be heavily influenced by the trend of the gold price and the direction of political developments in SA.

The market value of the Resources Fund's portfolio declined to R56,3m (R61,6m) with the proportion of equity investment increasing to 82,77% (78,37%) and the gilt, cash and liquid asset portion declining to 17,23% (21,63%).



● McALPINE

# Liquidity levels of three funds stay high <sup>(58)</sup>

LIZ ROUSE

A HIGH level of liquidity was the name of the game at Standard Bank's three funds in the June quarter, reflecting concern over the economic slowdown and the weak gold price.

Standard Bank Mutual Fund (SBMF) maintained its liquidity levels at just on 30% while the Gold Fund embarked on some selling of gold shares, resulting in a 20% liquidity. The Extra Income Fund kept liquidity at 65%.

SBMA's unchanged portfolio performed reasonably well considering the decline in the JSE overall index over the June quarter. The fund's price declined by 2% compared with a 5% fall in the JSE overall index.

In annual terms the fund showed a total return (capital appreciation plus income) of 28,26% compared with an equivalent return of 20,99% on the JSE overall index.

Its income distribution achieved a 34% increase in the six months to June compared with the same period in 1989.

Tight fiscal and mone-

tary policies coupled with a relatively weak gold price induced fund managers to maintain the liquidity level.

There were no changes in the fund's portfolio for the quarter, which showed a 39% exposure to the mining sector, a 17% allocation to financial shares and a 44% allocation to industrials.

The Gold Fund's price registered a decline of 17% against a 22% fall in the JSE all gold index. The fund's total return for the 12 months to June was 9,77%, outperforming the total return on the index of 4,87%.

In a period when dividend payouts on the gold mines were being cut back, the fund did well to marginally increase its dividend by 3%.

The Gold Fund lightened holdings in Randfontein, Freegold, Deelkraal, GFSA and Amgold.

The Extra Income Fund was able to increase its quarterly income distribution by 15,77% in the June quarter.



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## Insurers defend steep panelbeating costs

CHARLOTTE MATHEWS

PANELBEATER industry and insurance company spokesmen have defended steep panelbeating charges on the grounds of escalating costs of labour and spare parts. Assessors, however, differed on what they considered a reasonable hourly charge for labour.

Santam claims department deputy manager Jan Venter said his company had found 99% of panelbeaters charged R45 an hour. A few charged R30 or R40.

"I think panelbeating costs are reasonable. They have to be competitive."

Auto Assessors motor assessor Bill Lewis said panelbeating claims for labour were assessed on the type of operation — a backyard shop using pirate or second hand

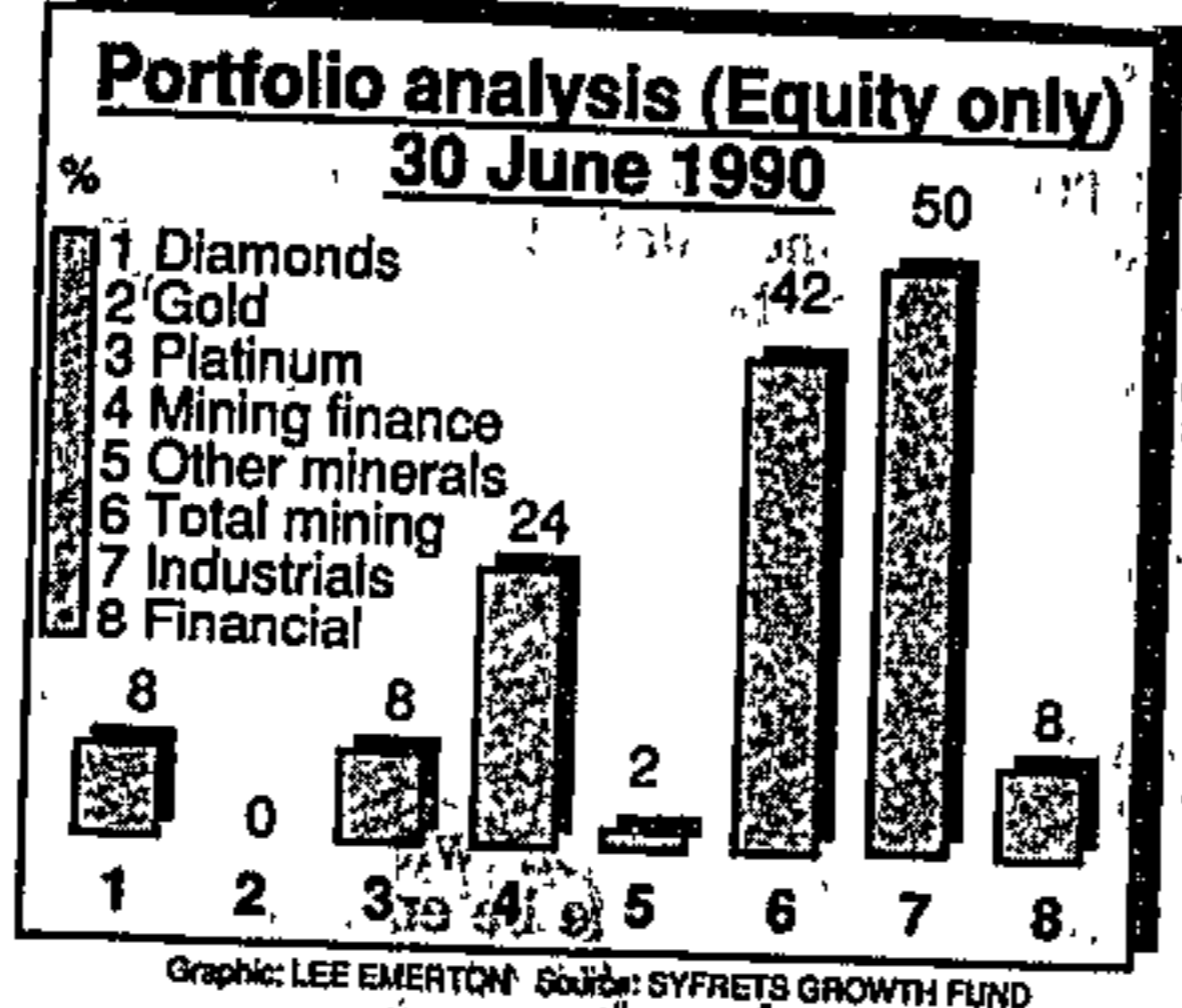
parts was unlikely to get the top rate. "The price of spares has gone up so much that labour, once about a third of the quote, is now more like a quarter."

IGI chief assessor, motor claims, Johnnie Pretorius believed R60 an hour for labour was excessive but IGI would accept R50. He added that panelbeaters were battling with the rise in wages, rents and cost of materials.

"You cannot quote anything you want because the insurance assessor will adjust it," AA Panelbeaters manager Brian Magua said. AA Panelbeaters charged about R40 an hour.







## Syfrets returns gain on liquidity

810M 6/17/90 LIZ ROUSE

SYFRETS Growth Fund (SGF) jacked up its liquidity to 80% in the June quarter from 17% in the March quarter, reflecting a much more cautious view of equity market prospects.

Anthony Gibson, portfolio manager of Syfrets Managed Assets (SMA), said in his quarterly review that the remainder of 1990 seemed destined to be a repeat of past performance.

The strategy would be to maintain current liquidity levels.

Gibson did not see a material recovery of the gold price from its present level, while political uncertainty and profit decline would continue.

"Although share prices will rally from time to time during the coming months, we as investment managers remain sceptical of the share price rises based on weakening economic fundamentals," he said.

As a result of the high liquidity level, returns (capital appreciation plus income) climbed by 34,2% over the past 12 months.

The benefits of SGF's liquidity cushion was illustrated by the fact that whereas the JSE overall index declined by 5,5% over the past three months, the capital value of SGF units was reduced by only 0,2% over the same period.

Income distribution for the quarter was 3,13c, boosting total distribution for the year by 48% to reflect a total of 8,37c over the year.

Higher liquidity levels were achieved by the part sale of holdings in Anglos, JCI, C G Smith, SA Brews, the two Rembrandt counters, Sasol, Dries and Vaal Reefs, according to Gibson.

Syfrets Income Fund (SIF) realised an income yield of 18,5% on the unit price with a concomitant total of 19,4% over the past 12 months.

Income distribution for the past quarter

☐ To Page 2

**Syfrets** 810M 6/17/90  
amounted to 4,10c resulting in a total distribution of 16,63c for the year.

This was achieved through taking advantage of the shift in interest rate differentials to switch a further part of the portfolio from cash to medium-dated stocks and deposits.

This change has meant that SIF's portfolio has reduced its cash component from

(58) ☐ From Page 1

40% in March to 18% currently, reflecting SMA's view that short-term interest rates are set to decline during the final quarter of 1990.

SIF has hedged heavily into semi-gilts, which comprised 47% of its portfolio at the end of June compared with 27% at the end of March.

● See Page 9



# Plans laid for ANC bank

Own Correspondent

WASHINGTON. — Plans are being laid by the ANC and the Rockefeller Foundation to establish a South African development bank that would raise "billions" of dollars to fund the "reconstruction" of a post-apartheid South Africa. Rockefeller president Mr Peter

Goldmark first raised the idea with ANC deputy president Mr Nelson Mandela at a meeting with US businessmen in New York last month.

Mr Mandela expressed interest and Mr Goldmark flew to London with African-American Institute vice-president Mr Frank Ferrari for follow-up talks on Tuesday. As for the scale of the enterprise, he said that "in order to make an

impact, we'd have to be talking about billions". However, South Africa would not see a penny until "a just government is elected".

A Downing Street spokesman confirmed yesterday that no new money was promised to the ANC by British Prime Minister Mrs Margaret Thatcher when she met Mr Mandela on Wednesday, it is reported from London. Although Mr Mandela said after

the meeting that Mrs Thatcher had given him "a good hearing" in regard to his request for resources, it appears the British government did not dig into its pockets.

According to reports here yesterday, the improved relationship between Mr Mandela and Mrs Thatcher was "sealed with a promise of R44 000 to help the ANC re-establish itself in South Africa". But Downing Street confirmed

that the only money going from the UK government to "various black organisations" in South Africa was R330 000, announced by a Foreign Office minister on June 13.

● UPI reports that Mr Mandela arrived in Uganda yesterday for a three-day stay, after which he will attend an Organisation of African Unity summit in Ethiopia. He will then travel to Kenya before flying back to South Africa.

APL T/H 6/7/90

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# Car insurance may go up by 80 percent

8/17/90 (58)

MOTOR car premiums could rise by up to 80 percent over the next year as the Registrar of Insurance is stepping up its investigation into the financial health of short-term insurers.

The Assistant Registrar for the Short-term Insurance Industry, Nico Fourie, said yesterday that his office was currently examining returns submitted by companies for the first quarter.

"Judging from these financial returns we will approach individual companies and recommend measures to correct the situation," Mr Fourie said.

A number of short-term insurers have recorded substantial losses on their underwriting account, which measures the income from premium against the payments for claims, and have only managed to retain a healthy solvency margin through good investment incomes.

The solvency margin has been accepted as the yardstick for a motor insurer's financial viability. Companies can boost their solvency margins by lifting premiums, but very few have done so in the battle for market share.

However, the Automobile Association demanded yesterday that the Registrar should issue an immediate statement of the solvency margin of all short-term insurers. "We would expect insurers reporting low solvency margins to be instructed to submit business plans incorporating recapitalisation proposals as a matter of urgency," the MD of the AA,

## SVEN LUNSCHÉ

Peter Elliot, said in a statement.

However, Mr Fourie said that the Registrar could not approach the industry as a whole but would have to inform individual managements of the seriousness of the situation.

## Drastic plans

"While we cannot prescribe to companies what to do, we will recommend that they implement fairly drastic plans as soon as possible to improve their solvency margin," Mr Fourie said.

He said that the outcome of the changes could be substantial adjustment of motor premiums, with premiums on personal line business the first to be raised.

The AA's Mr Elliot said that in the wake of the market share war, predictions made by the AA earlier this year that premiums would need to rise by up to 40 percent to cover underwriting losses, now looked optimistic.

The General Manager of General Accident, Clive Dean, is more specific.

"It would have been better if the consumer had not been given a price holiday for almost two years ... as they are now faced with increases of up to 80 percent over the next year," he said in a recent interview with the Insurance Times.

## Old Mutual in major expansion

Since 7/7/90

### FINANCE STAFF 58

Old Mutual, South Africa's biggest life assurer, is setting the stage for a major expansion programme.

"Our emphasis on service to the client has resulted in an increase in market share, and Old Mutual now receives more than a third of the total new business income of the life assurance industry", says Bobbie Jooste, general manager (Individual Life).

"A concentrated effort to improve our service to our clients and policyholders resulted in the opening of sixteen new branches", says Mr Jooste.

A major part of the expansion programme will be the opening of new broker branches in the CBD's of Cape Town, Johannesburg and Pretoria.

Existing broker offices in Kempton Park, George, Welkom, Pinetown, Parow and Pietersburg now become fully fledged branches.



# Harmony adds to Rand Mines' woes

Stas 7/7/90

By Sven Lünsche

The fresh injection of loan capital into East Rand Proprietary Mines (ERPM) could not have come at a more opportune time — the beleaguered marginal mine yesterday reported a R24,75 million loss in the June quarter on the back of a R20,2 million loss in the first three months of the year.

However, Rand Mines management expressed cautious optimism that the benefits of the combined state/Rand Mines/First National Bank assistance scheme coupled with the rationalisation programme at ERPM will be felt only in the current quarter.

But adding to Rand Mines woes is a R164 000 quarterly loss after tax and State's share of profit at Harmony, one of the world's largest gold mines, from a R17,2 million profit in the March quarter.

This left a combined bottom-line loss for the four gold mines in the Rand Mines stable at R16,6 million in the June quarter compared with an after-tax profit of R10,9 million in the previous three months.

Reflecting the markedly lower gold price the average

price received by the four mines was R2 160 kg lower at R31 589 kg.

In terms of ERPM's new financing arrangements, which were announced last week, its borrowing facilities have been raised to R335 million. However, at the end of June R316 million of these funds had already been utilised and management is placing more emphasis on the extensive rationalisation programme.

In a statement Rand Mines said ERPM was now focusing its mining activities on the higher grade underground sections of the mine and on sand treatment operations.

## Tonnage down

In line with this programme underground tonnage fell sharply from 413 000 to 320 000 tons, while the grade increased from 3,19 to 3,90 grams per ton, leaving gold production only five percent lower at 1 248 kg.

Recovery of gold from surface sand dropped from 252 kg to 166 kg, "because of difficulties encountered in the treatment of one of the dumps," management said, adding that production has been shifted to an-

other, problem-free dump.

While total working costs were down by R6 million to R60,6 million, a fall of seven percent in the average gold price received — equivalent to a loss of R3,1 million in revenue — and R1 million provisions for retrenchment caused a working loss of R16,3 million (loss of R13,9 million).

The weaker gold price also impacted adversely on Harmony's quarterly results.

While gold production was up at 7 505 kg (7 249 kg) and the yield remained steady at 3,08 g/t the lower gold price cut revenue by R9 million to R235 million.

Costs rose by R10 million to R240 million, leaving a operating loss of R4,8 million against a profit of R14 million in the March quarter.

In contrast to ERPM the cutbacks and rationalisation at Durban Roodepoort Deep continue to yield benefits.

An improved yield of 3,45 g/t (3,35 g/t) lifted underground gold production from 817 kg to 825 kg, with surface sand treatment adding a further 148 kg (131 kg).

Borrowings were halved during the quarter to R2,6 million,

leaving taxed profits at R2,72 million (R2,5 million).

Blyvoor's profits were hard-hit by the lower gold price, which offset a higher yield of 6,09 g/t (5,41 g/t) and lower costs. Bottom-line earnings fell from R11,4 million to R5,5 million.

## Labour problems

At Barbrook a spate of labour problems was responsible for the mine's failure to achieve production targets in the June quarter, management said. An additional R10 million loan facility was arranged, raising the company's borrowings to R45 million.

Barbrook's total revenue amounted to R2,7 million (R2,3 million) and costs were down to R8,3 million (R8,6 million) leaving a R5,6 million working loss (previous loss R6,3 million).

● Rand Mines received a welcome boost from its coal mining arm, Witbank Colliery.

After-tax profits in the June quarter rose by 31,5 percent to R58,4 million (R44,4 million) as coal sales improved by 11 percent from 5,4 million to six million tons.

# Battle <sup>wlt MLAS 7-7/90</sup> for bonds

By MAGGIE ROWLEY  
Business Staff <sup>50</sup>

THE face of the real estate industry in South Africa is set to change as the battle in the home loan market between banks and building societies heats up.

The United Building Society, which recently purchased minority stakes in two estate agency groups, confirmed that it is negotiating with other large estate agency groups to secure its 25 percent share of the market.

A 25 percent stake in JSE-listed Aida Real Estate franchise company and a one-third stake in the Multi-Listing Service (MLS) were purchased recently by the UBS, the country's largest home loan lender.

Mr MJR van der Berg, senior general manager, group marketing, at UBS said they were negotiating a similar deal with Camdon's Nationwide and

several other large estate agency groups.

By gaining strategic stakes in estate agencies, United has stolen a march on its competitors as this provides it with an ideal vehicle to increase market share.

Mr Van der Berg said it was the UBS policy to build a more formal affinity with estate agencies.

"Competition in the home loan market is going to get even stiffer in years to come as new players enter the market. It is going to be a hectic job maintaining market share, let alone increasing it.

"The whole structure of the home loan and estate agency markets is set to change with financial institutions working more closely with estate agencies.

"There is both product and rate parity among financial institutions in the bond market and the only way anyone can

get a competitive edge is through service to clients and this is where the battlefield is shifting.

"We firmly believe that buying minority equity in large estate agency groups will give quicker decisions on loan applications and more efficient service to clients, sellers and agents. In so doing we will secure market share."

## Going all-out

He said that service was being speeded up by installing computers in affiliated agencies.

"We are also happy to come to some arrangement with other estate agencies and install computers for them.

"We are purely and simply going all out for loan applications," he said.

Other financial institutions are "vigorously" attempting to preserve their share of the home loan market and Mr Jimmy McKenzie, senior general manager of First National Bank (FNB), warned this week that if more major real estate groups were signed up by building societies FNB would have no option but to launch their own real estate group to secure market share.

In 1983 FNB became the first bank to enter the home loan market, the traditional stamping ground of building societies, but maintained a low profile until 1986 when other banks entered the market.

The move by the banks resulted in building societies losing market share and revenue as home loans traditionally formed the cornerstone of their business.

Mr Scot McRae, MD of Camdon's Nationwide, confirmed this week that they were in the

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IS  
HEATING  
UP

P.T.O



# Battle for home loans heats up

From page 1

final stages of negotiation with UBS.

"The deal is very similar to that negotiated with Aida and will put us in a position to start a new franchise group to rival Aida in size within two years," he said.

Mr McRae said that most of the major players in the industry had been approached by financial institutions intent on securing their interests.

"This is set to change the face of the real estate industry in South Africa. I predict that within the next few years there will be half the number of players in the market which will be dominated by one or two large marketing groups. In order to remain competitive agencies will either have to go the referral networking route or merge with others.

"It has happened elsewhere in the Western world and it has been to the benefit of the consumer," he said.

Other real estate companies approached this week said financial institutions would be forced to follow UBS if they wished to secure their share of the home loan market.

Mr Lawrence Seeff, MD of Seeff Property Organisation, said they had been approached by at least five institutions in search of a stake in their company.

"However, we are still weighing up the pros and cons of financial institutions entering the estate agency market and have not made a decision either way.

"Although this is the way many overseas countries have gone it has not always been to the benefit of the industry," he said.

He said that other financial institutions would have no choice but to follow UBS either by buying a stake in existing agencies or by creating their own companies.

Mr Mike Bisset, an executive director of Pam Golding Properties said they had also been approached by several institutions but had no plans to sign up at this stage.

Mr McKenzie they would be fighting "aggressively" for market share.

"We have warned the Institute of Estate Agents and this

plan is waiting in the wings if the situation gets out of hand," he said.

Mr McKenzie said that First National already had home loans of more than R4,1 billion on their books.

"We are increasing our share of the market through aggressive packages and quick decisions and will continue to do this. However, we have a very strong network and if necessary we will not hesitate to launch our own real estate network."

Mr Trevor Olivier, assistant general manager, mortgage loans, at Natal Building Society head office said the NBS strongly opposed entering the real estate business.

"We believe that it is a specialised field and should be left to the experts. Further, we believe that there are enough independent estate agents out there which we can rely on to support us with sufficient home loans.

"If we are proven wrong we will have to take appropriate action, but at this stage we have no intention of entering that field," he said.

He said that one of the largest UK financial institutions which entered the real estate business wrote £100 million losses in one year.

"I think we have to look at this example and learn from it," he said.

## "Vigorously"

Regional manager of the Perm, Mr Peter Southworth said they too were not at this stage considering entering the "specialised" business of real estate but had several plans in process, which could not be disclosed at present, to ensure they maintained market share.

"We will be securing our position in the lending market vigorously," he said.

He said he did not believe that a mortgage rate war was the answer to increased market share.

Divisional general manager, home loans, for Standard Bank, Mr Terry Power, said they were not at this stage considering entering the estate agent market.

"However, market trends dictate decisions," he said.



Star 9/7/90

## Pay or be cut off — mayor

By Abel Mabelane,  
East Rand Bureau

Tembisa mayor Solomon More has warned rent boycotters that unless water and electricity accounts were paid, supplies would be cut off on July 15.

He said in a television interview that Eskom and the Rand Water Board had warned the council that if it did not pay its debt by July 15 they would cut off supplies.

He appealed to rent boycotters to at least pay for water and electricity.

A meeting to have been held between a TPA official and local structures on June 28 to discuss the boycott failed to take place. A meeting is planned for some time this week.

Acting town clerk Willem Relihan said it had not yet been decided whether to allow residents to pay a flat rate for rent.

# Economy outlook better says Volkskas chief

Sowetan

9/7/90

58

POLITICAL and constitutional developments in South Africa have brought about economic and social prospects which would have been almost inconceivable a few months ago, according to Volkskas Group chairman Mr Jan Stegman.

In his 1990 chairman's review of the group, Stegman says these rapid changes will add to the complexity of the business environment and increase the pressure to use economic resources for social purposes.

## Profit

He says: "High demands will be placed on the management of the economy if justified social needs are to be met in future.

"This will, however, only be possible if the main thrust of economic

By JOSHUA RABOROKO

policy is at all times directed towards sound economic growth and discipline and recognised economic norms and principles will therefore have to be applied consistently.

"The Volkskas Group is sensitive to changes in the external environment. In these challenging times the group will serve the interests of shareholders to the best of its ability and will make strategic adjustments whenever possible," he says.

He welcomes the Government's new approach to economic policy-making, aimed at correcting structural problems, saying the long-term economic strategy advocated by the private sector and accepted by the Government as far back

as 1986 is, in fact, only now being implemented on a broad front.

Increasingly difficult trading conditions face the banking sector and will lead to a deterioration in banks' credit risks and a decline in the demand for bank credit.

## Demands

"Severe competition between financial institutions will keep profit margins under pressure, although it would be expected interest margins to improve moderately in the second half of the financial year," he says.

Turning to the group's interests in Namibia, he says a co-operation agreement was concluded with other banking institutions with interests in that country, in terms of which existing arrangements with regard to Bank Windhoek Limited were amended.



BACKGROUND

# Rent boycott bomb could explode into violence

8/2 10/1/90



Pressure on township residents to break the rent boycott in the Transvaal could unleash an unprecedented wave of violence and threaten the peace negotiations process under way in South Africa, community leaders, politicians and academics agree.

And they regard plans by the Transvaal Provincial Administration to cut bridging funds to black councils as urgently and potentially dangerous.

Planning and Provincial Affairs Minister Bernard Kriel said yesterday that the Government was aware of the sensitivity of the issue and was involved in urgent, confidential negotiations to find a solution.

But, he said, "No government can subsidise millions of people with rent, electricity, water, refuse removal and other municipal services."

"We have to take steps to balance the books. Citizens have to play their part. We cannot continue pumping in money ad infinitum."

The TPA has set July 31 as the date on which it will stop bridging costs to black councils.

It says it is running out of funds and cannot continue subsidising rent and service costs for the 47 Transvaal townships, where boycotts are in progress.

"Bridging money" is money given by the TPA to black local authorities to enable them to pay running costs, subsidising the non-payment of rent and/or services.

TPA spokesman Jan van der Walt estimates a backlog of R787 million in rent and service payments in the Transvaal has been accumulated since the boycott started in 1988.

He said the TPA's budget for 1990 was R428 million, but requests for roughly R60 million were coming in monthly.

"We are not withdrawing funds, we simply cannot supply the demand and there are indications further funds from central government will not be forthcoming," he said.

In 1988 it was estimated that 4 million people throughout South Africa were boycotting. Mr van der Walt said the current number was "millions and millions".

There have been sporadic boycotts in the Transvaal, concentrated mainly in the Vaal Triangle, Soweto and Diepsmead. In February/March 1990, however, the situation took a dramatic turn spreading to 47 of the 82 black towns in the Transvaal.

Although negotiations to address the Transvaal township rent and service boycott are in progress at local levels, analysts believe the issue should be tackled on a national front, warning that ham-handed action could spark an uprising worse than that of the mid-1980s and could jeopardise peace negotiations in South Africa. **DAWN BARKHUIZEN** reports.

Mr van der Walt declined to comment on the possibility of a backlash, but agreed that previous strong-arm attempts to recover rent had caused unrest.

People were killed and scores injured in violence that erupted after municipal police attempted to evict rent defaulters in the past.

"We are not being prescriptive," Mr van der Walt said. "We will deal with every case on merit, but we have only R17 million to spend each month. If the boycott continues the administration of some towns could be seriously affected."

The question of electricity cuts is crucial, if bills go unpaid. Eskom spokesman Johan du Plessis said: "All accounts are currently up to date. We are reluctant to speculate on the possibility of power cuts, but the ball is in our court and we have to deal with it."

### Discussions

He said discussions with the TPA were under way. Eskom would negotiate with all town councils involved. While reluctant to consider cutting electricity supplies, Eskom's approach was businesslike — it needed revenue from its product.

While there is conjecture over the relevance and efficacy of the boycott, there is a general consensus that, unless the issue is delicately and intelligently handled, it could explode into national unrest.

Research officer for the Centre for Policy Studies at the University of the Witwatersrand Johannes Rantete believes the rent boycott issue is South Africa's biggest time bomb.

"It has been ticking away for years with little done to defuse it. It is a grassroots issue which affects everybody. Touch it and you touch a nerve. The potential for an explosion is great, particularly now when political con-

sciousness is high. If incorrectly handled this could unleash an outbreak of violence the like of which we have never seen before," he said.

In his view, the current approach is lethal.

"This issue needs to be resolved at top level government, not local level. The councils are a sore point, many township residents regard them as illegitimate. It is all very well for top leaders to interact, but you cannot expect to reconcile people on the lower levels where the wounds are still raw."

He said: "The rent boycott cannot be looked at in isolation or resolved in a piecemeal way. It is part of the greater problem, along with poverty, housing shortages, group areas and unemployment. Civil issues need to be part of the current transition initiative."

Soweto community stalwart Leon and Mosala warned: "Any attempts to cut off basic services would not only lead to a serious health problems, but also a dangerous political situation."

"A great deal of discipline and foresight is required. It is crucial that both sides — true community representatives and the Government — seriously negotiate a resolution," he said.

Soweto Civic Association spokesman Patrick Lepunya believes the steps taken by the TPA could put the national process negotiations at risk.

Democratic Party MP Robin Carlisle said it was inevitable that a subordination would end because financial resources were limited.

"People need to understand that the money has to come from somewhere. They have to work out their priorities. If subsidising electricity is a priority then other areas of expenditure have to be cut."

"A new deal needs to be negotiated by community bodies — otherwise there will be a bloody disaster."

Mr Rantete said the boycott had essentially been designed:

- To make the State aware of real poverty (many people were genuinely too poor to pay) and halt the high in-

creases that councils began implementing when they were established in late 1983.

- As a medium of expression against the authorities, particularly the councils which are regarded as corrupt, incompetent and non-representative.

Residents also contended that the houses in which they had lived for years had been paid for many times over and should be transferred to them.

These points still applied today, Mr Rantete said.

Mr Lepunya said residents did not object to paying service charges, but refused to deal with councils which they regarded as corrupt and non-representative.

- The SCA was also demanding.
- The immediate scrapping of black councils and all other apartheid councils (including the Johannesburg City Council, which, the SCA felt, obviously had too much money if it could employ spy rings).
- Individual electricity bills instead of flat rates payable to the council.

### Implications

Mr Mosala said commercialisation of land for private houses had exacerbated the problem because huge bribes had been paid and most black people had been priced right out of the market.

Mr Carlisle said it was time to end rent and service boycotts because:

- They were being violently enforced.
- The implications for the future were grave for residents, whatever government was in power. It would be difficult to reverse the trend of non-payment in the future.
- Their impact was making township life even more miserable. In Tembisa, for example, a thick crust of sewage had covered much of the township.
- Development was grinding to a halt. In Khyalisha 14 of the 17 developers had withdrawn in the last year fearing non-payment of rents or loans.

"The grievances are real and important, the councils remain corrupt and the services are generally very bad, but boycotts are worsening these problems and have not proved to be a solution," he said.

"There is a danger that as boycotts become anarchic they will overtake any process acceptable to local authorities."



Powerless... crucial to the issue of rent boycotts is the question of electricity cuts if bills go unpaid — previous strong-arm attempts to recover payments have sparked off unrest in the townships.



# Metfund betters <sup>(58)</sup> JSE index <sup>Star 10/7/90</sup>

## Finance Staff

Metboard Mutual Fund, which is managed by Investec Management Company, says its defensive investment strategies and liquidity enabled it to outperform the JSE actuaries all-share index in the quarter to June 30.

Its unit price declined only three percent in the quarter compared with the 5,5 percent fall in the all-share index.

Fund chairman Bernard Kantor says that in spite of high interest rates, underlying support for the share market remained strong.

During the quarter shares in Gencor, Southern Life and Allied Technologies were bought while holdings in Royal Corporation and Royal Group Holdings were sold and that in Walhold reduced.

At the quarter-end the portfolio was 78,3 percent invested and stood at R22,2 million (R21,9 million).

"Careful share selection has enabled the fund to achieve growth ahead of inflation and the JSE indices while continuing to maintain its risk aversion profile," says Mr Kantor.

He warns that a further period of consolidation domestically lies ahead in the absence of any fresh impetus from the gold price.

"Mixed corporate results which can be expected from difficult trading conditions will lead to widely differing share price performances and share selection will therefore be extremely important."

# 'Overkill' fears build up but no rate cut planned

By Magnus Heystek,  
Finance Editor

Hopes of an early decline in interest rates seem to be misplaced with most bankers predicting that the Reserve Bank will wait for more signs that inflation is under control before allowing them to reduce the prime overdraft rate.

However, Standard Bank warns that the maintenance of the current policy stance for much longer may induce an "overkill".

Rumours abounded last Friday and yesterday in the local bond and capital markets that an announcement concerning the Bank Rate — the rate the Reserve Bank charges for overnight accommodation — was imminent.

Rates in both markets moved down fairly sharply as a result.

Yesterday the liquid BA rate declined from 18,3 to 18,25 percent with most other money market rates following the softer trend. On the capital market rates were initially under downward pressure but came back late in the afternoon to close slightly higher after the gold price

weakened suddenly.

The Eskom 168 stock closed at 16,02 percent after dropping below the magical 16 percent level for several trades.

According to bankers they would be "very surprised" to see the Reserve Bank drop the Bank rate at this stage, despite all the visible signs of a severe cooling down in the economy.

"The economy is behaving precisely the way the Bank wants it to," said one banking source yesterday.

Jimmy Mackenzie of First National Bank emphasised it was still the intention of the Reserve Bank to hold the high level of interest rates until inflation had been beaten, but he saw the possibility of the rate dropping around November.

"The money supply growth is down and inflation is coming under control, which is the main aim of the fiscus", he said.

However, he warned that the rate of earnings in the corporate sector was showing a heavy decline due to the squeeze on disposable income. "It's rougher out there than people think,"

he added.

"The Governor of the Bank has a difficult situation arising. Heavily geared companies, small and not so small, are feeling the pinch and if they go to the wall they will never come back. It could also mean the potential loss of thousands of jobs, which would not be a welcome result of the tough monetary curbs," he said.

While there is no doubt that the economy is fully entrenched in what the Reserve Bank Bulletin calls a "tight recession", it is clear that all the pre-conditions for a drop in interest rates have not yet been met.

The Bulletin, released last week, points out that comparatively little headway has been made in bringing down consumer prices, particularly when measured over a 12-month period.

The cooling-down of the economy is reflected increasingly in the slowdown of the rate of increase in credit extended by banks and financial institutions to the private sector and to a lesser degree, in the M3 money supply.

However, the Bulletin says: "The slow-

ing down of these growth rates from late 1988 through 1989 and early 1990 has, however, only recently brought most of these rates below the 20 percent level."

The tempo of monetary expansion has remained at significantly higher levels to date than of comparable stages in the previous downturn of 1984-87.

It is known Dr Chris Stals, Governor of the Reserve Bank, is determined to reduce the inflation figure further before considering a drop in interest rates.

While the official CPI figure dropped to below 14 percent last month, he would like to see it firmly entrenched below 14 percent, and even below 13 percent before relaxing his tough measures.

In its latest economic commentary Standard Bank warns that maintaining the current policy stance for much longer might prove to be a case of "overkill".

Viewed against the background of the speed with which domestic demand and activity has been coming off in recent months, additional policy measures to slow the economy in response to a sustained drop in the gold price are probably unnecessary," the bank says.

58  
10/7/90



# Metaclo minorities decide on legal action against controlling shareholder

Stw. 11/7/90 (58) ~~10/13/91~~

By Ann Crotty

Minority shareholders in Metal Closures SA (MCG-SA) are taking legal action to prevent the controlling shareholder MCG-UK from implementing a proposal that would convert MCG-SA into a wholly owned subsidiary of MCG-UK.

A group of minority shareholders will be making an application to court today to prevent the Registrar of Companies from registering the four special resolutions passed at yesterday's general meeting.

The special resolutions were passed by 77,2 percent, with 12,5 percent voting against.

MCG-UK holds 77 percent of the shares and voted in favour of all resolutions, which are not effective until they are registered.

Donn Jowell of attorneys Jowell, Glyn & Marais who is acting on behalf of the minorities believes the effect of the special resolutions in this instance is oppressive and that a majority shareholder cannot ex-

ercise his power in a way that discriminates against minorities.

While it is generally accepted that a majority shareholder can vote in his own self-interest when a proposal is for the benefit of the company as a whole, in this instance the results of the proposals being voted upon discriminate against the minority and advance the interests of the majority.

## Major grievance

The major grievance of minority shareholders is that the procedure being used by MCG-UK gives minorities absolutely no say in their expropriation from the company. (The procedure involves the conversion of the 23 percent minority shares into redeemable preference shares and their subsequent redemption at an effective R23 a pref.)

Of secondary importance is the level at which the takeover price has been pitched, which is

felt by the minorities to be very low.

At least one of the major minority shareholders seems keen to continue to hold listed MCG-SA shares.

Graham Dickason of the Mines Pension Fund makes the point that it has been invested in MCG-SA since the company was listed: "We would like to stay with it."

There are two legs to the action the minorities are taking.

The first leg argues that the majority shareholder has exceeded its power in the implementation of the proposal.

The second argues, under section 252 of the Companies Act, that the minorities have been unfairly prejudiced.

At yesterday's meeting Gerald Stein of attorneys Werksmans, representing Finansbank, said the procedure used by MCG-UK was legitimate in terms of the law and that if the procedure had been abused then minorities had a

remedy through section 252.

Mr Stein referred to the suggestion by brokers Martin & Co that MCG-SA should be valued at R34,80 to R48,30 as "horribly misleading" and asked Martin & Co's Winston Floquet to explain why he felt R23 was an unfair price.

In support of his contention that the price was too low, Mr Floquet said the company's asset base had recently been replaced. Gearing was low by industry standards and the earnings pattern of MCG-UK was less volatile than that of other players in the industry.

"Our valuation of the company is a minimum of R30."

According to Mr Stein, MCG-UK believed it was availing itself of its rights within the law.

"The minorities are well protected in terms of both the procedure and the price."

He said an independent party (Finansbank) had advised on the fairness and reasonableness of the price.



# Fedgen launches home defects policy

Business Editor

MOST home owners are not insured against structural defects in their homes and, if any appear, may have an expensive legal battle on their hands — provided the builder is still in business — John Towsey, GM of Fedgen, said yesterday.

He was speaking at the launch yesterday of a new home defects insurance policy by Fedgen, the Building Industries Federation of SA (Bifsa), the Master Builders' Association (MBA) and the Builders' Civils and Engineering Underwriting Managers (BCE).

The scheme was initiated by David Taylor, MD of BCE, who will manage it. The cover can be given only before building has started, so that the foundations can be inspected, and provided the builder or contractor has been approved by his regional MBA or Building Industries Association.

A lump sum instalment for five years' cover, of 1% of the purchase price, with a minimum of R1 000, must be paid in advance and Towsey recommends regular topping up to keep pace with inflation.

"A house costing R100 000 today will probably be worth R150 000 in three years' time" he pointed out.

In return for this, he



At the launch of the Fedgen/Master Builders Association home defects insurance policy were, from left, Mike Loy, director of the association in the Cape Peninsula; Fedgen's Cape Town branch manager Michael Thompson; the president of the association in the Cape Peninsula, Harold Matthiae; the GM of Fedgen Insurance, John Towsey and the Cape branch manager of BCE — underwriters of the policy — Francois Theron.

said yesterday, the home owner has only to complain to Fedgen about any structural defect and repairs will be carried out. Fedgen will try to recover the cost from the builder.

"Repairs will be as extensive as necessary. The whole house could be rebuilt if it is discovered that the foundations are wrong for that particular site."

Towsey said that although some large building firms offer a five

year guarantee this amounts only to an extension of the normal three month period during which they will send their own team round to put right any defects which appear.

"Unlike an insurance company, with a solvency margin, they have no funds to guarantee repair work."

He said that often a home owner faced with a defect found the builder had gone out of business, or was told that it was

not his responsibility because it was the fault of a subcontractor or due to the site or to faulty materials.

This could lead to expensive litigation, which an insurance company was better able to afford than an individual.

Towsey said it was envisaged that speculative builders would take out cover against defects, which would make their houses more saleable.



# Conflict at Mamelodi: key inquest policeman in charge

Star 12/7/90  
SS

## Pretoria Correspondent ..

A key figure in the inquest into the death of 12 Mamelodi residents in 1985 was in charge of the riot squad in the township on Sunday when police fired tear-gas and rubber bullets at a rent meeting at the HM Pitje Stadium.

Captain Hermanus Arnoldus le Roux, district support officer at Pretoria Moot, was last month described as "a liar" in the Pretoria North Magistrate's Court by Mr Morris Basslian, counsel for the families of the 1985 shootings.

## Shooting

Captain le Roux had told the inquest that he shot dead a demonstrator with his R-1 semi-automatic rifle in Mamelodi on the day of the shooting.

He said he shot another man to prevent him throwing an object at a passing defence force vehicle.

The presiding magistrate at the inquest, Mr J N Pretorius, said he was unable to make a finding and referred the evidence to the Attorney-General.

Mr Pretorius said that due to the conflicting evidence given during the inquest and the time lapse, it was difficult to determine whether the deaths were brought about by any acts or an omission amounting to an offence on the part of any person.

## Documents

The Attorney-General, Mr Don Brunette, said yesterday he had not yet received the magistrate's findings.

The matter would be considered as soon as he had received the documents.

A spokesman for the Police Public Relations Directorate said yesterday Captain le Roux had not been suspended since the Mamelodi shootings in 1985.

Police and organisers of Sunday's report-back meeting in Mamelodi differ on the crucial aspects which led to teargas and rubber bullets being fired to disperse more than 16 000 residents and diplomats. — Sapa.

# Black local authorities award contracts to Afsure Insurance

Star 12/7/90 (58) (58) (58)

By Jabulani Sikhakhane  
Afsure Insurance Brokers, which is a brainchild of the Foundation for African Business and Consumer Services, has been awarded insurance contracts worth R1,3 million by the Daveyton City Council and the Dobsonville Town Council.

Afsure managing director Khehla Mthembu said yesterday that Afsure was the first black-owned insurance broking firm to be awarded such contracts

by black local authorities.

"We are encouraged by the bold display of faith in the professionalism of black companies by these local authorities."

The insurance contract for all black local authorities in the Transvaal is worth R30 million a year.

The mayor of Daveyton, Tom Boya said at a media conference that Afsure was awarded the contract because it offered the best quote at the time.

"The assets of the Daveyton Council are worth R200 million.

"To insure the council properties (street lights, houses, etc) and the lives of its councillors costs the council about R800 000 a year in premiums," Mr Boya said.

Afsure also has a R25 million-a-year account from the Southern Africa Black Taxi Association (Sabta) and R510 000 from the National Soccer League's third division.



# Short-term insurers in premium-cutting crisis

(58) Star 12/7/90

By Sven Liinsche

The war for market share is beginning to take its toll on underwriting profits of most short-term insurers. So bad is the situation that consumers can expect premium increases of more than 50 percent this year.

The premium-cutting war has escalated to such an extent that industry sources fear some insurers will soon not be able to meet customer's claims.

In an unprecedented move yesterday, the umbrella body of the industry, the SA Insurance Association (Saia), urged its members to refrain from rate-cutting in the long-term interest of consumers.

"It is imperative that premiums be raised to realistic levels to ensure the financial viability of the industry and the protection of the public," Saia chairman Clive Dean said.

The South African Insurance Brokers' Association has urged members to pass business only to those short-term insurers whose solvency margins exceed 25 percent.

The Registrar of Short-Term Insurance, the industry's official

watchdog, has warned that some insurers need to give urgent attention to their solvency margins.

Assistant Registrar Nico Fourie said his office was examining financial returns submitted by insurers for the first quarter.

"If the industry does not immediately take steps to rectify the situation, some companies could find themselves in serious trouble," Mr Fourie said.

## Drastic plans

"We will recommend to some managements that they implement fairly drastic plans as soon as possible to improve their solvency margins.

"This could lead to substantial adjustments to car premiums, with premiums on personal-line business the first to be raised," Mr Fourie said.

The Automobile Association at the weekend urged the Registrar to issue an immediate statement on the solvency margins of all short-term insurers.

"We would expect insurers reporting low solvency margins to be instructed to submit business

plans incorporating urgent recapitalisation proposals," the AA said.

The state of the market is reflected in rapidly deteriorating underwriting results.

The Commercial Union's Bill Rutherford said that despite recent rate increases, last year's underwriting profit of R11 million was likely to be reversed into a loss situation in financial 1990.

The largest short-term insurer Mutual & Federal said today the number of claims had risen by 13 percent, while the cost of these claims had increased by 35 percent in its financial year to end-June.

Some companies have already reported underwriting losses in their previous financial year because they kept premiums low to gain market share.

The cost of repairing cars has risen by about 40 percent in the past year alone, which has led the AA to estimate that premiums would need to rise by more than 40 percent to cover underwriting losses alone.

Some insurers have already begun raising premiums for

household and motor cover this month, with the full rise being staggered over the next six months.

Saia's Mr Dean confirmed the trend.

He said: "The motor insurance sector is in a vulnerable state as the vehicle theft rate is increasing, while the accident rate is climbing.

"Rising prices of new vehicles and parts, largely because of the rand's unfavourable exchange rate, have led to a sharp rise in the average cost per claim.

"The Welkom tornado and several major fire claims, which have seen premium income in the fire department dropping by about two percent, will also be a serious drain on the industry."

In an earlier interview with Insurance Times, Mr Dean, who is also general manager of General Accident, said premium increases of well above 50 percent would be necessary to make up for recent losses.

To soften the impact of higher premiums companies were offering the facility of paying on a monthly basis.

**Activities:** SA's fourth largest life insurer.  
**Control:** Anglo American has 40% of the equity and First National Bank 30%. (58)  
**Chairman:** T N Chapman.

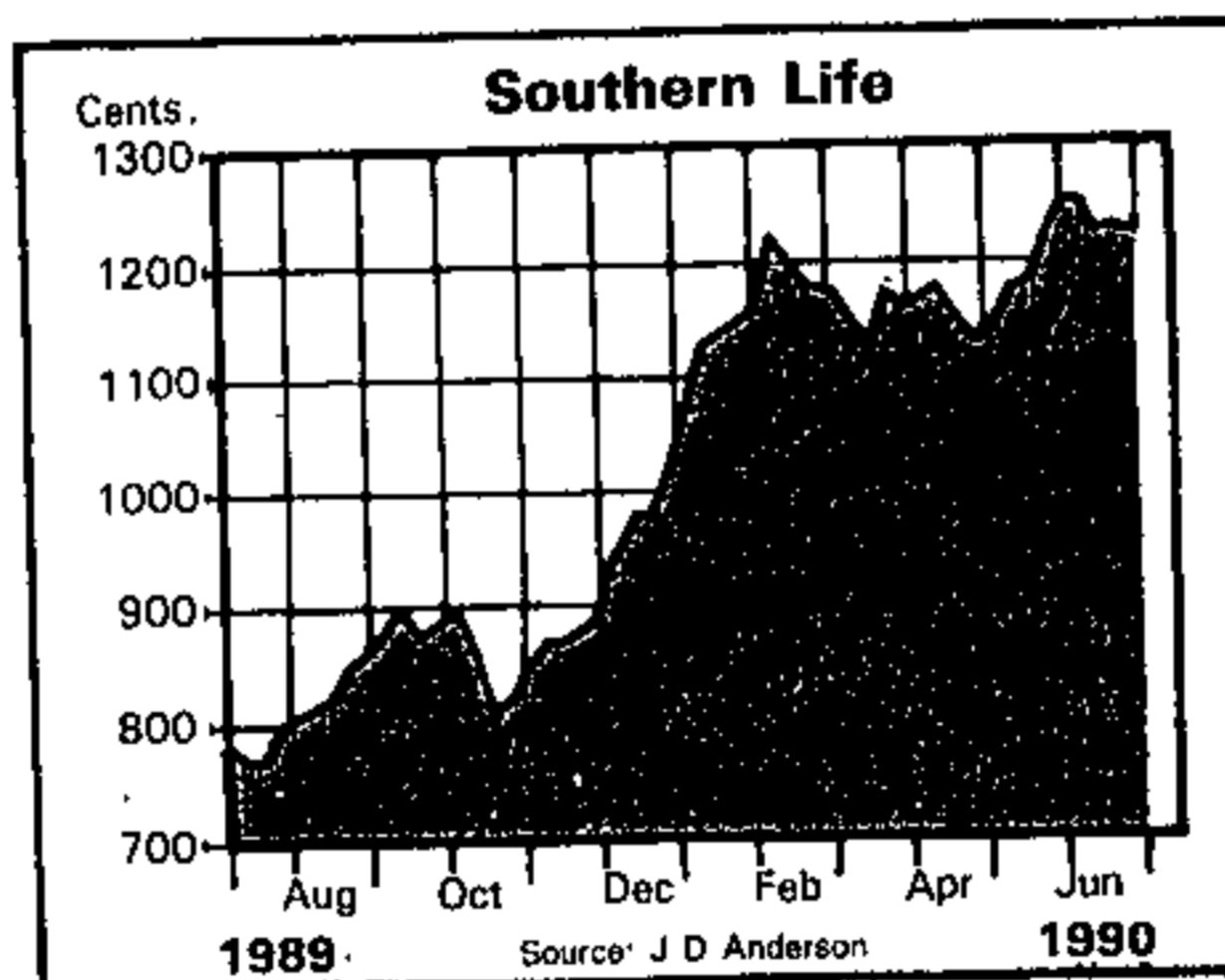
**Capital structure:** 168,7m ords; 4,1m convertible part non-voting prefs of 5c. Market capitalisation: R2,07bn.

**Share market:** Price: 1 225c. Yields: 3,7% on dividend; 5,6% on earnings; p:e ratio, 12,9; cover, 1,5. 12-month high, 1 250c; low, 750c. Trading volume last quarter, 582 000 shares.

Year to Mar 31	'87	'88	'89	'90
Total assets (Rbn) ...	7,7	7,8	10,7	13,7
Premium income (Rm)	859	1 214	1 388	1 596
Investment income (Rm) .....	488	553	676	818
Taxed profit (Rm) ....	64,0	78,8	94,9	115,2
Earnings (c) .....	39,0	48,0	56,3	68,3
Dividends (c) .....	26	31,5	37,6	45,6

In fiscal 1989, the gilt portfolio's value rose to R2,09bn, from R1,30bn. In fiscal 1990, it tumbled to R1,57bn. In contrast, the equity portfolio was R7,88bn at the end of March 1990 against R5,03bn a year earlier and R2,95bn a year before that.

Whether the strategy is altogether correct, short term is another matter. Southern seems to be playing what can best be described as a long-term game — last year it aimed investment purchases at golds and mining financials, particularly companies controlled by its parent, Anglo American. Amgold appears for the first time in the top 10 portfolio investments, while Vaal Reefs has moved up sharply.



On a short-term view, Southern's investment managers may have got their timing wrong, particularly if they were chasing gold shares in the bull market which came before the All-Gold index dropped out of bed. At the start of Southern's past financial year, the JSE's All-Gold index stood at 1 421. It rose to 2 049 by the end of calendar 1989, just as Southern was wrapping up its gold share purchases, and then dropped to 1 960 by end-March, the end of Southern's fiscal year, and 1 538 by the end of last week.

Last year's going does not seem to have been particularly easy, though the extent of difficulties is not easy to determine given Southern's comparatively uninformative reporting. Compared with its larger competitor, Liberty, disclosure lacks completeness.

When Southern ceased to be mutual, it told investors it had large inner reserves — reserves not directly needed to cover actuarial liabilities under unmaturing policies.

Liberty quantifies them, revealing its true financial strength. Since its listing, Southern has regularly made undisclosed and variable transfers to or from inner reserves. Apart from that, and it may just be a quibble, Liberty tells shareholders its top 24 equity investments — Southern only the top 10.

Last year, Southern's actuarial reserves rose by only R865m against fiscal 1989's R1,01bn. The drop is not explained, but can be correlated with the doubling of surrenders and group business withdrawals to R594m from 1989's R296m. It seems unlikely the decline in transfers to actuarial reserves came from the slackening demand for single-premium policies — demand for them has been virtually unchanged for three years. Chairman Neal Chapman says declining growth in large single-premium business has led to a shift in the mix of business produced towards "traditional areas of production" which, he adds, has elevated longer duration conventional business to the lead position.

Last year, recurrent premium income increased by 21,8% (1989: 22,4%) to R1,15bn, while single premium income was unchanged at R440m. Commission payments moved ahead by only 16,3% as did marketing and administration costs.

Chapman is cheerful about prospects. Shareholders, he says, can expect earnings and dividends to continue to grow. He can count on the strength of inner reserves if necessary. Performances are not strictly comparable as year-ends differ, but in its latest year, Liberty increased earnings by 21,7% and its dividend by 24,9%. Southern's earnings notched up a 21,3% advance and its dividend 21,0%. On that basis there is little to choose between the two. *Jim Jones*

SOUTHERN LIFE FIM 13/7/90

## Going for golds (58)

Southern's current investment strategy has been clearly underscored — large-scale investment in gilts is to be used as a temporary home for spare cash. Once equity homes become available, investments in government and semi-government stocks will be thinned out. That, at any rate, is what happened in the past year.



## Spreading risk

Trade finance house GDM Finance seems to have shrugged off the effect of declining imports. This, according to MD John Cowper, is mainly because even in a recessive market, high inflation increases the monetary value of finance.

Preliminary figures show a 38% increase in attributable earnings to R7,6m. Cowper says this was possible because of the conservative stance the company has taken in providing credit. "When we do hit a recession, it is then less likely we will have large increases in bad debts."

However, a deterioration in the economy and continued high inflation and interest rates will further affect client businesses and the incidence of bad debts could be increased.

But GDM's success so far has been a result of spreading its involvement in industries across the board. Cowper says the maximum involvement in one industry is no more than around 21%. Gearing is still low with a

### GROWING UP

Year to April 30	1989	1990
Bills receivable (Rm) .....	4,8	6,2
Total assets (Rm) . . . . .	95,6	121,8
Pre-tax profit (Rm) .....	8,1	9,8
Attributable (Rm) .....	5,5	7,5
Earnings (c) .....	21,3	29,3
Dividends (c) .....	8,5	12

debt:equity ratio of 4, but is up on last year. It was pushed higher by the group's acquisition of African Shipping with affect from February 1. African Shipping showed a profit after tax of R116 000 for the three months to end-April.

GDM has declared a final dividend of 8c per share (6c in 1989) making a total dividend of 12c (8,5c). On a dividend yield of 9,2% and p:e of 4,4, the share is rated on similar lines to competitor Reichmans, but falls short of Merhold's rating.

Cowper is reluctant to make any predictions for the current year because of the uncertainty in the present environment. But he does say that if the economy does not deteriorate further, the group will achieve another real increase in earnings.

Heather Formby



VOLKSKAS

# Opening up

FIM 13/7/90

58

**Activities:** Banking, insurance, financial services and property development.

**Control:** Rembrandt and UBS Holding each have 30% of the equity.

**Chairman:** J A Stegmann; MD: D C Cronje.

**Capital structure:** 43,0m ord. Market capitalisation: R666m.

**Share market:** Price: 1 530c. Yields: 5,8% on dividend; 17,4% on earnings; p:e ratio, 5,7; cover, 3,0. 12-month high, 1 555c; low, 1 100c. Trading volume last quarter, 363 000 shares.

Year to Mar 31	'87	'88	'89	'90
Total advances (Rbn)	7,64	8,90	10,71	13,93
Total assets (Rbn)	13,14	15,10	18,41	20,48
Operating profit (Rm)	n/a	n/a	237,1	292,8
Bad debt provision (Rm)	n/a	n/a	96,6	118,5
Pre-tax profit (Rm)	n/a	n/a	140,5	174,3
Taxed profit (Rm)	60,8	71,3	91,0	115,3
Earnings (c)	199,6	186,4	214,1	270,0
Dividends (c)	60	73	78	90



**Volkscas's Cronje ... hierdie is die feite**

Danie Cronje, appointed Volkskas's group MD just over a year ago, is becoming increasingly and refreshingly candid. Not only is he loosening the bank's cautious reporting but also makes it plain that Volkskas has to restructure to compete in the corporate, English-speaking and black markets.

Restructuring has already started, along with the cold shower of moving from Pretoria's cosiness to Johannesburg's abrasive business reality. Cronje realises the next few years will not be easy. He wants to lift the group's return on assets and equity to the banking sector's average in the medium term. There was no sign of a material improvement in the last financial year — return on average total assets rose to 0,73% from financial 1989's 0,72% which, in its turn, was no different from the level achieved a year before.

In contrast, in its last financial year, First National increased its return on assets to 0,91% from 0,73% as it won its struggle with computer problems and large property developments.

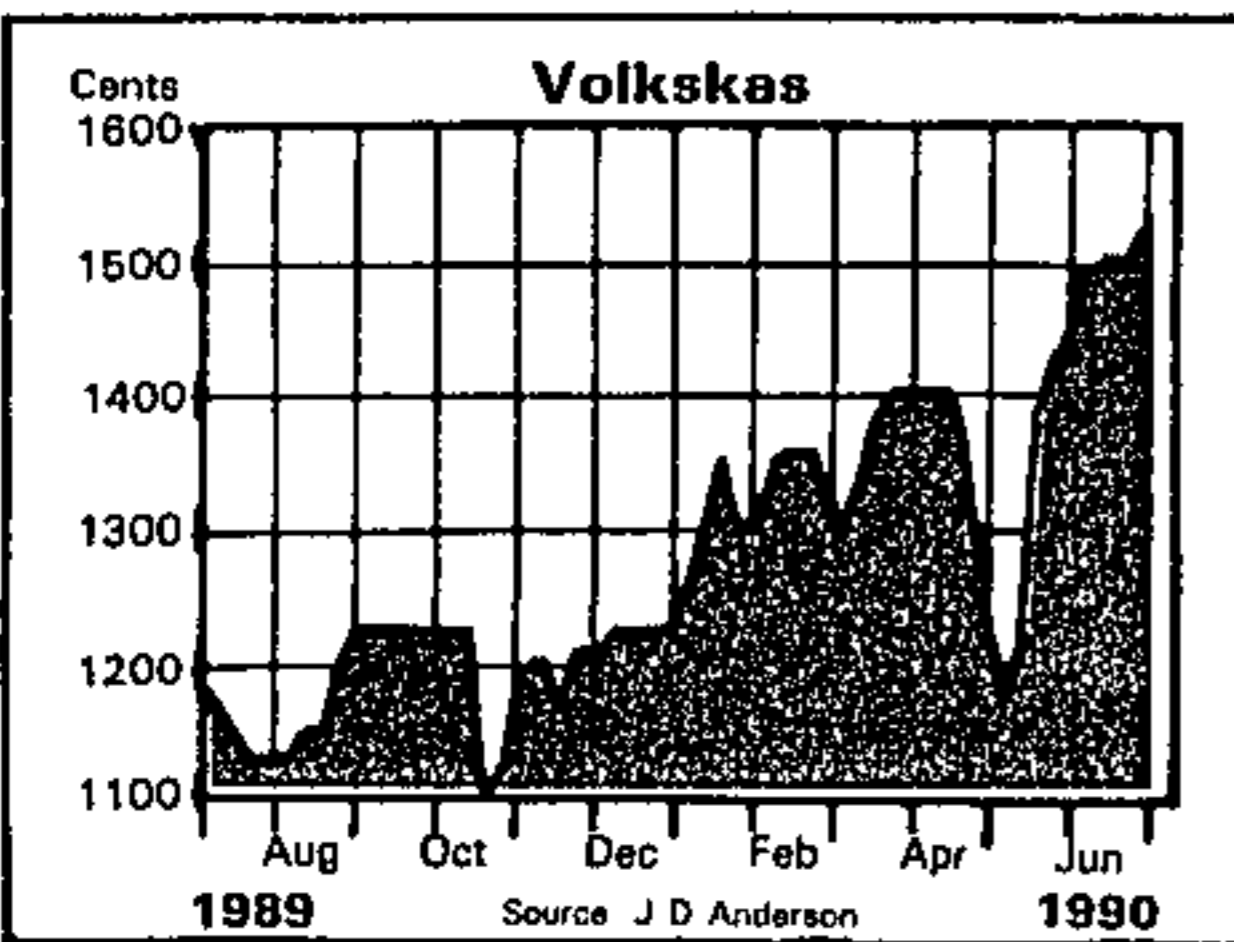
In the ultra-short term a low return on assets need not be a matter for concern.

Demand for credit is weak and weakening. As a result, assets are unlikely to grow rapidly which, in turn, means there is no pressure to boost returns to levels needed to maintain steady increases in capital. Still, dividend cover has been lifted to 3 times from the previous year's 2,7 and, some weeks ago, Cronje told me the latest level was appropriate.

He also said that the comparatively low increase in the year's bad debt provision — 22,7% against a 30,8% increase in advances — was fine because it reflected Volkskas's lending conservatism. That seems realistic. The very fact that Volkskas is telling shareholders more is an indication there are no skeletons likely to drop out of the closet. TrustBank, where the quality of disclosure is abysmal, tends to prove the contention that corporate scandals and cover-ups are almost invariably accompanied by reporting secrecy. Will we ever know the full facts behind Trust's absorption by Bankorp to be salvaged by cash-flush Sanlam?

In contrast, Volkskas has nowhere to hide. It is unlikely to be absorbed by Rembrandt which cannot increase its equity stake and cannot, therefore, underwrite any capital-raising issue. Nor does a merger with UBS seem likely as it, in turn, is preoccupied with developing its own banking operations.

So Volkskas has to go it alone for now. And that implies reporting openness to accompany a new approach to business. Three or four reporting improvements — disclosure of interest income and expenses and divisional profit break downs — will elevate Volkskas's reporting to the standards set by First National and SBIC. They will also help analysts compare the skills of the group's



managers against those of competing banks.

This year is expected to be tougher than last. Chairman Joe Stegmann warns of declining demand for bank credit, deteriorating credit risks and highly competitive profit margins. In those circumstances, Volkskas will be hard pressed to gain shares in the new market segments it has targeted. But it needs to be in those markets and less reliant on government and quasi-government business if it is to build on its customer base.

Jim Jones

## Testing times (S8)

The Estate Agents Act was revised last month in parliament — and now the industry is debating what the changes will mean.

While some see them as tightening up on entry requirements for the real estate industry and thus restrictive, others criticise them for making entry too easy and policing newcomers too difficult.

The heart of the legislation, which comes into effect at the beginning of next year, is that no one can claim to be an estate agent without first passing an Estate Agents Board examination. However, a newcomer to property sales will be able to do a two-year apprenticeship as a candidate estate agent before taking the exam. Failing the exam would permanently disqualify the candidate from working as an agent.

At present, any newcomer may work as an agent for a year before being examined and candidates who fail may apply for an exemption while preparing to rewrite the paper.

Another change is that a candidate estate agent will be allowed to complete property transaction documents only under the supervision of a qualified estate agent, who must then certify that this was done. Unexamined newcomers can complete documents without supervision at the moment.

"It seems these changes were motivated by the feeling among estate agents that an examination, as happens in most countries, should be written before entry," says Dave Miller, president of the Institute of Estate Agents of SA. "Government also seems to be looking to the future and saying we need two entry levels."

Miller believes that the first entry level will be for people who have the ability to write and pass the exam before entering the profession. "The second is for those who, through a lack of education, can't do that. It offers them the opportunity of doing a two-year practical apprenticeship with a make-or-break examination at the end."

Miller says two years is too long to allow people loose in the industry without testing their competence. It also will be difficult to police the new Act to ensure that candidate agents are properly supervised, he says. "Nevertheless, estate agents are adaptable people and they will make the new legislation work. Our concern is that industry standards will fall because it will be possible for an idiot to remain in the business before being tested. There are 100 different Acts that have a bearing on property transactions. The agent must know how to deal with them."

Eskel Jawitz, chairman of the Estate

F/M 13/7/90

Agents Board, compares the two-year candidacy to that of an accountant or lawyer doing articles. "I don't think anyone can argue with that." (S8)

He explains that the motivation behind the changes is that Trade and Industry Minister Kent Durr and his department feel that the examination is not sufficiently practical and that standards are far too high in relation to the requirements. Durr, who proposed these changes, is himself an estate agent.

"One must bear the blossoming black residential market in mind and that in order to provide buyers with a good dependable service, all agents, irrespective of colour, must be encompassed in the fold," Jawitz says. ■



## Banks brake (58)

Banks have retreated from the mortgage loan market they entered so aggressively in December 1986. The latest edition of the Reserve Bank *Quarterly Bulletin* reports a decline in the quarterly rate of growth in mortgages "from R1,3bn in the fourth quarter of 1989 to R1,2bn in the first quarter of 1990." Total bank holdings are now R24bn.

This follows annual increases of R2,5bn, R6bn and about R4,8bn between 1987 and 1989. An additional R7,7bn came from building society-bank mergers — Trust into TrustBank, the Perm into Nedcor and Standard Building Society into Standard Bank.

Building societies' growth in holdings, on the other hand, rose from R1,5bn to R1,9bn, bringing their total portfolio to R24,7bn at end-March. Though an improvement on previous months it is well down on the R29,8bn peak of March 1989 — the month before the Perm merged with Nedcor.

But for the various mergers building society holdings would have been at least R7,7bn higher.

Banks no doubt are suffering from the recent rise in funding costs. They have been hit by new cash and liquid asset requirements on off-balance sheet transactions, imposed in April but expected for some months. They have also been under pressure from the Central Bank's refusal to adjust Bank rate, which would pave the way for banks to increase their own lending rates.

This is a reversal of the situation in 1987, when real interest rates were negative. Banks could tap cheap short-term funding, while building societies were locked into more expensive longer-term money.

Under new legislation which should be in place by next year, they will compete on an equal footing as requirements on all deposit-taking institutions will be the same. ■



geared. Picprop's saving grace was the R16,0m it held invested in prefs which last year generated more than 80% of after-tax earnings. Practically all its other investments have been sold for R4,2m, leaving Picprop with about R20m in liquid assets, no debt and a net worth of about 275c a share.

Picprop has now bought The SA & General Investment & Trust Company (Sagin) from Pichold for R13,15m. Sagin's main investment is 30% of CIBG and the option to acquire a further 1m ordinary shares for 210c a share which will only be exercised when the Reserve Bank permits a shareholder the right to hold more than 30% in a bank. Jan Pickard, the group's chairman, expects the limit to be raised to 49,9% soon.

The name Picprop is to be changed and the company has applied to the JSE for its listing to be transferred to the banks and financial sector. In due course it is probable that Sagin will be collapsed back into the renamed Picprop to leave it with a direct holding of CIBG. And the intention now is to direct the activity of the "new" group into financial and allied services which will add to and complement those of CIB.

Picapli and Uniewyn remain the group's principal problem areas because of their debt burdens. At the end of the 1989 financial year (June 30, 1989), Picapli was carrying interest-bearing debt of R163m compared with shareholders' funds of R46m. Pickard says that debt has been reduced by about R70m and will be seen to stand at just under R100m at the 1990 year-end. This has been achieved by reducing stocks and debtors by R50m and R20m respectively. But the cost of the stock reduction has been high.



**Pichold's Pickard ... hoping to spread the shares?**

The large and widely diverse audio range was sold off, mostly to the trade at cost prices. This has decimated profitability. Moreover, the service expense lag — servicing guaranteed goods — is an on-going high-expense obligation that will only expire in 1991. But the benefit of this rationalisation is that Picapli's product range is now focused. Pichold's financial director, Johann Vermooten, says that while the 1990 results will show a heavy loss, 1991 will see a return to profitability because of this focus and improved margins.

Uniewyn will be bailed out of its debt

when Pichold channels the Sagin sale cash to it.

Pichold currently holds 78% of Picprop, 93% of Picardi and 90% of Uniewyn. Shareholder spread is thus very small. One of two courses is open to Pickard. He can either take out the minorities or he can ensure that the spread is expanded. If the latter is adopted maybe he could place some paper with the institutions to achieve this end. At least, then, if a rights issue to alleviate debt is called at a later date, new shareholders could follow it. Otherwise Pickard will have to fund it virtually by himself. *Gerald Hirshon*

PICHOLD FIM 13/7/90

### **Pichold expansion** (S8)

Pichold is set for an expansionary phase into the banking and allied financial services market. It started when Cape Investment Bank Group (CIBG) acquired Corbank to get hold of its foreign exchange licence and is now to be continued through Picprop.

It is the only one of the listed Picardi companies that has not been hopelessly over-

MONEY MARKET

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# High on animal spirits

With Treasury bills (TBs) trading below the Reserve Bank's official rediscount rate of 18%, money market participants clearly expect this key official rate to fall soon. A R100m offer on June 29 drew subscriptions of about R350m — and the average rate fell from 18% the previous week to 17,97%. Last Friday, a R100m tender attracted over R700m and the rate fell to 17,91%.

The same pattern has emerged in Land Bank tenders. On June 25, an allotment of R20m attracted R75m subscriptions — and the rate fell from 18,15% the previous week to 18,01%. At the start of this week, an allotment of R40m brought a R270m response and the rate was 17,95%.

Market rates followed. On Monday, the rate on liquid BAs, which had been static at 18,3% for weeks, fell to 18,25%. And 12-month CDs dropped from 18,75% last Friday to 18,6% on Tuesday.

This development is significant because changing position in the market incurs short-term pain. Says UAL's Peter Lane: "Because of the negative yield curve, people are buying long-term assets with money that costs more than the assets yield. But long-term you make money, as yields on short-term investments drop."

The switch follows a tight May month-end when call rates went over 21% and the shortage hit R4,3bn. With seasonal and special factors behind us, expectations have presumably been fuelled by publication of the *Reserve Bank Quarterly Bulletin* last week, which confirms the economy is in a recession.

It is not so much that projections on when Bank rate will fall have been brought forward, but rather a realisation that the date the market has set, by consensus, for a fall of 1%-1,5% is getting closer. Nothing has happened to change the general view that the economy has cooled enough to let the Bank relax its grip on the money market.

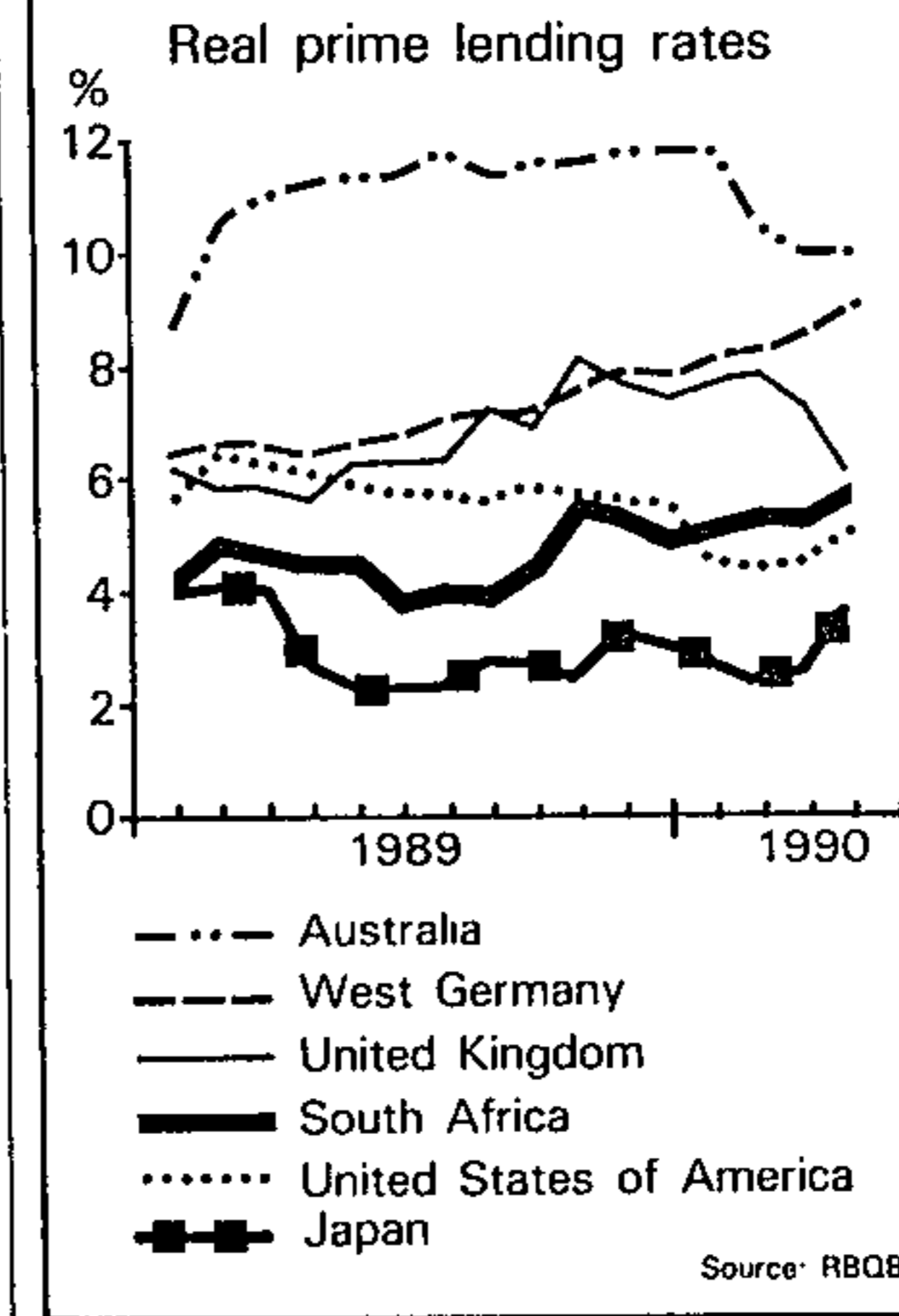
Greatest threat to lower rates is the price of gold which remains volatile, plunging from US\$360/oz on Monday morning to \$352 on Tuesday. But despite the reduction in export revenue, forex apparently continues to flow in, presumably as a result of greater availability of trade credits.

Also setting the scene for lower rates is a decline in inflation. However, as Stals frequently points out, our inflation rate remains substantially higher than those of our trading partners. And our interest rates, though nominally high, are lower than those of the UK and West Germany and have only recently overtaken those of the US.

It is interesting to note the course of real interest rates in the past year (see graph). Says the *Bulletin* "The improvement in the

inflation rate from approximately the middle of 1989 and the increase to 21% in the commercial banks' nominal prime overdraft rate from October 11 were reflected in an increase in real prime rate from 3,7% in June 1989 to 5,6% in April 1990."

## Better perspective



□ After nearly a year in the wings, the TB tender has moved back into the spotlight. Having decided last August to offer "either no or very small amounts of TBs at its weekly tender," the Bank dropped the tenders to about R20m a week. On March 30, however, it started phasing in larger amounts. This will relieve the shortage of liquid assets. ■

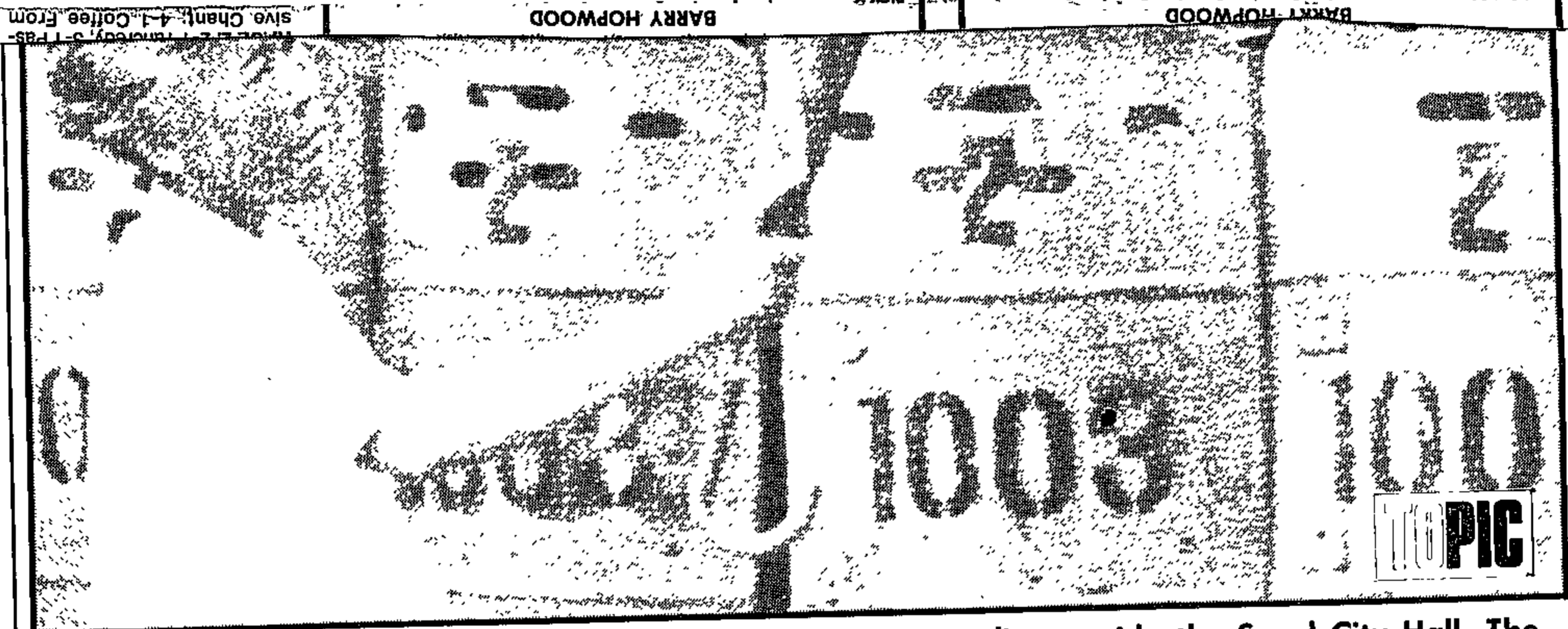
## OIL

### Geneva fight

Fighting talk from Algeria, Iran and Iraq about screwing crude prices up to US-\$25/barrel has had no effect on international markets. After a respite, caused by a strike in Norway's North Sea fields, oil this week resumed its downtrend, taking Brent Blend to \$15,55/barrel while Saudi light crude was quoted at \$12,05 (fob Persian Gulf).

The Norwegian stoppage — which cut production by 1m barrels a day (BPD) —





An elderly woman waves her umbrella as she yells at riot police outside the Seoul City Hall. The police held back from a clash with 200 women protesters opposed to a municipal scheme aimed at resettling squatters in temporary shelters.

# Nationalisation inefficient, says Ogilvy Thompson

**JULIAN OGILVY THOMPSON**, chairman of Anglo American Corporation, the country's largest mining and industrial conglomerate, gives his views of the future in these extracts by **TOM HOOD**, Business Editor, from his annual review and an interview this week.

**S**OUTH Africa is not a rich country in spite of its mineral endowment. It has no pots of gold or platinum or anything else stashed away, to be brought forth by will alone.

Economic growth depends on using the country's resources more productively.

Privatisation of industries is one way of increasing the productivity of resources. Where private business can operate effectively it is more efficient, and therefore makes a greater contribution to the national wealth than state enterprise. This is why governments all over the world are engaged in extensive privatisation.

Opposition to the privatisation of industries, as distinct from services, is motivated chiefly by political self-interest. People wish these industries to remain in state hands so that employment in them can be used for patronage, both for a privileged circle of ministers and administrators, and for the workers, who are expected to remain loyal to a government that shelters them from economic realities.

This happened in nationalised industries throughout the world and under all kinds of government and is the principle reason why nationalisation is inefficient and un-

desirable, and indeed in most cases insupportable in the long run.

At a huge cost in terms of economic growth, the National Party conferred substantial benefits on about 10 percent of the population at the expense of the rest — not only of blacks, who were largely excluded from the system, but also of the remaining whites who paid high taxes to support transfer payments to other whites.

The same thing could be done at comparable cost for a different 10 percent of the population but not for the majority — no country can be a parasite upon itself.

The only way to benefit the population at large is by means of balanced economic growth, which will certainly be promoted by the right forms of privatisation.

The South Africa of the future will need private organisations with the resources to undertake large and important projects which the government either should not or could not attempt.

Provided a competitive climate is preserved, the existence of big companies is conducive to the growth of small business — not the reverse.

Anglo American is a big group and we're proud of being a big group.

We are often criticised on



Mr Julian Ogilvy Thompson .. economic growth depends on using resources more productively

the grounds of being very large but we are not as large as critics claim, allegedly controlling 45 percent of the Johannesburg Stock Exchange.

That figure is just plain wrong — there is a lot of double counting.

Anglo and its associates account for about 30 percent of the stock exchange and, more important, 25 percent of the stock exchange consists of companies that Anglo and its associates brought to fruition.

We are proud of this achievement and I sometimes wonder if those critics would have preferred Sir Ernest Oppenheimer to have gone to

Australia and not to South Africa.

Anglo and its associates own about only six percent of the nation's total fixed assets. About 54 percent of those assets are owned by the government and parastatal organisations and four percent by agriculture. I think that puts the matter in perspective.

Anglo American and De Beers have worked with governments all over Africa and in other parts of the world.

In Botswana, the government took a shareholding in the company in exchange for mineral rights.

Governments can choose what overall "take" they are going to have from a company's profits, what percentage they would like to have in shares and what they would like to have in taxes.

What they can't have, and expect the company to prosper, are very high taxes and very high shareholdings.

Anglo would be prepared to invest almost anywhere in Africa. But you have to be sure there is an economic opportunity, that shareholders will get satisfactory returns, that there will be reasonable stability in the economic and political systems, that dividends will be transferable and that the currency will operate within reasonable bounds.



## Brokers welcome new checks on short-term insurers

By ROBERT LAING <sup>11/17/1980</sup> <sup>1317-1117190</sup>  
 INSURANCE brokers have welcomed the urgent action taken by Registrar of Financial Services Piet Badenhorst.

In an unprecedented move Badenhorst has called on short-term insurers to submit returns for the first three months of the year.

Heritage MD Ronald Gordon says: "This will give an indication if any more short-term insurance companies are about to go the way of the AA-Mutual in 1986.

"The industry is solid enough to mop up any weak companies. The AA-Mutual could have been saved if its problems had been revealed in time."

Automobile Association MD Peter Elliott said in a statement recently: "The Registrar should issue an immediate statement on the solvency margins of all

short-term insurers operating in South Africa. <sup>(58)</sup>

"The AA strongly recommends the Registrar consider stepping in to end the pursuit of market share by certain companies which hope that investment income will cover underwriting losses."

The local insurance industry has been engaged in a rate war since 1976, when legislation fixing tariffs for motor and fire insurance was disbanded. Rates for, say, luxury cars slipped from 6 percent to 2.5 percent as companies competed against giants like Lloyd's.

Meanwhile, inflation has pushed the cost of claims up and incidents of burglary, car theft and accidents have risen, making a premium increase of at least 20 percent inevitable, Santam MD Oosie Oosthuizen said recently.

Motor insurance accounts for more than

half of the industry's business and rising costs due to import surcharges and labour have hit it badly. IGI paid R29-million for stolen motor vehicle claims last year. The figure for the entire industry is probably five times that — R145-million.

Oosthuizen said this, with the high replacement cost increases of commonly burgled items like video-recorders and TV sets, meant the industry had to contend with an inflation rate close on 40 percent.

SA's largest short-term insurer, Mutual & Federal, reported a 13 percent increase in the incidence of claims and a 35 percent rise in the cost of losses in its financial year to end-June.

South African Insurance Association (SAIA) chairman Clive Dean said in a statement: "The unsatisfactory state of

the market is reflected by rapidly deteriorating company results.

"As a result SAIA's council is to discuss the state of the market with the Registrar and urges its members not to indulge in rate cutting.

"The scramble for market share is worse today than in the period prior to 1986 when the AA-Mutual collapsed."

However, insurance brokers are still sceptical of larger companies' willingness to abandon the rate war.

No company has yet announced a price increase.

The executive directors of insurance companies are encouraging each other to raise premiums, but nobody wants to be the first to do so.

"Personal insurance is notoriously mobile and the first company to hike prices is bound to lose customers," Gordon says.

# Banking market of the future

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Wilson Cuba is manager in the financial industry practice of Andersen Consulting

cardholders come from households with earnings of fewer than R1 500 a month. Most did not follow the traditional progression — savings accounts to cheque accounts and then plastic cards. Instead, many went straight to debit cards, thus cutting costs of administering savings books.

ATMs were introduced successfully to urban blacks despite low literacy levels, without aggressive marketing and without any special effort to make them accessible.

How much more could be achieved if an effort were made to reach the market?

But before banks will make the effort, another fallacy will have to be exposed: that lending to blacks is risky or unprofitable. Informal banks (like *mashonisas* and *stokvels*) engage in profitable bank business. And, as an executive of a banking group with considerable experience in making mortgage loans to blacks points out:

The loss ratio (on repossession) on loans to blacks is about half that of whites;

Resistance to default is greater among blacks than whites because of the critical shortage of housing;

In the current disturbed socio-economic environment, other businesses tend to shy away from providing these services, so there is enormous potential for short-term profits;

Arrears are higher but this may have more to do with blacks' employers than their own proclivities — employer subsidies on bond interest can take months to adjust;

Administration of black loans is more complicated and hence costly. However, there are procedures to handle the market's needs cost-effectively.

In the past, banks could think short-term and still be profitable thanks to artificial rather than market forces. Now the industry is beginning to realise the parameters of the past can't necessarily be extrapolated.

The market of the future is here. Banks who hesitate to serve it have no one to blame but themselves for missed opportunities.

The market of the future is knocking at the door of every bank. Its potential is so vast, I doubt any bank can afford to ignore it. It is called the *black market* (unfortunately, because not only does the name conjure up images of clandestine exchanges on street corners, it perpetuates racial distinctions).

Penetration of this market is relatively low; higher penetration could have a major impact on bottom lines. But to achieve this bankers will have to change their mindsets.

They tend to think of the black market as Third World while the white market is First. However, a huge majority of black ATM

## New flagship? (58)

Bankorp's profile may in future be more closely linked to corporate Senbank than to commercial TrustBank. The latest strategic move by Bankorp executive chairman Piet Liebenberg is to merge the two banks' corporate divisions under Senbank.

CE Hennie van der Merwe says: "It will be SA's largest corporate bank and provide commercial and merchant banking products to corporate customers. These include cheque account facilities to companies and their executives, electronic products, large loans and other forms of funding." Another prong will be international banking.

The move is designed to entrench Senbank in the top end of the market where it can take advantage of opportunities generated by "commercialisation" — as major State institutions contract out services.

Van der Merwe believes Senbank will have a competitive edge because of its ability to provide funding, where other merchant banks have to turn to the market for this. It also has the benefit of a highly skilled team, he says, which includes people who played key roles in the:

- R2,3bn Gencor-Fedmyn rights offer in last July;
- Gencor-Mobil-Engen acquisition and restructure between March 1989 and April 1990;

FINANCIAL MAIL JULY 13 1990

FIM 13/7/90

- Board of Executors' successful defence of a hostile bid in October; and (58)
- Creation and listing of Sasol in 1979 and the 1983 rights issue and buy-out of Sasol 2.

It is now handling the minorities buy-out of Federale Volks and listing of M-Net.

TrustBank will continue in the retail market and Santambank will concentrate on instalment finance. ■



**Finding a niche** <sup>FIM</sup> 13/7/90

The insurance industry in future will see more competitors in niche markets, says Priceforbes's Don Gallimore. As needs become more complex, extensive information is required before specific risks can be accepted. Not all insurers have the expertise to underwrite a wide range, so they will tend to develop within a specialised market.

Latest entrant is Lombard Guarantee Insurance, set up by MD George Lombard to underwrite guarantee insurance — which mainly services the construction industry. He joins existing niche insurers Credit Guarantee, which specialises in credit insurance, and Regent, which insures vehicles bought through financial institutions.

Though these companies may be vulnerable to an unexpected rise in claims in one area, Credit Guarantee MD Chris Leisewitz believes they can react faster than larger companies to change a dangerous situation.

Existing niche companies developed for a variety of reasons:

- Lombard specialised in guarantee insurance;

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(58)

- Credit Guarantee emerged because it acquired a pool of scarce skills; and
- Regent developed because there was a gap in the market. Imperial Holdings, with motor trading and car-hire interests, recognised the need for an insurer which could service its car financing scheme.

A niche is ideal for a new company which does not have the resources to operate outside a defined area. It makes sense for a new entrant not to take established insurers head on, says Leisewitz. Which is why Auto & General, though it has a general licence, prefers to stick to personal lines.

But it can be a stepping stone to a general licence; a company can prove its potential in a defined area and then apply to the Registrar of Financial Institutions for an extension. This happened to Quorum, which began trading on a limited licence in the electronics field. It then applied for a general licence, which it received earlier this year. Mike Makhlouf believes the company received a general licence because of the success of its initial product range.

Clients score, say niche insurers, because coverage is adapted to their needs. Leisewitz believes niche markets allow more contact between client and company and decisions are based on in-depth knowledge.

Longer-term clients benefit because, by easing entry into the industry, niche insurers add to competitive pressures. This has been particularly important in a period when the Registrar has been reluctant to grant new licences. ■

VOLKSKAS F/M 13/7/90

### In trim

(58)

Volkskas is taking full advantage of the moratorium on the Taxation Laws Amendment Bill, extended for another year on June 30 (*Economy* June 15). Group MD Danie Cronje says it will rationalise its structure to "ensure we get the best return on capital."

On an operational level this has included merging capital market, money market, funding and foreign exchange into one dealing room. The "business spearhead" of the bank — executive, corporate, credit, treasury, marketing and international — moved to Johannesburg this month, while Pretoria retains administration and computing functions. Cronje hopes the move nearer a richer source of available expertise will alleviate the skills shortage.

Volkskas Merchant Bank, based at Carlton Centre, stays independent. Cronje believes it has a specific niche so its activities were not merged with the central dealing room.

He says responsibility for profit still lies with individual management. Banking subsidiaries will use the funding operation of the central treasury, but each has to determine its own asset-liability mix.

Though Volkskas has signed up as a clearing member and dealer in the futures market, it has not yet participated actively.

F/M 13/7/90

Cronje says he will be more comfortable when the market is formalised (August 10). ■

(58)



# Tight monetary policy must continue — UBS

(58) 13/7/90

**By Sven Lünsche**  
While the economy has already entered into a slight recession, a leading economist says the Reserve Bank will continue its tight monetary policy until a sustained downturn in the inflation rate is ensured.

UBS economist Dr Hans Falkena warned yesterday that unless the Reserve Bank's key Bank rate in real terms was maintained at over four percent, inflation would not be brought under control.

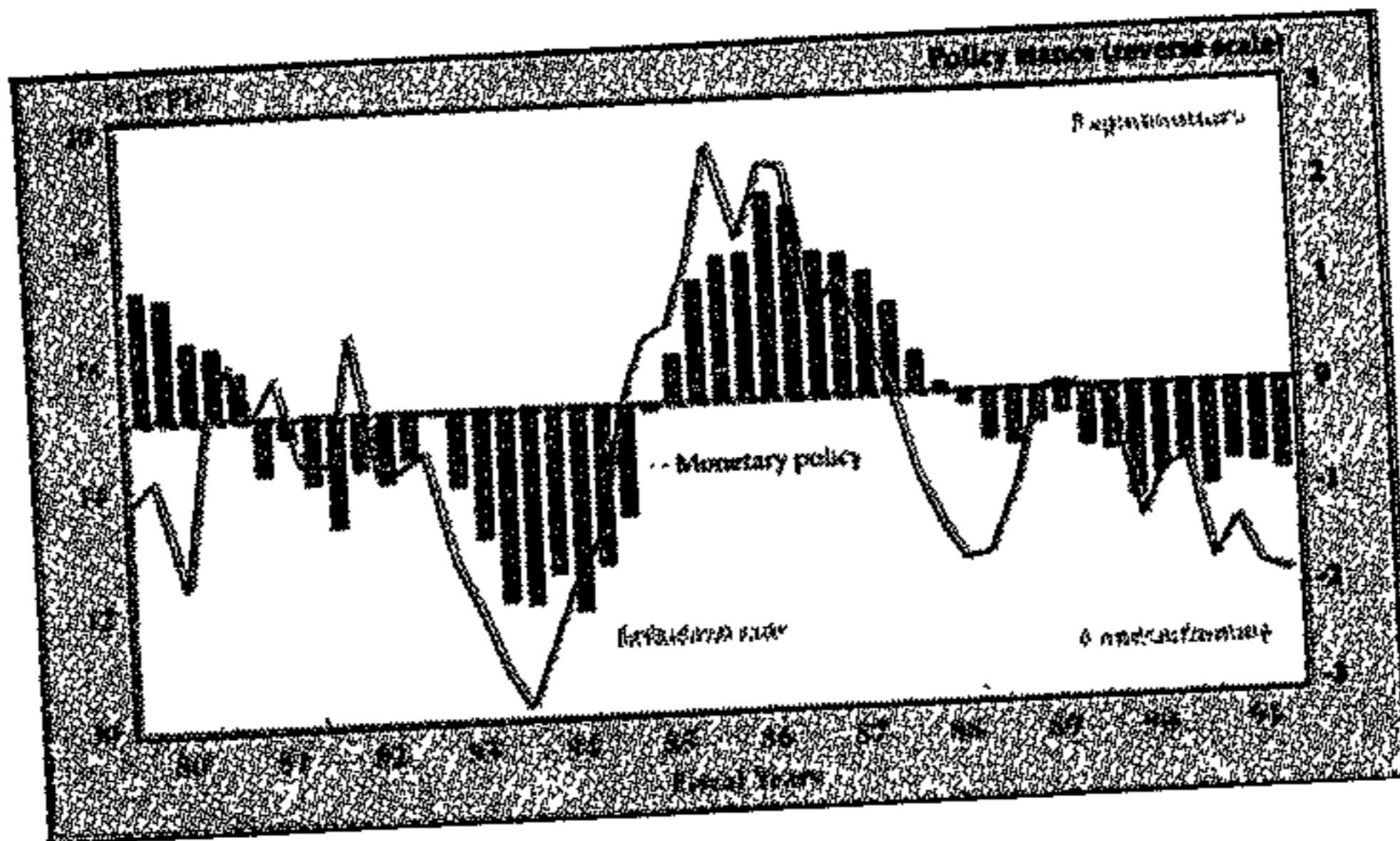
He said his analysis might come as a shock to many businessmen, but added it was in line with policy criteria currently used by the Reserve Bank.

"South Africa must avoid repeating its mistake of relaxing monetary policies too soon," Dr Falkena said.

In its last Quarterly Bulletin the Reserve Bank admitted that the economy had entered into a slight recession, as opposed to earlier forecasts of a soft landing.

After falling by 1,5 percent in the first quarter this year, the Bank predicted that the growth rate of gross domestic product (GDP) could cool further over the next few months.

The slide in the economy, which has been demonstrated by a rising number of liquidations, lower retail sales and meagre company results, among other things, has led many economists to forecast that interest rates



The UBS graph shows the impact of monetary policy on the inflation rate. Since the beginning of 1988 the Reserve Bank has maintained a contractionary policy stance, which has reduced inflation from its 20 percent peak. Dr Falkena predicts this stance will continue for at least another 18 months in order to bring inflation to levels of around 11 percent.

will decline by the end of the year to avoid a full-scale recession.

But Dr Falkena believes that the contractionary phase in the economy will continue until at least mid-1991.

"So far we have had a very slow downswing, but I believe the recession will become painful now," he said.

Nevertheless, he warned that in order to succeed in its long-term goal of bringing inflation to the levels of South Africa's major trading partners, real interest rates must maintain high levels.

According to his econometric calculations, the real Bank rate must be maintained in a band of

four to 4,5 percent to counter inflationary trends.

This would imply a prime rate of over seven percent above the ruling inflation rate and would allow the inflation rate to be brought down to 11 percent in 1991 from a forecast average of 13,8 percent this year.

"If the Bank wants an even lower level of inflation, the difference between the Bank rate and inflation needs to be maintained at around five percent," Dr Falkena said.

The fact that the difference between the present Bank rate at 18 percent and inflation at 13,9 percent is already in the de-

sired band leads Dr Falkena to believe that the Bank is no longer financing the latitude in money supply.

But, more importantly: "There is room to increase the Bank rate in real terms as the fall in the inflation rate has been too small during the last eight months."

Should the Reserve Bank maintain the Bank rate at 18 percent well into 1991, the real Bank rate would automatically increase.

Once it had reached a higher level, one could expect more meaningful declines in the inflation rate, he said.

He said the Reserve Bank would find its task a lot easier if the Government could reduce its Budget deficit to about 2,5 percent of GDP in the current fiscal year — and if trade unions could relate their demands to productivity improvements.

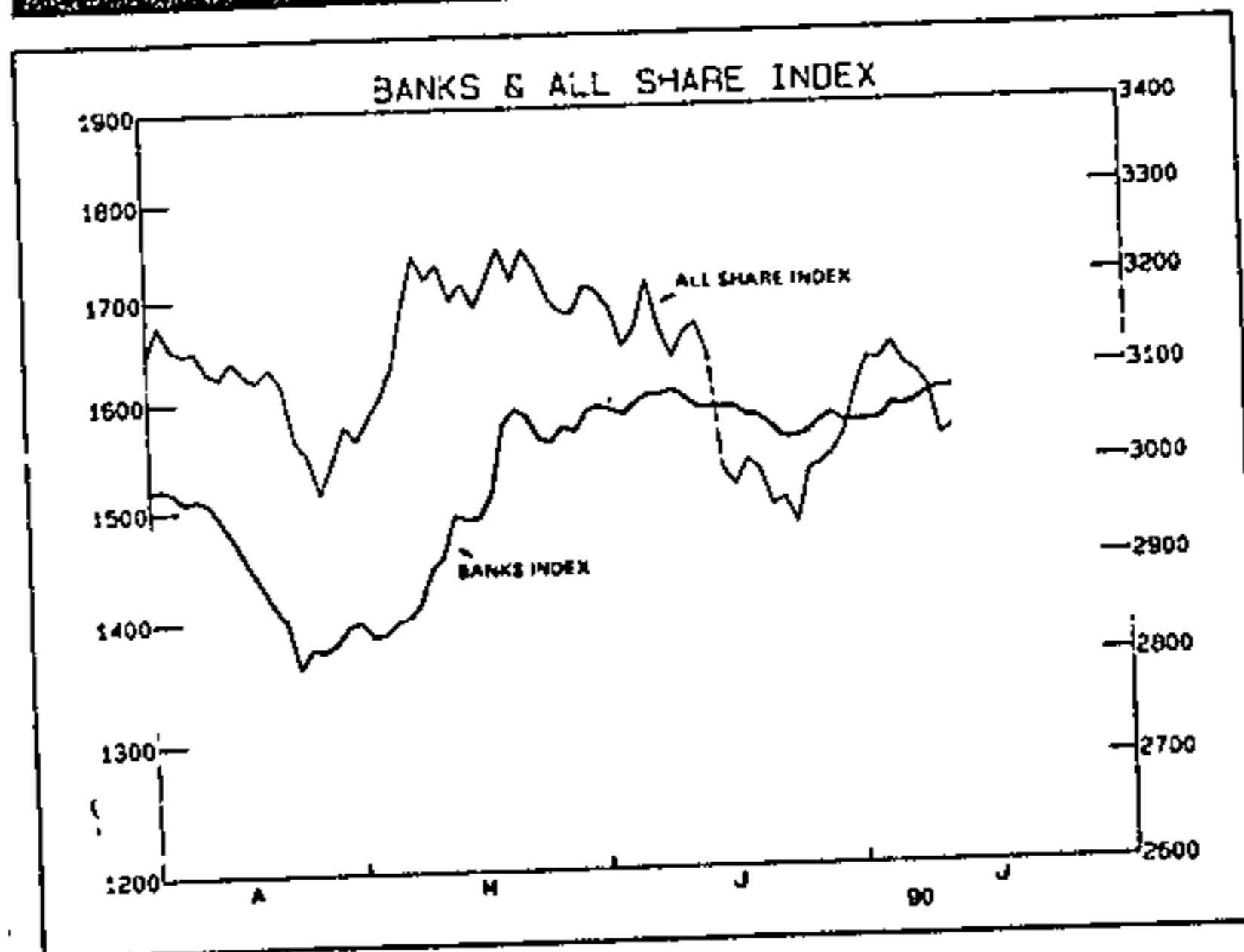
These events would enable the Bank to lower its Bank rate without endangering its anti-inflationary stance.

Unfortunately these developments are unlikely to happen. The Government faces large social expenditure demands and recent political developments have raised trade union expectations.

Demands for higher wages are likely to reinforce the wage-price spiral considerably.

Moreover, real interest rates abroad are unlikely to fall soon.





## Banking industry reaches new heights on JSE <sup>off 71% 13/7/90</sup> (58)

ARI JACOBSON

THE banking industry, a once disregarded sector on the JSE, has started to reach new heights with the climb through investor support accentuated by an otherwise sagging equity market.

Since the mid-eighties this industry had failed to generate investor interest with its policy of chasing market share by expanding its asset base, which failed to translate into bottomline profitability.

The profit squeeze stemmed from tighter bank-margins as the industry came under the whip of strict monetary policy. The cost of funding — influenced by the money market shortage and penal rates at the SA Reserve bank — hampered the banks' bread and butter business of supplying money.

With profits from this source waning the industry turned into the nineties with a refocus on fee income — ranging from cheque book facilities and export-import financing to asset management — which had the added incentive of avoiding strict capital reserve requirements. Staff cutbacks and schemes to share costly technology facilities completed the rationalisation process.

The necessary proof of the success of these measures was reflected in the string of outstanding results of individual banks, coming into 1990, as the rest of the JSE slumped.

Martin & Co's banking analyst Richard Jesse said future prospects of good earnings and dividend performances in this industry, especially when the relative rating of the banking sector to the overall index was low — motivated investors.

But over the last few months, said Frankel, Kruger, Vinderine & Co banking analyst Brian Feldtman, banks have started to regain losses on the overall market. Building societies, he said, have gone one step further.

The proof of sharper focus on building society shares is the 45% jump in the Allied share price, from about 110c a share a month ago to its current 160c. United Building Society (UBS) has also attracted fortune seekers gaining 10% to 660c a share.

# Atteridgeville council bans groups from using facilities

Own Correspondent

The Atteridgeville Town Council, which has already lost R4 million in revenue since the rent boycott started four months ago, has temporarily banned political and civic organisations from using its facilities.

Acting town clerk Daan Mouton said yesterday the ban would be reviewed as soon as the rent boycott has been resolved.

Political and civic organisations have been barred from using the football grounds and halls.

The Atteridgeville/Saulsville Residents' Organisation, which called for the rent boycott and the resignation of councillors at a public meeting at the Super Stadium on April 1, yesterday threatened to file an urgent application in the Pretoria Supreme Court to challenge the council's decision.

# Senbank king of the merchant pile

By DAVID CARTE

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S Times

15/7/90

PIET LIEBENBERG's new administration at Bankorp has carried out a radical restructure by transferring R8-billion of TrustBank's assets into Senbank.

By moving all of TrustBank's corporate accounts, Bankorp has transformed Senbank into by far SA's biggest merchant bank.

With assets of more than R11-billion, Senbank will be more than three times bigger than closest rival UAL, which has about R3-billion.

The entire staff of TrustBank's corporate division, including the project finance operation, has moved to Senbank's head office in Johannesburg.

Senbank managing director Hennie van der Merwe says: "Frequently a client gets good ideas about a corporate restructure, a merger or a takeover from a merchant bank which lacks the capital to fund it.

"Conversely, you get the corporate client, who has access to funds but nobody to advise him on the best way to do deals. In addition, many a bank manager is not equipped to deal with a team of CAs in the way that a merchant bank is.



HENNIE VAN DER MERWE

"By offering both types of service under one roof, we are going some way towards offering corporate clients one-stop banking."

A much-slimmed TrustBank is losing its hire-purchase and leasing business to Santambank.

Senbank will operate current accounts, with electronic cash management and cash collection facilities for its corporate clients.

Generally, only companies

with shareholders' funds of R10-million or more will be able to run cheque accounts at Senbank. Targets include JSE-listed companies, multinationals and their subsidiaries, parastatals and municipalities.

Mr Van der Merwe says 70 of the top 100 companies have at least one account at Senbank after its absorption of TrustBank's corporate clients.

Senbank aims at a return on assets of 1%, which suggests a pre-tax profit of R110-million and Mr Van der Merwe says: "It will take some time to attain that."

Four main divisions will be headed by general managers — banking services under Gerbie Strydom, financial services under Estienne du Toit, international banking under Dan van Wyk, and central functions under Rob Wood. Deon Smit will be assistant general manager in charge of human resources.

Competitors, Barry Swart of First National Bank and Chris Liebenberg of Nedcor, say they are unlikely to follow Bankorp's example.



# Gold tipped to hit \$400 by year end

CAAT TATS 14/7/90

By AUDREY D'ANGELO  
Business Editor

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GOLD's fundamentals are turning positive, but there may be intermittent weakness in the next two months on possible Soviet and Middle Eastern sales, Trust Bank chief economist Nick Barnardt warns in his weekly commentary on economic indicators and financial markets.

He expects gold to "recover more visibly towards the \$400 level in the fourth quarter, especially if oil prices rise in the northern winter".

Although he expects foreign reserves to rise appreciably in the second half of this year, with a stable exchange rate and a gradual decline in the inflation rate, Barnardt thinks the downturn will continue — to bottom out in the first half of 1991 "with pain in motor vehicles, consumer durables and fixed investment-related sectors".

He believes the bank rate will drop from two to three points in the next 12 months.

## Weaker rand

He considers the rand has clear fundamental stability. "A large balance of payments surplus in the second half of 1990 and in 1991 will support the SA unit further, together with a lower dollar, higher gold price, lower inflation and the phasing out of international sanctions."

But, he warns: "The rand will weaken somewhat against a strong yen and Deutschemerk in the next few months, while strengthening towards R2,60 against a weakening dollar."

Because of this, he advises exporters to cover at least partially against the dollar, but says that importers "look relatively safe on lowish rand-dollar cover".

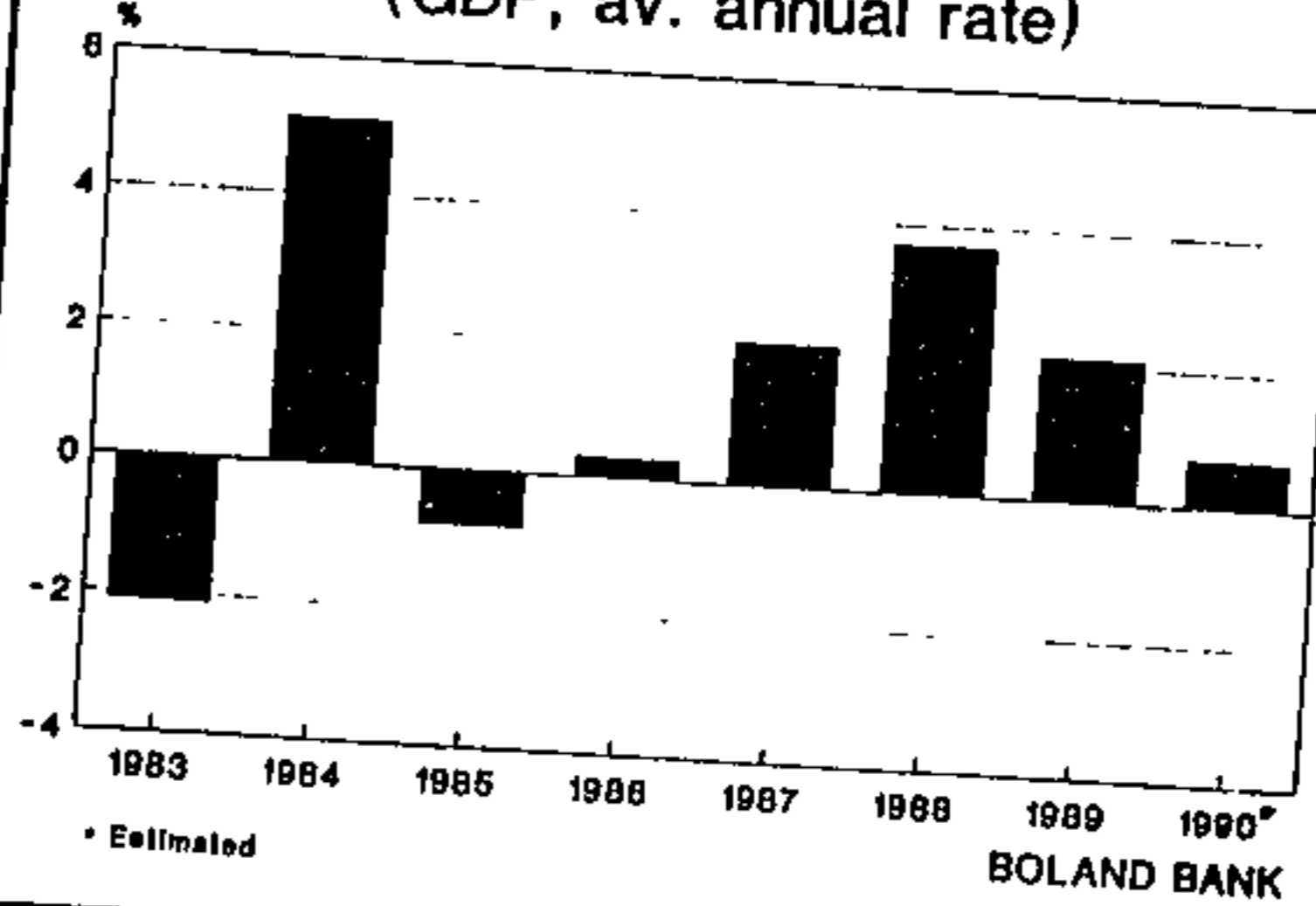
Discussing overseas trends, Barnardt says West German interest rates are unlikely to rise before the all-Germany election mooted for early December. But he expects them to go up slightly early in 1991.

He thinks British interest rates will remain at their present high levels until the end of the year, but will "fall visibly in 1991".

In contrast to Barnardt's expectations of falling inflation, Boland Bank chief economist Louis Fourie says in his Economic Review that "the traditional lag between money supply growth and inflation implies that the excess money growth of the past three years will underpin inflation for at least another 12 months".

He points out that the inflation rate as measured by the consumer price index "stubbornly remains in the

### ECONOMIC GROWTH (GDP, av. annual rate)



14% area" and adds: "Accelerating food price increases and unrealistic wage demands complicate the fight against inflation."

But, he points out: "Fortunately, import price rises have started on a decelerating trend since July 1989, mainly owing to the stability of the rand exchange rate."

Pointing out that the fight against inflation is slowing growth in other countries, as well as SA, Fourie says: "The prolonged global interest rate squeeze has reached a crucial stage."

## UK recession

"A sustained squeeze of this nature may indeed improve the medium-term world inflation outlook, but unfortunately also causes a contraction in the overall level of economic activity."

Forecasting a high risk of recession in Britain for the next 12 months, he says indications are that economic growth there will have to slow down further from the present 1.5% to meet the government's target of lower inflation.

Meanwhile, United Building Society economist Hans Falkena told a media briefing that the recession in SA would not bottom out until the third quarter of 1991 and said that, to be really effective against inflation, monetary policy would have to remain restrictive for many years.

He said SA would suffer hyper-inflation of Latin American proportions unless the Reserve Bank maintained its strict monetary policies for long enough.



# Tax cuts planned on interest income

A lighter, flat-rate tax on interest is on the way in the next Budget. It will encourage savings and ripple through to lower bond rates, ARI JACOBSON was told yesterday.

THE new low-level withholding tax on interest, being estimated at between 10% and 12%, is due to be introduced in the next Budget. It will not only change the pattern of savings in SA but make cheaper money available to banks and building societies. This will result in more disposable income for the man in the street.

So said Japie Jacobs, spe-

cial adviser to the Minister of Finance.

The new system could have a considerable impact on property prices since it should encourage savings and reduce mortgage bond interest rates, making some housing affordable for the first time and pushing other property still higher.

In recent years the burdensome tax on interest income has distorted the savings pattern, diverting money from building societies and banks to the life assurers.

The life offices have siphoned the savings potential of the private sector into their varied products. The end-result has been the oft-quoted dissavings scenario, as retail borrowings outstripped retail savings to the tune of R21 billion in 1989.

The need to address this incongruity has become paramount. A lighter tax load effected by means of a withholding tax at the forefront will complement the return to positive real interest rates.

## Flat-rate tax

The failure of the banking system to compete for so-called retail funding has been double-edged. Firstly negative real rates of interest which have prevailed in the economy, throughout most of the eighties, made savings at banks and building societies pointless. Quite simply, an inflation rate that surpasses the rate of interest on offer provides a negative real return for depositors.

Although this has been remedied, albeit through higher interest rates, the other disadvantage remains. Income tax on interest at the individual's marginal rate continued to be a disincentive to savings. For example, at present, 18% on a fixed deposit with inflation



JAPIE JACOBS

at 14% provides a 4% real return.

However the after-tax return sinks well below the inflation rate. Taking the top marginal tax rate of 44% — a nominal return of about 10% is realised although the average wage or salary-earner would manage to stay nominally abreast of inflation at his marginal rate of about 20%.

Of course, exemption of the first R2 000 from interest income tax sees most middle-income earners escape the real burden of taxation. But these returns dwindle into insignificance against the hefty returns on life products. Japie Jacobs, who acts as a special economics adviser to the Minister of Finance, said a withholding tax at a flat rate was imminent and would side-step incongruities caused by the marginal rate tax application.

He said: "The intention is to address this issue in the next budget, with the idea of making deposits more attractive by levelling the ground between institutions that take deposits and those that do not."

He said the introduction of a flat-rate tax on interest income would obviate the need for a penalty tax on borrowings by encouraging surplus savings.

## Disposable incomes

Such a tax, which market speculation has at 10%, could prompt property and business owners to simultaneously lend high, and borrow high for the tax benefits. Interest earnings of R100 000 would only attract

a tax of R10 000 at 10% instead of R44 000 for top income-earners at present, while in many cases they would be able to deduct interest payments where borrowings are for business purposes.

Jacobs said the inflation curse helped life offices whose stereotyped pattern of investment on the JSE provided the necessary inflationary hedge through a capital appreciation on listed shares.

He said: "The dull investment techniques adopted by the assurers is not the correct recipe for generating growth in the economy."

Jacobs said an escalation of funds to banks and building societies would provide the platform for channelling resources to productive areas — previously avoided or merely disregarded.

He explained. "Financial institutions, without the necessary mandate requirements, can venture into risky yet potentially productive areas, where life assurers have feared to tread."

United Building Society's managing director Mike DeBlanche was adamant that a greater savings flow to financial institutions would see SA grow through policies of economic rejuvenation and restoration.

Another off-shoot, said DeBlanche, was that the current phenomenon of backing housing loans with expensive wholesale funds would fall away with the expansion of retail deposits conveniently passed on to the man in the street.

He said: "At present, the negative savings position on retail deposits has forced deposit-taking institutions to enter the wholesale market where contractual savings are made available, at a higher price, by the mutual funds.

"Cheap retail deposits would decrease an individual's bond repayments and boost disposable incomes. The ultimate effect of increasing disposable incomes would filter through to the real economy and enhance the welfare of the whole community."



# Homes

● FROM PAGE 1

money for expenditure in this sector and limit expenditure on the interest subsidy scheme."

Mr Kriel said he had agreed to meet representatives of the home building industry on Monday to discuss the matter.

The cut-off point for whites to qualify for the interest subsidy scheme is a joint income of R3 500. No such limit exists for coloured buyers, said F Hugo, assistant director of housing in the House of Representatives.

## 'Serious'

The move has shocked property developers, who claim they stand to lose billions.

Describing the move as "very serious", Johan Grotius, executive director of the National Homebuilders Association of South Africa, said he would meet the Minister on Monday.

"Developers stand to lose hundreds of millions of rands by holding land which has been specially serviced for this sector of the population. The figures are mind-boggling.

"The black sector is the only area where any meaningful housing construction is taking place and developers have had the carpet pulled out from under them."

He said a full statement would be released following the meeting with the Minister.

John Rabie, managing director of Rabie Property Developers, said the Government had effectively wiped out 80 percent of the home

building market.

"It is a major disaster and will affect about 2 000 houses we already have under construction, involving capital investment of about R150 million," he said.

Mr Rabie said houses were sold before construction started, and had been approved for bonds, on condition of the subsidy, six to nine months ago.

"What are we supposed to do? Go back to these people and say they no longer have a house?" he asked.

Mr Rabie said all major developers were up in arms. "It has to be stopped."

He said the introduction of the first-time home buyers subsidy had been a "stroke of genius" and the extension of the subsidy to black families had enabled them to become homeowners.

"It has also contributed to political stability by helping to create a black middle class. Housing is a critical matter for the country and has been acknowledged as such by the State President.

"How can the Government give the Urban Foundation R2 billion, then run R5 million or R10 million over budget and at a stroke of a pen wipe out the industry?"

## 'No sense'

He added: "It makes no sense. We can only hope the Government will seriously reconsider this move."

Phil Gallie, general manager of housing utility company Garden Cities, said he understood the change in the subsidy scheme would affect many applications already in the pipeline.



# House prices rise

## beginning to flag

SKR  
14/1/1990

(58)

### FRANK JEANS

THE residential property market, on the surface looking healthy enough, is beginning to show signs of strain as the recessionary conditions bite deeper into people's pockets.

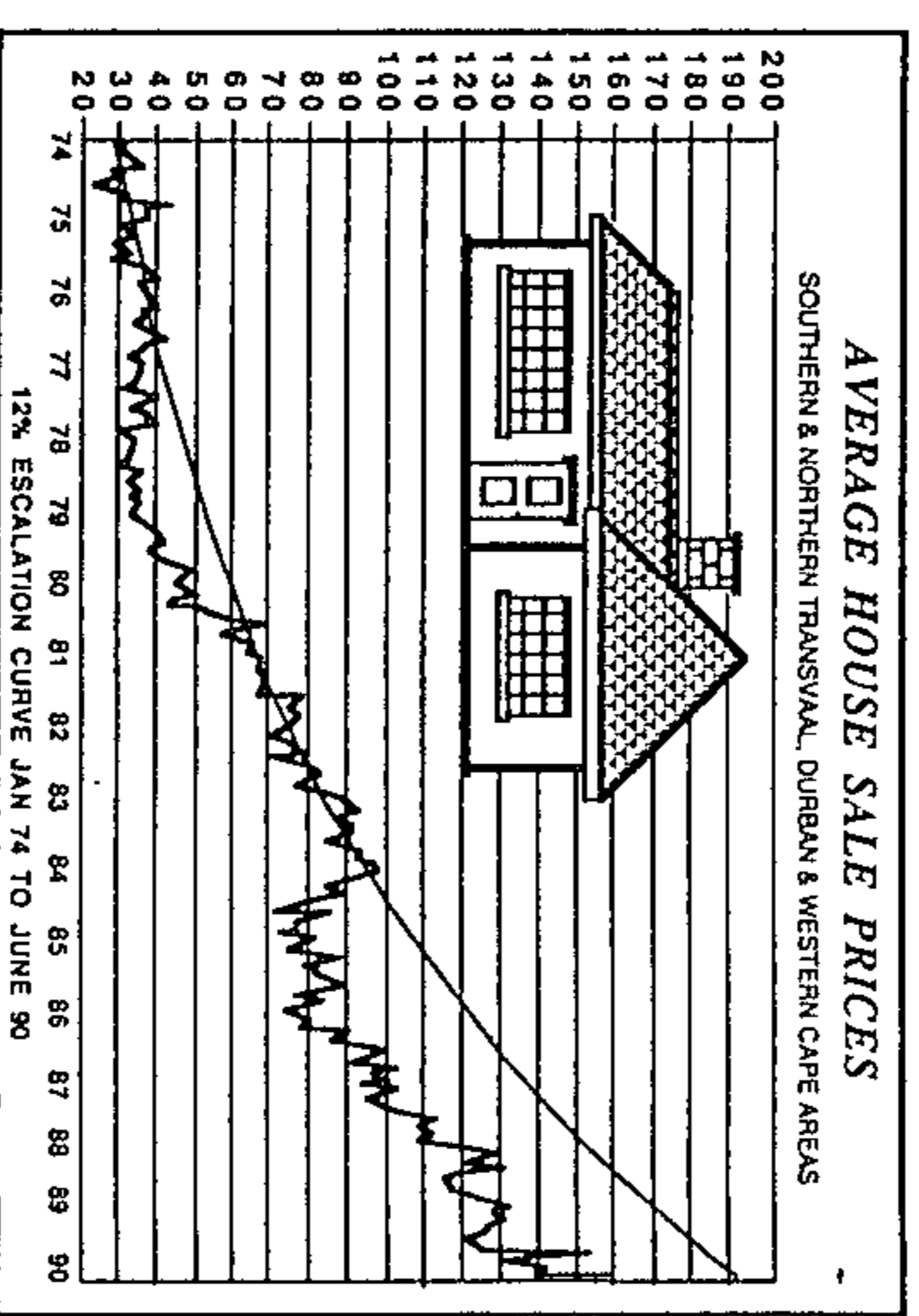
Estate agents are forecasting even higher prices, but property economists warn that the rate of increase in prices is slowing and will, in most cases, not match the expected inflation rate for this year.

The average price of a medium-size house is expected to rise by about 10 percent this year to more than R100 000, while the average of an upper market property will hit the R146 000 mark.

Commenting on housing trends, Mr Christo Luus, economist with the United Building Society, says: "We expect inflation to be about 13 to 13,5 percent on average which means that there will be something of a drop in house prices in real terms of about 3 percent."

Latest United predictions on housing reveal that the average price of a small home, which was R77 000 in the fourth quarter of last year, will rise to about R85 000 in the same period this year.

In the last three months of 1989,



the medium-sized home averaged R95 000, while the larger home was R133 000.

"It is possible that we could see smaller rises in prices towards the end of the year than those during the first two quarters of 1990," says Mr Luus.

Several leading estate agents disagree, saying that the average price of a home could hit the R210 000 mark by early next year if current conditions continue.

That's the prediction of one of the country's leading estate agents, Basil Elk of Basil Elk Estates, who backs his view with statistics which show that the average house price rose to a new peak of R158 000 last month — 24

percent up on the figure for June last year.

The Basil Elk Estates' figures are based on a sample of 250 sales by the agency's branches in southern and northern Transvaal, Durban and Western Cape.

Prices in April and May this year were 5 and 16 percent respectively higher than for the same months in 1989.

"The latest figures indicate that the market place is, in fact, firmer than many buyers would imagine in spite of high interest rates," says Mr Elk.

The group's sales, mapped since 1974, (See chart) are superimposed on a 12 percent escalation curve based on inflation

and positive and negative growth — a curve which is closely followed by the rise in average house sale prices until mid-1984, when the price rise dropped significantly.

Mr Elk predicts that by early next year, the average will again have reached the 12 percent escalation curve line, with house prices averaging about R210 000 by then.

"There is a wider gap than ever between the perceptions of buyers and those of sellers, leading to a great deal of negotiation."

"Sellers have to realise that they cannot push for too high a price and buyers have to accept that prices are not going to drop."

Figures from another leading real estate group, De Huizemerk, also reveal rising prices in the residential market.

The average sale by De Huizemerk for the first half of this year is R161 000, compared with R137 000 for the same period in 1989.

Turnover for the first quarter

of this year averaged R44 million a month as against R32,5 million and R37,5 million for the first and second quarters of 1989.

Piet Hamman, chairman of De Huizemerk, also sees caution in the market and notes a considerable drop in showhouse attendances.

"Overpriced properties are scarcely attracting attention, while lower priced areas such as the East Rand, southern suburbs and the West Rand are being affected by the downturn," he says.

Reporting a "lot of sales all over" Aida Geffen, of Aida Holdings, says high turnovers are being achieved throughout her 53-franchise network.

In March this year, the group sold 594 homes with a total value of R81 million and while the figure dropped to R64,5 million in May, it was still a considerable rise on the R56 million for the fifth month of last year.

"It seems as if the downturn was experienced by us last year — not now," says Ms Geffen.

PUTTING a little extra into paying off your bond can be worth more than the price of your house. First National Bank economists have calculated that on a R100 000 bond over 30 years at a rate of 20,75 percent, the total interest cost is R523 000 — more than five times the value of the bond. By lifting monthly repayments by R41 to R1 753, a total interest saving of R237 407 will be achieved and the term of the bond cut from 30 years to 18 years.

● FULL STORY PAGE 1 PROPERTY GUIDE.



# McGregor's sticks to guns over Anglo

W/E 14643 14/7/90

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From MALCOLM FOTHERGILL

JOHANNESBURG. — Unchastened by having its figures rubbished by Anglo American this week, McGregor's On Line Information is sticking to its guns.

The giant corporation, it insists, accounts for 45 percent of the total capitalisation of the Johannesburg Stock Exchange.

Anglo's view, expressed in the 1990 chairman's statement by Julian Ogilvie-Thompson, is that the corporation accounts for no more than 30 percent.

The root of the dispute is that McGregor's and Anglo are using different criteria to measure Anglo's size.

Anglo, says spokesman Michael Spicer, takes issue with McGregor's on two counts. One is that Anglo does not control some companies McGregor's says it does control. The other is that McGregor's has been double-counting.

"They have companies in their list that by no stretch of the imagination can be said to be controlled by Anglo," says Mr Spicer.

"Until this year's edition of *Who Owns Whom*, for instance, they claimed for many years that Palamin was controlled by Anglo. In fact, it is clearly controlled by Rio Tinto Zinc.

"And when they say Consgold and Gold Fields are controlled by Anglo, this is clearly quite wrong — at no point in history has Anglo controlled those companies."

Examples Mr Spicer gives of double-counting are Ofsil, which owns shares in Freegold, and Placor, the Plate Glass pyramid.

These should not be included, he says, because they relate to the same underlying operations= so Anglo counts Freegold, but not Ofsil, and Plate Glass, but not Placor.

The argument fails to convince McGregor's Andrew McGregor.

"Anglo is making its own rules," he says.

"We're talking about the value the market places on a company, and we find what that is by looking at the price the market is willing to pay for the company's shares.

"Is Anglo saying Placor shares are worth nothing? If they're looking at underlying assets rather than market capitalisation, that's a totally different story."

McGregor's criteria for judging where an investment shades into control are flexible, says Mr McGregor.

"There's no fixed formula. We look at the spread of shares in each company to decide who controls it. You can control a company with say 30 percent of the shares, if the other shareholdings are all small.

"We're confident our market-capitalisation figure for Anglo of 45 percent, which is based on the methodology we've been using for 10 years, is correct."

Over the years, changing market conditions have caused McGregor's estimate of Anglo's size to fluctuate from 52,5 percent of the JSE's market capitalisation in March 1983 to 60,1 percent in March 1987.

Anglo's nearest rival, Sanlam, is far behind, with a 1983 low of 9,4 percent and a 1985 high of 12,2 percent.

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11/15/7/99 (58)

# Rent crisis breakthrough!

## Government moves to scrap arrears and open clean slate

By SOPHIE TEMA

THE government is considering scrapping the R800-million rent debt owed by black local authorities.

The Soweto People's Delegation said this week that black local authorities had been advised by Transvaal Provincial Administration MEC Olaus van Zyl to call together their civic associations to discuss how best they could start collecting rent in townships, once the arrears had been scrapped.

Van Zyl also said government had warned black local authorities that bridging finance would no longer be available, adding that some local authorities have already been directed by the TPA to start collecting monies for services and electricity.

The United Municipalities of South Africa (Umsa) said it was on record that it had called for the speedy scrapping of black local authorities and the scrapping of their staggering debts, and that a clean slate should be opened.

Umsa said this week: "The announcement... by Olaus van Zyl that rent arrears are being addressed at the highest level is welcomed with reservations, now that the TPA has already issued circulars calling on councils to act on rent defaulters, including measures to collect rent arrears."

Umsa president Tom Boya said: "It is my strongest feeling and that of my organisation that the TPA should have discussed the matter with the various councils before announcing that the matter is being addressed at the highest level, as it is a very sensitive and explosive problem which the councils are faced with."

"Councils are presently dependent on the bridging finance for the effective rendering of services, thus it will be a futile effort to debate the rent issue without suggesting an agreeable solution to the problem."

The SPD said it was generally accepted by all relevant State bodies that Soweto's infrastructure for services was inadequate, poorly maintained and structured incorrectly.

This, it said, made residents reluctant to pay - and contributed largely to the rent boycott.

However, an SPD spokesman said: "We will have to act very fast and take advantage of the (latest) situation, because this is what we have been asking for."

Last year, new tariffs were implemented by the Soweto Council, which the TPA said had been simplified and were substantially lower than cost.

TPA said the Soweto Council had stressed the new tariffs were temporary and would be reviewed, particularly when considering the supply of bulk services such as electricity and water.

Residents also were warned that some arrears would be difficult to write off, such as those due to Eskom and the Rand Water Board.

The council was told to reconcile outstanding amounts and submit proposals - within five months of the date of implementation of the new tariffs - to the administrator.

In Diepmeadow, letters were sent to rent defaulters by Florida lawyers Scholtz and Botha at the end of last month in an effort by the council to recover about R37-million in rent, and to end the rent boycott.

The free transfer of older and rented houses to residents is also being discussed by government, and local authorities are waiting for a response on this issue - a TPA spokesman said government was considering the transfer of houses to long-term tenants, and might take a decision soon.

Soweto mayor Sam Mkhwanazi said the proposal of free transfer to residents was first submitted by the Sofasonke Party, soon after it came to power in October 1988.

He said the SPD, the Sofasonke Party and other organisations - in calling on government to write off rent arrears - all shared the view that the total rented housing stock be transferred to private ownership.

Soweto councillors also supported the popular demand that older houses be transferred to tenants free of charge, and said this would amount to a significant concession.

The councillors said the transfers would also motivate residents to pay for all services rendered to them.

To date, houses have been sold to residents at below-market rates.



Mayor Sam Mkhwanazi ... rented housing should be transferred to private ownership.



Civic leader Tom Boya ... councils are faced with a very sensitive and explosive situation.



# Senbank king of the merchant pile

By DAVID CARTE (58) *The Times* 15/7/90

PIET LIEBENBERG's new administration at Bankorp has carried out a radical restructure by transferring R8-billion of TrustBank's assets into Senbank.

By moving all of TrustBank's corporate accounts, Bankorp has transformed Senbank into by far SA's biggest merchant bank.

With assets of more than R11-billion, Senbank will be more than three times bigger than closest rival UAL, which has about R3-billion.

The entire staff of TrustBank's corporate division, including the project finance operation, has moved to Senbank's head office in Johannesburg.

Senbank managing director Hennie van der Merwe says: "Frequently a client gets good ideas about a corporate restructure, a merger or a takeover from a merchant bank which lacks the capital to fund it.

"Conversely, you get the corporate client, who has access to funds but nobody to advise him on the best way to do deals. In addition, many a bank manager is not equipped to deal with a team of CAs in the way that a merchant bank is.



HENNIE VAN DER MERWE

"By offering both types of service under one roof, we are going some way towards offering corporate clients one-stop banking."

A much-slimmed TrustBank is losing its hire-purchase and leasing business to Santambank.

Senbank will operate current accounts, with electronic cash management and cash collection facilities for its corporate clients.

Generally, only companies

with shareholders' funds of R10-million or more will be able to run cheque accounts at Senbank. Targets include JSE-listed companies, multinationals and their subsidiaries, parastatals and municipalities.

Mr Van der Merwe says 70 of the top 100 companies have at least one account at Senbank after its absorption of TrustBank's corporate clients.

Senbank aims at a return on assets of 1%, which suggests a pre-tax profit of R110-million and Mr Van der Merwe says: "It will take some time to attain that."

Four main divisions will be headed by general managers — banking services under Gerbie Strydom, financial services under Estienne du Toit, international banking under Dan van Wyk, and central functions under Rob Wood. Deon Smit will be assistant general manager in charge of human resources.

Competitors, Barry Swart of First National Bank and Chris Liebenberg of Nedcor, say they are unlikely to follow Bankorp's example.

Completed applications



# IMILES IN ACKET'

6 4/15/1990 ~~2/15/1990~~ 58

## Fake R50 notes may be circulating on the Reef

By ELIAS MALULEKE

TOP business and soccer celebrities on the Reef are rumoured to be involved in a massive racket involving counterfeit R50 notes.

The rumours began three weeks ago in the townships. As a result, possession of a R50 note in the townships has become a headache for many people because most business people are reluctant to accept the notes.

Although some people are believed to have been held at John Vorster Square in connection with the fraudulent scheme, police were reluctant to comment.

Police spokesman Maj N Hartwell said he could not comment about the allegations and referred *City Press* to Col Steve van Rooyen, who said the crime was being dealt with by Hartwell.

Later, Hartwell said it was not in the police interests to comment before the person or persons involved were charged.

Many shebeeners, taxi drivers and shopowners were refusing to accept R50 notes from their customers. Some accepted the notes during the day after inspecting them for the watermark.

However, the fakes are said to be so "professional" many people refuse to accept R50 notes even in daytime.

"We can't afford to take risks," said fruit vendor Emily Masemola of Dube.

Meanwhile, the commercial branch of the Namibian police have seized fake R50 notes worth about

R260 000.

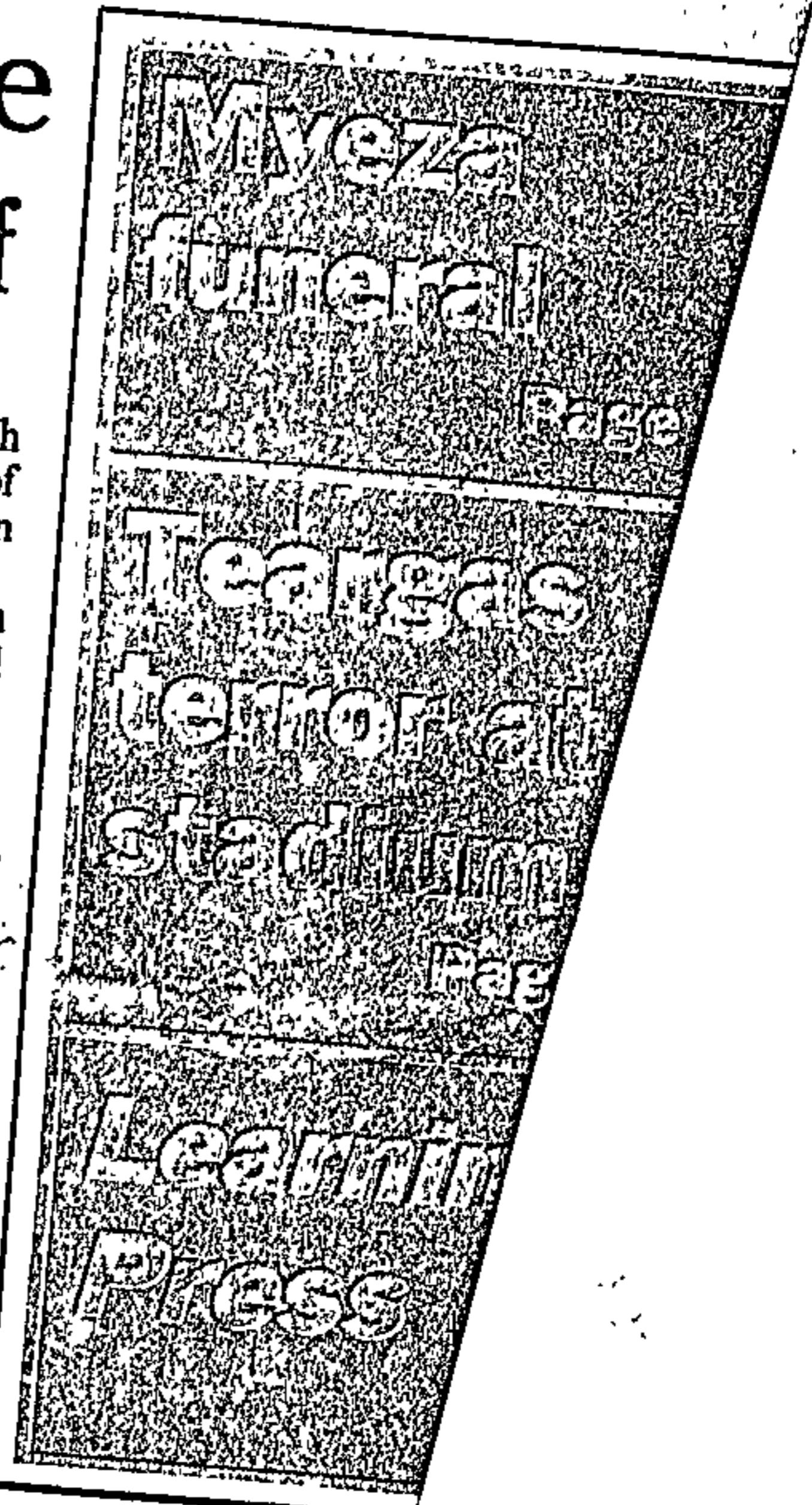
Police said two women from South Africa had been caught with 5 200 of the counterfeit notes in a house in Katutura township, near Windhoek.

The women, one from Cape Town and one from Durban, were arrested after an intensive investigation.

About 2 000 of the forged R50 notes are already in circulation in Namibia. Namibian police said the counterfeit notes had five different serial numbers and were 'excellent' copies of the originals.

In Pretoria, an Atteridgeville township man was arrested this week for possession of forged R20 notes.

The arrest follows a complaint lodged by Joseph Phetla after a neighbour gave him an allegedly fake R20 note. Head of the Pretoria Commercial Branch Maj J Kidson said police were investigating the origin of the R20 notes.



World-famous  
**CRAVEN**  
MENTHOL FRESH TASTE

## Moteong to continue boycott

A residents' meeting at Moteong Section in Tembisa yesterday resolved to continue with the rent boycott in spite of threats by the mayor, Solomon More, that water and electricity may be cut. *Sfr. 16/7/90*

The residents said if the council dared cut off power and water they would reconnect them.

The power and water cuts which Mr More said could be made yesterday if residents did not pay rent were not done. ~~342~~ ~~127~~ ~~53~~

Last week, local structures warned the council that cutting essential services may lead to violence.

The council has called a meeting with various committees on Saturday to discuss the lack of adequate facilities, services and houses, and inappropriate rentals and service charges. — East Rand Bureau.



**C**ORPORATE power in SA is highly concentrated in the hands of a few large groups and (with the exception of Old Mutual and Sanlam) a few wealthy families.

McGregor's research suggests that the top four groups control companies comprising 30.7% of the JSE's market capitalisation. Yet, ownership is quite a different matter. For instance, Anglo-American/De Beers controls 45.3% of the JSE but it owns only 11.9% of the assets reflected on the exchange.

This divergence between control and ownership is effected by the pervasive use of "pyramided" holding companies. Shares with unequal voting rights, which serve much the same purpose as pyramids, are restricted in SA and only a few companies (e.g. Anglovaal, Wooltru and Rex Trueform) have been allowed to continue using and developing such differentiated instruments.

In the US, the UK and much of the English-speaking world pyramids, cross-holdings and dual-class shares (all of which serve to concentrate the power of principal shareholders) are restricted or prohibited altogether. Yet, in Japan, West Germany, Switzerland and Scandinavia they are quite common, even ubiquitous.

In Sweden, the corporate structure is so concentrated that a mere nine families control nearly the entire Stockholm Bourse, almost 40% of which falls under the sway of the Wallenbergs alone.

Although corporate performance can conceivably be undermined by allowing too great a divergence between shareholdings and control to evolve, the perils of prohibiting any divergence are far more onerous, as the dilemma of corporate America clearly illustrates.

Well-managed companies normally require powerful shareholders who can whip management into line. Yet acquiring 50% of a typical large corporation, without sacrificing the security of a well-diversified portfolio, is usually beyond the reach of even the richest individuals.

So how is the dilemma resolved? In two ways. Firstly, use may be

# A concentration of corporate power need not be an evil

p 12/21/1990

**JOS GERSON**

made of dual-class voting shares or pyramids which allow the dominant shareholder to reduce his equity stake without losing control. Secondly, corporate debt may be employed in order to shrink the equity base, thereby making control, say a 50% stake, more attainable. The problem with the latter option is that the debtholders will worry about the risks that a highly geared firm may be tempted to take.

The solution is to allow the principal creditor (usually a bank) to acquire a significant number of shares and, therefore, a say in the running of the company. In Germany and Japan, it has long been the practice for banks to acquire an equity stake in the companies which they finance.

In the US, however, both of these "front doors" to shareholder control stand shut. Dual-class shares were prohibited in 1926 and pyramids in 1935. The Glass-Steagall Banking Act of 1933 ruled out the possibility of banks holding equity.

The result of all these restrictions is a corporate landscape characterised (as far as the bigger companies are concerned) by disparate and weak shareholders, and by managers and outside directors accountable in effect to no one but themselves.

Much of the recent spate of takeovers and the development of a market in junk bonds is a desperate at-

tempt to open a "back door" to shareholder control. Takeovers constitute one way of getting rid of underperforming managers and were facilitated by the relaxation in the 1970s and 1980s of an absurdly over-restrictive antitrust policy.

Junk bonds were used to obtain a higher level of debt finance in order to effect the takeovers, often of dismembered conglomerates by the various division managers themselves. This back door route has run into trouble, but that merely reinforces the need to unbolt the front door routes to effective shareholder control.

In last October's Harvard Business Review, Michael Jensen hints that the relative decline of America in the postwar era and its displacement by Japan and West Germany may well be attributable to the strengths and weaknesses of their respective corporate structures.

What are the lessons for SA? We do not have a problem of weak and disparate shareholders, the oft-heard complaint is that our dominant shareholders control too much. It would be presumptuous to conclude that all is well in our corporate backyard but, in contemplating pos-

sible changes, we should be careful not to throw the baby out with the bathwater.

We should certainly not be lured by shallow and populist arguments into importing the American disease. Rather, we should ponder the very different (and seemingly superior) structures of Japan, West Germany and Scandinavia, with which we already have much in common.

More importantly, in the face of new political pressures, we must be able to distinguish between serious and spurious criticisms of our present corporate structure. On the serious side, if enhanced corporate efficiency is our objective, the main worry is that managers are not the only group that can indulge themselves and abuse their position.

Powerful controlling shareholders can do so too, and in all sorts of ways (especially if their equity stake is small). That is why the shares of a company have been known to rise upon the death of its controlling shareholder. Examples are provided by the deaths of Walt Disney, Henry Ford and Philip Frame. On account of idiosyncracies in their latter years, they were perceived as harming their companies' profit potential or in some way prejudicing the interests of their co-shareholders.

An important mitigating consideration is that whereas managers may

shareholder, who indulges at the expense of this company, pays for it through the depreciated value of his equity. He also faces higher costs of capital in the event of a rights issue, since his indulgent behaviour will have frightened off prospective co-shareholders to the point of effecting a discount on the price of the new shares.

Most often, therefore, controlling shareholders go out of their way to reassure prospective investors and to maintain the value of their shares.

A semi-spurious charge against our present corporate structure is that it facilitates collusion and therefore rips off the consumer. This cannot logically be deduced as a criticism of the divergence between ownership and control (which is determined by the "vertical" depth of the pyramids). It must be taken as an attack upon the "horizontal" diversification of the major conglomerates.

There may be some substance to this argument but, more likely, it is a figment of the popular imagination. An economy which trades so openly with the rest of the world (imports comprise about 30% of total spending) cannot have a serious collusion problem. The existence of a few big players is no evidence of collusion. If occasional instances occur, the solution is to put more teeth into the Competition Board.

The most misguided criticism of the corporate structure is the one that associates it with the country's maldistribution of wealth. The two issues are separate and distinct.

Imagine a future government diluting the Oppenheimer family's say in Anglo-American/De Beers, or even buying out the controlling nominee companies. Would that change the nation's distribution of wealth? Not a jot — unless, of course, the assets were confiscated.

Even then, the equalising effects would be trivial whereas the blow to business confidence would be catastrophic.

□ Gerson is chief economist at Mathison and Hollidge Inc. These ideas form the backdrop for a UCT-based research project.



# Trade finance houses are underrated, say analysts

8/Day 16/7/90 (58)

TRADE finance houses are underrated on the JSE, say some analysts. This is despite their "recession-proof" nature and recent impressive earnings performances.

For example, GDM Finance recently announced a 38% increase in attributable earnings and dividend growth of 41%, yet the share price has failed to respond. The shares traded at 130c last week. At this price they offer historic earnings and dividend yields of 22,5% and 9,2% respectively. Net asset value is 97c.

Major competitors Merhold and Reichmans are also poorly rated, according to analysts. Merhold's dividend yield is 6,8%, Reichmans yields 10,1%.

A misunderstanding of the business of trade financing could be behind the low ratings, say analysts and industry executives.

"This business is relatively recession-proof, especially in an inflationary climate," GDM MD John Cowper said on Friday.

In a recession there might be a small fall-off in volumes, but in non-

etary terms the value of business was bound to increase, he said.

"Demand for our services may grow in a slowing economy as clients who are overstocked may need help while reducing stock levels."

Trade finance activity is split between imports and local buying. In boom times the ratio might be 60:40 in favour of imports, and in a recession this might be reversed, said Cowper. "The point is that although the ratios change, the same amount of business is still being generated."

Another benefit enjoyed by the trade finance houses is their relatively low tax rates. GDM's rate was 22% for the year to end April because of assessed losses in certain subsidiaries and lower rates applicable to offshore operations.

Cowper said that Reichmans and Merhold enjoyed even lower tax rates.

The companies offer financial services to groups involved in trade. Profits are earned from commissions and from interest income.

There are some similarities with

traditional banking operations, but these are limited. Some players describe trade finance houses as offering "secondary financial services".

Like all industries trade finance was susceptible to bad debts during economic recession, said Cowper.

"We try to limit bad debts by holding security over assets," he said. GDM also limited its exposure by maintaining a broad client base.

No client, or even sector, represented a majority of the assets, so individual risk was minimised, said Cowper.

Regarding debt to equity ratios, trade finance houses resemble banking groups more than normal trading companies.

GDM's stated objective is to limit gearing to 5:1. At end-April the ratio was 4:1. Total assets were R121,7m compared to capital employed of R29,4m.

GDM should maintain strong organic growth, said Cowper. Recently acquired African Shipping — a clearing and forwarding operation — had excellent prospects, he added. GDM turned the loss-making Afship around within three months of acquisition.



# Insurers' solvency probe results

THE investigation by the Registrar of Insurance into the financial health of short-term insurance companies has disclosed that only one had a solvency margin of less than 20%, namely 19%. 58

The minimum prescribed limit for solvency margins was 15%.

A statement by Registrar Piet Badenhorst at the weekend said that while four other insurers' solvency margins were more than 20%, they had recently shown a marked decline. *B 10<sup>00</sup> 161 7190*

The probe followed Badenhorst's call on short-term insurers to submit special financial returns for the quarter to end-March by June 30.

Top management and shareholders of these companies had been invited to discuss the matter, Badenhorst said. Discussions would cover policy for future business and shareholders' attitudes to the

LINDA ENSOR

investment of additional capital, in case this would be necessary to maintain the financial health of an insurer.

All other insurers' investment income and reserves were sufficient to cover underwriting losses, he said.

There was "no reason for concern with regard to the solvency of any insurer based on the information that has been obtained from management". However, the position would be monitored.

Badenhorst said that among the reasons for recent weak underwriting results were that premiums were not supported by economic underwriting standards, resulting in unscientific reserving methods; increased numbers of claims arising from increased motor theft and burglaries; increased cost of claims; and higher management costs.



# SOWETAN BUSINESS

# Afsure breakthrough

Scusefan 16/7/90

BY JOSHUA RABOROKO

IN what has been regarded as a "historic move towards black economic empowerment" the black-controlled Afsure Insurance Brokers have signed insurance contracts worth R1.3-million with the Daveyton and Dobsonville Town Councils.

This is a major breakthrough as the company is the first black-controlled insurance to be awarded such contracts by Black Local Authorities, according to the managing director of Afsure, Mr Kehla

Mthembu, who said "this is a historic move towards black economic advancement."

He added that normally, local authorities tend to grant contracts of that magnitude to major, established brokers. "We are encouraged by the bold display of faith in

the professionalism of black companies by these local authorities."

Afsure was established under the chairmanship of former bank executive, Mr Gaby Magomola, and the management black consciousness exponent, Mthembu.

The company has stressed always as its goal the need "to participate in the mainstream of South

Africa's economy through a professional and highly ethical insurance and financial broking company, sensitive to wide-ranging client demand, and capable of providing excellent service."

He said Afsure saw the move as an act and step towards the realisation of its goal as well as a tentative move towards black economic empowerment.

Afsure's chairman



Steve Nkatio

Magomola said the move was an indication that "the black rand must circulate among the black people." The company was gunning for major black ventures, including the insuring of the National Soccer League and establishing a financial institution.



Tom Boya

The mayors of the two councils, Mr Tom Boya and Mr Steve Nkatio, paid tribute to Afsure and said that they hoped the money would be used for black advancement.

Boya said the local authorities have been plagued by financial



Gaby Magomola

problems because people were not paying their rent and the fact that councillors had lost credibility among their communities.

His council, he added, which had assets valued at more than R200-million wanted to make sure that when they relinquished their positions, these assets were insured. "We do not want to be blamed for using the council's property in vain."



# Reserve Bank policy starting to pay off

By Sven Lünsche

After two years of tough monetary treatment by the Reserve Bank, the economy seems to be responding in the right way.

Inflation has fallen by almost four percentage points to 14 percent, real prime rate has been lifted to a record seven percent and the increase in credit extension to the private sector has fallen from 30 percent in August 1988 to 17,5 percent recently.

In addition, the balance of payments position has improved, although gold and forex reserves are still at low levels — enough to meet import payments for one and a half months.

There has also been some overkill that is out of line with the desired "soft landing" scenario set as a target by the authorities.

House repossessions, particularly among blacks, are running at record highs, the total number of liquidations for the three months to May at 459 is 19,2 percent up on the previous three months and company profits are falling fast.

In the wake of these statistics many economists and businessmen have been saying: "That is just about enough."

## Pressure groups

However, it seems the Reserve Bank this time will not heed the calls, or be intimidated by pressure groups in the Cabinet.

Dr Chris Stals, the Governor of the Bank, has already said monetary policy will not be relaxed until money supply is well within the targeted growth rate of 11 to 15 percent from the fourth quarter last year to the fourth quarter of 1990. It is currently running at about 19 percent.

He is also on record for his insistence that interest rates should be maintained at real levels at all times.

On this front he is likely to aim at levels prevailing among SA's major trading partners, namely between five to eight percent.

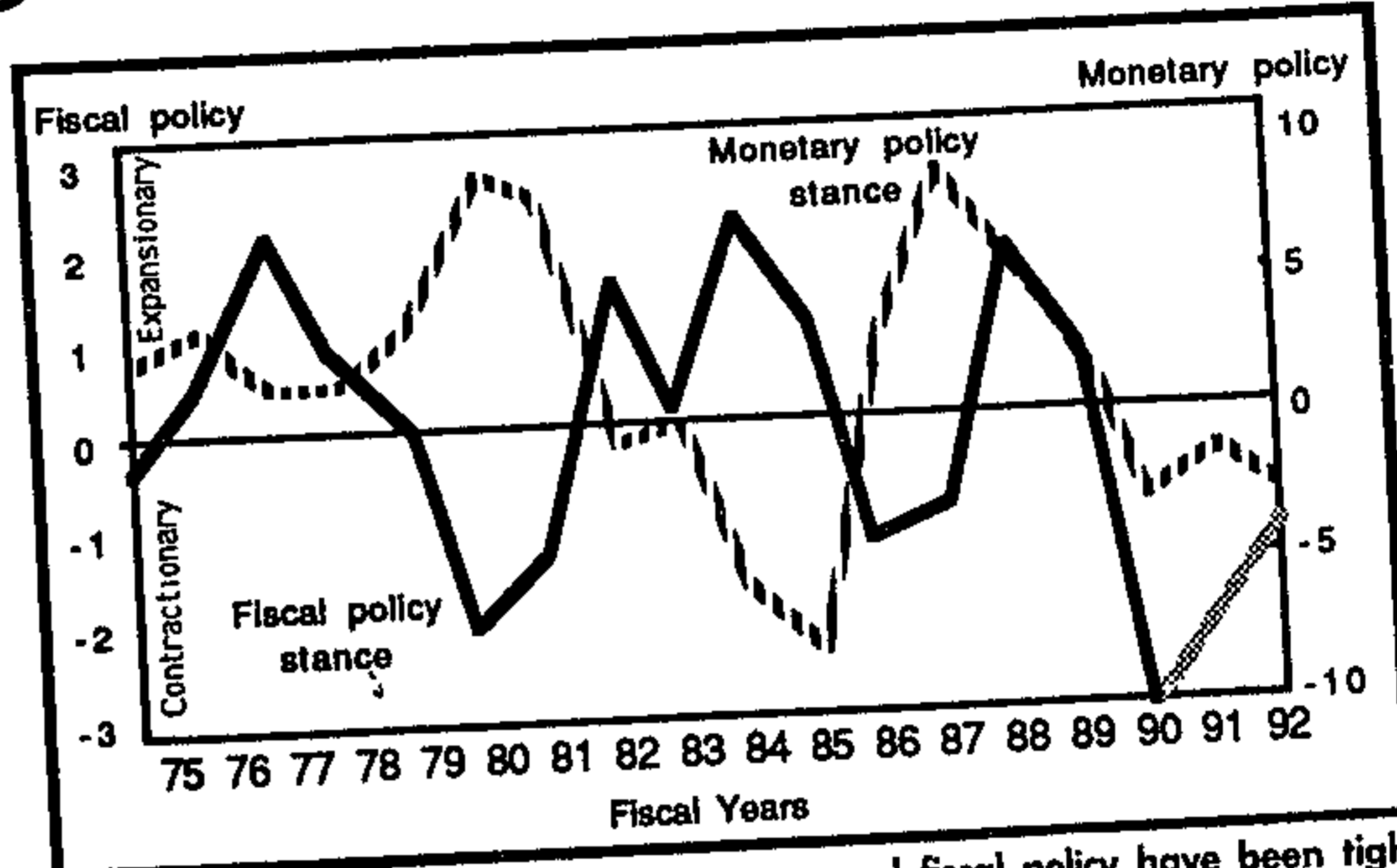
But what seems obvious is that he will not relax policy until inflation has been put firmly on a course to single-digit levels.

The second major policy aim does not lag far behind — to boost gold and foreign exchange reserves to levels where they cover the import payments for at least five months.

Any thoughts of growth promotion by the Reserve Bank, for the time being at least, must take the back seat of economic policy.

Many economists argue that growth stimuli through money creation would only lead to escalating money supply inevitably followed by rising inflation.

In the UBS's latest Economic Monitor, Dr Hans Falkena sums up



The UBS graph shows that both monetary and fiscal policy have been tight recently. The UBS predicts some relaxation in both policies, but they will, on balance, remain contractionary.

the position as follows: "With both serious pressures on the country's reserves and galloping inflation there cannot be room for any loosening of monetary policy.

"No doubt the reduction in the inflation rate will be costly in terms of production, but the long-term benefits of a lower inflation rate will more than compensate for this short-term loss."

However, in his efforts to achieve his aims, Dr Stals should move away from relying on monetary policy alone, Dr Falkena urges.

"Over the past 15 years inflation has run between 10 and 20 percent.

"Inflation expectations are therefore well entrenched at double-digit figures, and wage demands are reflecting such expectations.

"To break inflationary wage demands, the authorities will have to set an example of fiscal discipline."

There is already evidence that Dr Stals and Finance Minister Barend du Plessis are co-operating to achieve this aim.

Both monetary and fiscal discipline have shifted substantially since 1988 to reflect the tougher line (see graph).

However, more needs to be done, says Dr Falkena.

The Budget deficit as a percentage of GDP should not be greater than the long-term growth potential of the economy, which implies that the Budget deficit before borrowing should be limited to two percent.

Besides fiscal discipline, the Reserve Bank needs wage discipline in the private sector so that wage adjustments do not exceed the rise in national productivity.

"The authorities cannot stand by idly if excessive wage increases threaten price stability," says Dr Falkena.

Behind this appeal for a combined effort to combat inflation is the economic belief that people can

exercise their choices optimally only when money is a stable unit of account, a stable means of exchange and stable store of value.

And this can only occur in a non-inflationary environment that has also been freed of inflationary expectations.

Dr Falkena explains that the dose should be administered over a longer period of time — any abrupt and one-off application of anti-inflationary policy could force the economy into a severe depression.

"Instead, inflation has to be reduced gradually.

"The Bank should achieve this by maintaining a real Bank rate at such a level that it reduces the inflation rate by, say, about 1,5 percentage points every six months," Dr Falkena says.

## 'Real' economy

So far it has worked and judging from recent statements by the Bank's leading spokesmen inflation could be down to 10 percent at the end of next year.

Some of the measures implemented last year and earlier this year still have to work their way through to the "real" economy.

Reserve Bank economist Jaap Meijer explained in an article in the Bank's latest Quarterly Bulletin that the economy may not react observably for some three to five quarters after the introduction of a policy change.

"The inflation rates customarily respond even more tardily.

"This may make the authorities actions look worse than merely ineffective for some time at least and may reflect unfavourably on the authorities' credibility," Dr Meijer said.

However, this time around the right noises have been made and there is little chance that Dr Stals and his team at the Bank will be underestimated.

THE Development Bank of Southern Africa broke through the R700-million mark disbursements in the 1989/90 financial year ending March 31 1990, chairman and chief executive of the Bank, Dr Simon Brand, said in his annual report.

Aimed at alleviating poverty in the region, the R730-million disbursed in the past financial year represents a healthy 49 percent growth for development projects, compared with R490-million disbursed in the previous year.

It is a far cry from the Bank's early beginnings when, in 1984/85, the first year of issuing loans, a little more than R100-million was disbursed.

The growth in disbursements has been supported by the Bank's maiden entry into the local capital market in May last year.

The DBSA intends raising R300-million on this market in the current financial year, of which R178-million has already been raised.

### Future

The South African Government has committed R2,5-billion to the DBSA for the five years to 1992/93. This augurs well for the future funding of the bank, which has projected its own generation of funds, mainly from servicing on outstanding loans, to average R260-million in the same period, Brand said.

He went on to say that the first signs of overseas participation, in funding South African development and the increased cooperation from private corporations to supplement and create new development funds, have raised hopes that more funds will be available for redressing economic disparities that will have to accompany the process of political change.

Announcing a new shift in support for non-government organisations (NGO) involved in development, Brand said that several of the Government organisations that the bank had been supporting came under severe pressure during social unrest.

# Bank hits the R700-m mark

By JOSHUA RABOROKO

also channel funds to appropriate NGO.

Where appropriate, the bank drew to the attention of governments the reasons for stress on institutions and suggested institutional adjustments that can underpin economic growth.

### Political

With the same purposes in mind the bank interacted with representatives of all shades of political opinion. It also participated in the debate issues related to the economic future of South Africa.

Based on its commitment to alleviate poverty and help improve the living conditions in rural and urban areas, the bank has started concentrating

on the economic links between the rural and urban sectors.

It is thus focusing on the integration of its projects, both rural and urban, to multiply the benefits.

This has demanded that attention be given to sectors ranging from farmer support programmes and village or cooperative programmes to urban infrastructural development.

Attention has also had to be given to the institutional and administrative capacity of governments to manage public sector finance and assets as well as business and entrepreneurial activities.

A total of 107 new projects, representing a financial commitment of R1 222-million, were approved during the 1989/90 year.

A further R142-million was approved to

provide for cost escalations on implemented projects. This brought the cumulative total financial contribution committed by the bank on projects to R4 894-million at the end of 1989/90.

Seeking to have an effect on development throughout the period of political transition and in participation of future developments, the bank will continue to support viable and innovative Government institutions and will



# Banking shares attract demand

By Jabulani Sikhakhane

Banking shares have been attracting good demand recently on speculation about a rationalisation in the banking industry in the wake of changes in legislation.

Most interest has fallen on Allied and UBS, while Volkskas was also good demand last week, the share rising 75c on Friday to a peak of R16,50.

Allied peaked at 167c on Friday on 455 825 shares traded in 81 deals, while UBS rose 5c to 675c.

Analysts say Rembrandt could be the candidate in re-arranging its assets. Rembrandt has a stake of 10 percent in Allied, and it has a holding in Sage Life (which in turn has 10 percent of Allied), Volkskas (30 percent), UBS Holdings (9,9 percent held through Financial Securities Ltd) and Momentum.

Rembrandt and UBS Holdings are the major shareholders in

Volkskas, each with 30 percent. Volkskas also has a 30 percent holding in Momentum Life.

Volkskas, which holds 9,9 percent of UBS, is involved in a joint venture with UBS through a 49,99 percent stake in United Bank. In turn, UBS Holdings owns 30 percent of Volkskas.

One analyst says rationalising and grouping assets would be a sensible thing, especially if the aim is to improve operating efficiency.

The interest in the financial services sector is largely due to changes in banking legislation, which now permits an institution to own up to 49 percent of a building society — hence the interest in UBS and Allied shares.

Previously, institutions could only own up to 10 percent of a building society's equity.

There has been speculation of a possible realignment in Allied, with

analysts pointing to First National Bank as a likely candidate to take over Allied. This would result in an indirect capital injection for First National.

Analysts believe Sage — which owns 10 percent of Allied — could not possibly take over Allied, but could have some influence on the direction in which it finally moves.

However, Allied MD Kevin De Villiers says after the annual general meeting many people thought there was a boardroom dispute and that this had increased chances of a take over.

He attributes the recent interest in Allied shares to more knowledge of Allied and its underlying soundness.

"Most brokers have been saying Allied might be the target of a hostile takeover, but there is no substance in this. We are strong enough to be independent," he says.

## Registrar looks at insurers' margins

Sta 16/7/90 (58)

Finance Staff

The Registrar of Insurance, Piet Badenhorst, has begun discussions with five short-term insurers, whose solvency margins have been declining in the past few months.

Mr Badenhorst said that only one company's margin was below 20 per cent. But the solvency margins of the other four had also shown a marked decline.

"In the discussions with these insurers I will ascertain what management's intended policy is with regard to future business as well as the attitude of the major shareholders to the investment of additional capital," Mr Badenhorst said.



## Power cut is on the cards

CAPE TOWN — The Lingelethu-West Town Council in Cape Town has given 600 families in Khayelitsha until the end of July to pay their electricity bills or have their supply disconnected.

The families have stopped paying their monthly bills, citing shortcomings in their electricity supply. The Khayelitsha People's Delegation said residents could not use all their household appliances simultaneously because the voltages were low.

The chief executive officer for the Lingelethu-West council said in three areas alone the arrears had risen to R300 000 in three months. — Sapa.

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# Top bank

## boss quits

CRK TMB 17/7/90

Own Correspondent

JOHANNESBURG. — Trust Bank chief Mr Chris van Wyk quit yesterday.

His position as chief executive of the bank will be filled temporarily by Bankorp's executive chairman Mr Piet Liebenberg.

Mr Van Wyk will also be involved with Bankorp as International Bank of Johannesburg chairman.

Bankorp sources said the feeling was that Mr Van Wyk's diminished status after Mr Liebenberg had taken the helm at Bankorp had prompted his decision.

He moved from chief executive of the banking giant Bankorp to the lesser position of chief executive of "Trust Bank," a division that would concentrate only on commercial banking.

Mr Van Wyk, who played an active part in planning the restructuring of the troubled Bankorp, said he had reached a point where a new direction was logical.

Mr Van Wyk was emphatic that his leaving was "more than amicable". He denied he was unhappy with developments in Bankorp and pointed out that he had been closely involved.

After he moved to Trust Bank, Mr Van Wyk "focused immediately on the reorganisation of this division and this is now well on its way".



Mr Chris van Wyk

● Full report — Page 9

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# New era as Trust Bank chief resigns

*CAF Trib 17/7/90 (28)*

Own Correspondent

JOHANNESBURG. — Trust Bank chief Chris van Wyk has resigned with no immediate plans for his next career move after 22 years of service in the Sanlam group.

The position of chief executive of Trust Bank, the largest division in the newly-restructured Bankorp Group, will be filled temporarily by Bankorp executive chairman Piet Liebenberg. Van Wyk will be available to Mr Liebenberg and his executives in a consulting capacity.

He will also be involved with Bankorp as International Bank of Johannesburg chairman.

Van Wyk said yesterday he needed to "take stock and stand aside from daily management tasks" to think about what new opportunities to become involved in.

Bankorp sources said the feeling was that Van Wyk's diminished status after Liebenberg had taken the helm at Bankorp had prompted his decision to quit. He moved from CE of the listed banking giant Bankorp to the lesser position of CE of Trust Bank, a division that would concentrate only on commercial banking.

Van Wyk, who played an active part in planning the rationalisation and restructuring of the troubled Bankorp, said yesterday he had reached

a point in the cycle where a new direction was logical.

His resignation coincides with the decentralisation of the Trust Bank and the consequent trimming of its head office as part of the Bankorp rationalisation drive.

Van Wyk was emphatic that his leaving was "more than amicable". He denied he was unhappy with developments in Bankorp and pointed out he had been closely involved.

After Liebenberg took over and he moved to Trust Bank, Van Wyk "focused immediately on the reorganisation of this division and this is now well on its way".

On what his next move will be, his statement said: "The broad spectrum of events which appeal to me include the increasing trend of powerful state and parastatal organisations to become successful businesses, the role that SA business can play in the development of new local and international markets, and the need for better communication and co-operation between the different interest groups who will play a part in the future SA."

Liebenberg said in a statement that Van Wyk's contribution to the strategy behind the company's restructuring was "very important and greatly appreciated".

## Money market round-tripping 'may be R1bn'

GRETA STEYN

58

ROUND-tripping in the money market — borrowing on overdraft at a low interest rate from one bank to lend to another at a higher interest rate — occurred to the tune of between R700m and R1bn at the end of June, according to a senior money market source. *8/0m 18/7/90*

The practice occurs when an extreme cash shortage in the money market forces interest rates on call deposits to levels above the prime overdraft rate of 21%.

Round-tripping guarantees a risk-free profit for large corporations and institutions with prime overdraft facilities.

Bankers are concerned the round-tripping will distort the money supply figures and lead to conclusions that spending is more buoyant than it really is.

They are understood to have informed the Reserve Bank of this concern and have provided the Bank with the market's "guesstimate" of the huge extent of the practice at the end of June.

The figures cannot, however, be established objectively although the Bank itself acknowledges they are large enough to influence the money supply figures.

Some bankers believe the Bank should take action to avoid round-tripping by providing the money market with greater liquidity when a seasonal cash crunch occurs.

The Bank itself, in its June Quarterly Bulletin, noted that round-tripping might have played "a significant role" as a source of rapid increases in the money supply.

The Bulletin said: "Round-tripping — a state of affairs in which funds are borrowed from a bank or other monetary institution for the purpose of being re-deposited with the same or some other bank or monetary institution — represents an extreme form of intermediation or re-intermediation."

"It arises when intermediaries' normal lending rate/deposit rate relationships are inverted."

Intermediation is the practice of lending and borrowing with a third party as intermediary — a bank or building society.

# Officials quit as rent protests spread in E Tvl

By Therese Anders  
Highveld Bureau

There is growing turmoil in black townships in the eastern Transvaal as rent boycotts spread and more councillors resign.

The town clerk of Middelburg's Mhluzi township, Lehlo honolo Makae, confirmed that a number of councillors had resigned during the past week.

However he was not able to give any details before tomorrow's council meeting.

Last month three new Mhluzi councillors were elected in by-elections which attracted less than 5 percent of registered voters in each ward.

Mr Makae said that unrest in the township had resulted in

several projects being halted because contractors felt it was unsafe to be in the area.

The projects included the building of roads, the upgrading of a sewage outfall and the installation of services at new extensions.

A spokesman for Secunda's Emablenhle township said a rent boycott had been started three weeks ago. Two of the council's nine councillors resigned earlier this year.

## No electricity

Witbank's huge kwaGuqa township (population 115 000) is now being run by three Transvaal Provincial Administration-appointed administrators after the resignation of most the

township's councillors in April.

There has been a rent boycott in kwaGuqa and the nearby coloured township of Schoongezicht since earlier this year.

Schoongezicht's 2 500 residents have been without electricity since April 27 when the Witbank Town Council cut the supply after substations were tampered with.

In Ermelo's Wesselton township residents have been boycotting rentals since late last year. Town clerk Charles Maseko said there had been a slight pick-up in payments since last week's announcement that arrears were to be frozen.

Four of Wesselton's councillors had resigned in the past few months.



## BUSINESS

# International unit trusts 'are attractive to South Africans'

(58)  
BIDMAY 18/7/90

ECONOMIC and political uncertainty in SA means international unit trusts have become increasingly attractive to South Africans with money abroad.

Board of Executors GM, client services, Brian Bechet said while there was no legitimate way of transferring money abroad, a growing number of SA residents had acquired assets overseas by legitimate means such as an inheritance.

"Because of the winds of change in SA and exchange control regulations, they want to keep that money abroad," he said.

In an article in the BOE's *Wales Street Journal*, he writes: "For those local residents who have acquired foreign assets and who have the approval of the Exchange Control au-

HELENA PATTEN

thorities to retain them abroad, the avenue of international unit trusts is an option to explore."

He said this was particularly advisable where the sums of money were too small to allow the economic operation of a personal investment portfolio.

### Portfolio

Unlike local unit trusts, foreign registered unit trusts — over 2 000 are quoted daily in the *London Financial Times* — were able to invest wherever in the world they chose and offered considerable versatility.

"Most of the reputable investment

houses offer a spectrum covering not just the choice between income or growth, but also between currencies and specific areas of the world.

"The ability to hedge one's portfolio in the currencies of one's choice is another advantage not available in local managed funds," he said.

FISC Investment Management chairman Robin Richards, who acts as an adviser to clients who want portfolios of international unit trusts managed, said most of his clients had recently immigrated to SA and had legitimately left assets behind them. The balance had inherited money from relatives abroad, he said.

For such people, SA was a tax haven since income from capital invested abroad could enter the country untaxed.

# New insurance chief will aim for 'equilibrium'

58  
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16/11/90

LINDA ENSOR

NEW assistant registrar for short term insurance Nico Fourie, 53, hopes to be able to maintain an equilibrium between the interests of the various players in the industry.

These include registered insurers, brokers, agents, Lloyd's agents, professional re-insurers, re-insurance brokers and other players.

While insisting that there are certain aspects which are not negotiable, Fourie says he would hope for a communicative, open relationship with the short-term insurance industry and will encourage a free flow of information.

"Communication is the operative word," says Fourie, who joins the office at a period of its transition to a semi-privatised statutory body.

Fourie took over from Willem Heckroodt who now supervises JSE matters after a 25-year involvement with the insurance industry dating back to 1957.

He joined the industry as an employee with the Royal Exchange, now Guardian National, followed by a position with Standard General. About half his working life in the insurance industry was spent with Priceforbes Federale Volkskas as a broker.

In 1985 Fourie joined the Financial Institutions Office where he worked for



● FOURIE

three years as a senior controller in the short-term insurance department, supervising, analysing and reporting on the statutory returns of short-term insurers.

He left for financial reasons to join the research department of Hollandia Re-insurance.

"I know the industry and its players and feel comfortable in this environment," says Fourie about his return to the FIO.

Fourie is a fellow of the Chartered Insurance Institute of London and is studying for a Masters degree through Unisa on an insurance-related topic.

One of his main functions in the immediate future will be to assist in the formulation of a new short-term Insurance Act to replace the present 1943 Act and bring it into line with current developments.

Biday 18/7/90

# AA Life's results aided by 'world-first products'

58

LINDA ENSOR

MAIDEN results from AA Life Group, listed on the JSE in February, show a pleasing performance by its life office subsidiary AA Life.

Both earnings and dividends exactly met the forecasts made in the transmuted listing statement published when the group was reverse listed into cash shell Ocean Appliance Corporation.

A final dividend of 5,9c brought the total to about 11,2c on earnings a share of 16,6c.

The share closed at 230c yesterday, compared with a high of 250c in May and a low of 210c in February. This placed the counter on a dividend yield of about 4,9% and price-earnings of about 13,9 times.

This compared with sector averages of 4,3% and 9,6 respectively.

MD Brian Benfield said the life assurer had produced excellent results for 13 months to end-April.

New business growth exceeded 40% on an annualised basis and premium income net of reinsurance increased 57,3%.

Benfield said the assurer's new business effort was helped "enormously" by the introduction of two new products, both world firsts: terminal illness benefits and baby care benefits



● BENFIELD

for mothers who give birth to babies with congenital disorders.

He said these products boosted the growth of recurring premium business, which showed the highest growth ever.

Also, a growth of about 60% in premium income from pensions and group life benefits contributed to the performance.

"Life Office Association statistics show AA Life's percentage of the new business market to have increased in calendar 1989 by more than 17%," Benfield said.

"Notwithstanding the increase in premium income, administration and management expenses were contained at slightly less than the 1989 industry average increase of 23%."

AA Life Group's net income after tax amounted to R6,5m, but attributable income totalled R18,6m after the addition of a R12,5m extraordinary item arising from the disposal of interests in subsidiaries prior to the acquisition of AA Life and its subsidiaries.

Benfield said that before the listing of AA Life Group, it was necessary to clear out the assets in the Ocean Appliance cash shell. These were paid out as a special dividend of 360c a share to Ocean shareholders.

The subsidiary declared a dividend of 106c (85c) a share. At year-end the life fund stood at R232m and shareholders' interests at R59,4m. No comparable figures were available.

After the year-end, a giant R500m life assurance group in the Anglovaal stable — Anglovaal Insurance Holdings — was formed with AA Life and Crusader Life as subsidiaries.



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Registrar of Insurance Piet Badenhorst. Picture. ROBERT BOTHA

## New statutory annual returns to become law

LINDA ENSOR

NEW statutory annual returns for registered short-term insurers which require greater disclosure of information and allow for a closer supervision of the industry will be gazetted in the next few weeks.

The new returns were compiled in conjunction with the industry.

Assistant registrar, short term, Nico Fourie says the returns, which have to be submitted within four months of the end of an insurer's financial year, will be applicable retroactively to January 1 1990.

"Insurance companies with reporting dates of February and March have already volunteered to report on the new forms," Fourie says.

The returns will consist of 14 statements and allow "greater visibility" of an insurer's business activity.

"Previous returns differentiated between six different classes of insurance business. These have now been sub-divided so that returns on 23 different classes of business will in future have to be submitted," says Fourie.

Registrar of Insurance Piet Badenhorst says in the past a lot of business was reported as "miscellaneous" and there was no basis for deciding what this category consisted of.

"We will now have access to information and financial results for each class," Badenhorst says. New technical reserves for each class of business will in future be necessary.

As the returns are publicly available, the greater disclosure will enable the industry to monitor developments within the market and will ensure that the Registrar keeps abreast with developments.

Fourie adds that an additional feature of the new returns is that greater detail of the run-off position of outstanding claims which have been incurred but not reported (IBNR) is required.

An additional loading factor for underwriting losses has been incorporated into the unexpired risk reserve.

Badenhorst says the Financial Institutions Office has instituted an early warning system on its computer which indicates if an insurer's financial position has reached a critical stage.

© See Page 13

## DET denies

## blame for losing books

TRACY MELASS

THE discovery of 30 000 unused textbooks in black schools was an example of the Department of Education and Training's (DET) inefficiency and inability to control education, National Education Crisis Committee (NECC) spokesman Dave Maepa said yesterday.

Maepa's criticism follows the DET's discovery on Monday of 30 000 secondary school textbooks in 19 black schools around Johannesburg.

DET Johannesburg regional director Peet Struwig yesterday confirmed the books had been wrongly distributed.

"Subjects at schools are sometimes discontinued. Books are often not redistributed, but no one can be blamed for this," he said.

### Shortage

Maepa said "Deliveries between different schools are often mixed up. Red tape prevents school principals from making simple exchanges between themselves."

He said books could only be redirected by an official from the central DET depot.

Struwig said book shortages in black schools caused the DET to investigate the possibility of finding surplus books. Each book cost an average of between R6-R8, meaning the unused books were worth about R250 000.

Struwig said redistribution of books would begin immediately. The fact that surplus books were mostly for standards 6 to 9 would enable the DET to focus attention on matriculants.

"The problem of matriculants is a serious one as matric numbers have increased almost two-fold since 1989. The DET can now concentrate the R1-million government education grant on matriculants in the Johannesburg area."

## Two more die in violence

PRETORIA — Two people died and five policemen were injured in political violence in the previous 24 hours, police said yesterday.

Five others were wounded in police gunfire and 30 arrested for staging illegal meetings. In Natal, a man was necklaced at Zuba and another

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# Life assurance ban to be lifted

8/10/90 18/7/90

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CAPE TOWN — A ban on the use of life assurance policies by non-tax-paying organisations, which has taken millions of rands of potential business away from the life industry, is expected to be lifted early next year.

Investigations into the continued use of this investment facility by non-tax-paying bodies, like municipalities, are under way, and it is hoped that enabling legislation will be passed early in the next session of Parliament, according to Assistant Registrar Life Assurance Companies Oppie Opperman.

## Encroaching

It is also understood that Finance Minister Barend du Plessis has given the industry an undertaking that the ban will be lifted.

The prohibition was imposed in 1988 after deposit-taking institutions complained that life offices were encroaching on their territory. At the same time, the life industry had to undertake not to compete with the deposit-taking sector by selling policies with a duration of less than five years.

Of the non-tax-paying bodies, municipalities with long-term capital commitments were the main users of non-standard endowment policies which offered investment vehicles that protected them against the ravages of inflation and repaid their

LESLEY LAMBERT

loans.

Because municipalities are not subject to tax, the policies were also tax-free.

The effect of the prohibition was evident in the industry's results last year.

The growth of Sanlam's premium income from individual life business — which is the category in which the municipalities invest — fell from 30% in 1988 to 18% last year. Much of the slowdown was attributed to the ban.

Opperman said that if the prohibition was lifted, it would possibly be on the basis that the investments could be interpreted as "sinking funds" which are more commonly used to replace capital goods.

The payment of regular premiums would be similar to the regular investments which are paid into a sinking fund to make up the replacement value of a capital good.

But, given the undertaking made by the life industry, it is likely that the duration of these policies will have to exceed five years.

A spokesman from the Life Offices Association (LOA), which represents life assurance companies, said yesterday the LOA had expected the prohibition to be lifted during the last parliamentary session.

He said Du Plessis had given an undertaking that it would be lifted.



# AA Life Group's maiden results in line with forecasts

By Sven Lünsche

The AA Life Group, which was listed on the Johannesburg Stock Exchange in February, reports strong maiden results in line with pre-listing forecasts.

In the 13 months to end-April the group's attributable earnings totalled R18,6 million, equal to 16,6c a share, from which a final dividend of 5,9c is being paid.

The AA Life Group was reverse listed into cash shell Ocean Appliances and has, subsequent to the year-end, merged the interests of its life assurance arm, AA Life, with those of Crusader Life to form a new life assurance group.

The new group, Anglovaal Insurance Holdings, with assets of about R500 million, is controlled by Anglovaal.

A strong performance by AA Life was largely responsible for AA Life Group's good results.

Managing director Brian Benfield says new business growth exceeded 40 percent on an annualised basis and premiums net of reinsurance increased by more than 57 percent.

The growth was aided by the launch of two new products — terminal illness benefits and baby care benefits.

He estimates AA Life's percentage of the new business market increased by more than 17 percent in 1989.

"Notwithstanding the increase in premium income, administration and management expenses were contained at slightly less than the 1989 industry average rise of 23 percent," he says.

Net income before tax and extraor-

dinary items in the 13 months to April totalled R6,654 million, which was reduced slightly to R6,155 million after tax and outside shareholders' interests had been deducted.

An extraordinary item of R12,5 million, arising from the disposal of interests in subsidiaries before the listing, lifted attributable earnings to R18,6 million.

The sale of assets in the Ocean Appliances cash shell before the listing also resulted in a special dividend declaration of 360c a share payable to Ocean shareholders.

Mr Benfield says the assets of the life fund at the end of April stood at R232 million, while shareholders interest totalled R59,4 million. No comparable figures were provided in the income statement.



(38)

# R600 million poured into Old Mutual's five unit trusts

Magnus Heystek, Finance Editor  
 More than R600 million was poured into the five unit trusts in the Old Mutual family in the financial year to end-June, with the number of account holders rising by a staggering 64 000 to bring the total to 270 000.

This was disclosed yesterday by Bas-tiaan van der Westhuizen, Old Mutual's assistant general manager, unit trusts.  
 In recent years Old Mutual has dominated the fast-growing unit trust industry, dwarfing the other players.  
 Assets under control of its trusts rose to R2,5 billion at end-June, 39 per-cent more than a year ago.

Total assets under control of South Africa's 34 unit trust companies amounted to just under R8 billion at end-June.

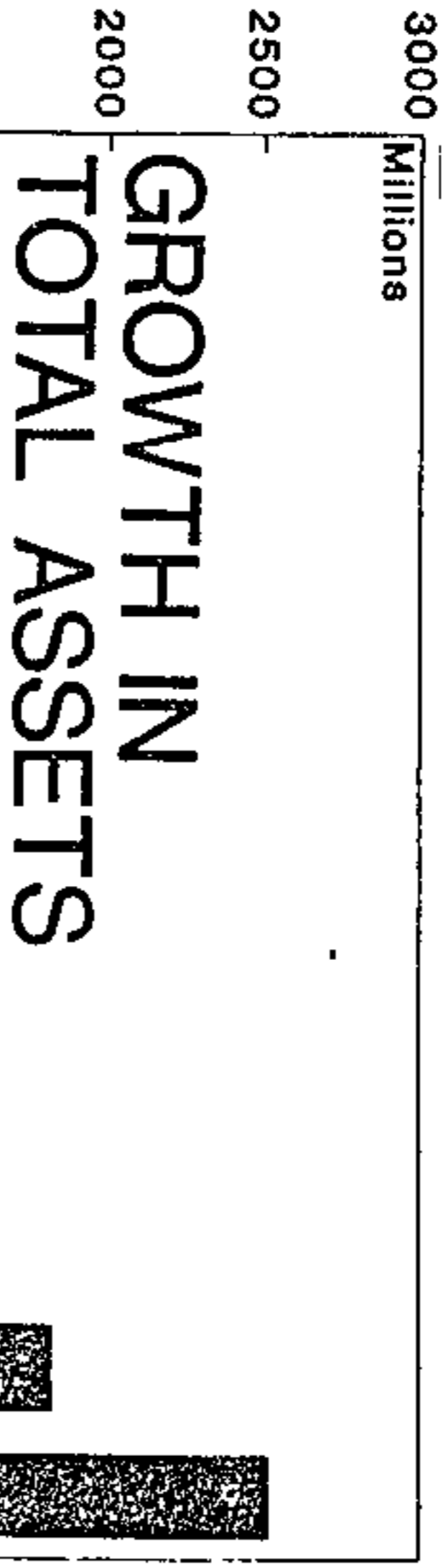
Mr van der Westhuizen attributes the sharp rise in the new accounts — of which half are in the form of debit orders — to the superior returns offered by unit trusts in general, and Old Mutual's funds in particular.

The Old Mutual Investor's Fund — a broad-based general equity fund — has recorded an overall return of more than 30 percent a year in the five years to end-June.

It outperformed all other funds, as well as the JSE overall index, over the same period. An amount of R25 000 invested on June 30 1985 was worth more than R93 000 at the end of last month.

Unit holders also received a record R110 million in the form of distributions in the past financial year, which indicates the growth of unit trusts as an acceptable investment for the man in the street.

During the year Old Mutual launched two new specialist funds, a gold fund and an industrial equity fund.



Assets of Old Mutual's unit trusts have grown phenomenally in the past two years with the introduction of the income, gold and industrial funds.

Both these funds attracted large volumes of business from a unit-trust-hungry public.

A notable aspect of the report is the increase in the liquidity level of the Old Mutual Investor's Fund, the largest fund. Its liquidity level from 14,6 to 17,4 percent.

This reflects the negative outlook for company profits during the current recession combined with the attraction of high interest rates.

Apart from its increased liquidity Investors' Fund made a few changes to its balanced portfolio during the past quarter.

The largest deal was a R10 million switch from C G Smith into Barlows. About R1,5 million of Iscor-stock was bought during the time of the share's

weakness.

Rowland Chute, fund manager, says: "As a long-term investor we see fairly good value in Iscor at current levels. We don't expect the share to rocket overnight, but no institutional investor can afford not to be in Iscor."

The latest purchase brought the stake in Iscor to 16 545 650 shares with a market value of R32,8 million.

The holding in Genbel was increased by R1,4 million and the rights issue in Midwits was followed. The gold portfolio was tidied, the holdings in Beatrix and Vaal Reefs being sold.

The size of the Investors' Fund was R2,248 million at the end of June with the repurchase price of the units marginally lower at 2124c. The total dividend for the year was 105,73c, nearly 35

percent more than the distribution of 78,41c a year ago.  
 The Industrial Fund, a specialist industrial equity fund launched earlier this year, disclosed its equity holdings for the first time. It shows that the fund has been buying good quality stock across a broad front, with some highly interesting second-tier counters included.

Liquidity of the fund at year-end was 14,9 percent, roughly in line with the larger Investors' Fund, but higher than the original estimate as a result of the large inflow of funds.

The 10 top holdings of the fund are Rembrandt, Lomrho, Richemont, Barlows, Pick 'n Pay, Haggie, UBS, Nedcor, FIT and SA Brews. Offshore trust FIT accounts for just over three per-cent of the portfolio.

Among industrial holdings the blue chips are Amic, AVI, Barlows, Lomrho, Richemont and Safren.

An interesting feature is the fairly large holding in Toco and Uniserv, two counters normally described as second-liners.

At end-June the market value of the fund was R20,5 million.

The Old Mutual Income Fund locked into the benefits of current high interest rates during the quarter. Portfolio manager Adre Smit says the major focus was on acquiring NCDs and Sats 1993 stock.

The size of the fund rose from R21 million to R23,8 million and the distribution totalled 15,71c.

In spite of the sharp rise in interest rates there was only a marginal drop in the unit trust, reflecting an investment strategy aimed at providing reasonably stable capital.

# Speculation rife after probe into insurers

SPECULATION and rumour is rife in the short-term insurance market over the identity of the five companies identified by the Registrar, Piet Badenhorst, as having declining solvency margins.

Finger-pointing and denials have followed last week's announcement.

However, Badenhorst says he will not be revealing the names of the five companies.

He says the quarterly returns to end-March which were submitted were unaudited figures supplied by management.

The audited results could reveal a different picture, he said.

Badenhorst said to name the insurers concerned would reflect on the companies when there was no real cause for alarm as all insurance companies complied with the prescribed solvency margin of 15%.

However, brokers Willis Faber Enthoven MD Charles Bothner said he found it "most unfortunate" that the existence but not the identities of the five companies had

LINDA ENSOR

been revealed.

"It creates unhealthy rumour and speculation — why not publicise the names?" Bothner said.

He added, however, that the Registrar's proactive concern about the solvency margins of insurance companies was to be applauded.

## Dangerous

"It is a pity that he is doing the right things but unwittingly creating an unhealthy environment."

Insofar as brokers and members of the public were accepting Badenhorst's assurance that there was no reason for concern, he was effectively underwriting the market.

Bothner said this was a dangerous thing to do, and was "surely unintentional".



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# Forgery probe spreads to Natal and Swaziland

By Craig Kotze

Investigations into a massive forgery racket uncovered on the Reef by police have expanded dramatically, with false R20 and R50 notes found in Swaziland and Natal.

John Vorster Square Fraud Squad detectives will investigate whether the notes found in Swaziland and in Utrecht, Natal, are linked to a R700 000 forged note haul on the Reef, said Witwatersrand police spokesman Captain Eugene Opperman.

## Pouring in

Investigations had expanded countrywide into the racket, but were centred primarily in the Transvaal and Natal.

Information was "pouring in" and detectives were working around the clock to follow leads.

Captain Opperman said that while it was difficult to say yet whether the extent of the fraud was growing, police would "follow the correct channels" to es-

tablish whether the forged notes found in Swaziland were linked to the present investigation.

Forged R20 notes were exchanged in the purchase of goats near Utrecht recently, said a Natal police spokesman.

Sixteen people have been arrested in connection with the case and police have questioned a prominent lawyer in connection with the matter.

In another development, a fire damaged desks and unimportant papers in a John Vorster Square office, the nerve centre from where the counterfeit racket is being investigated.

Detectives have opened an arson docket, though it was not known whether the fire was started to destroy evidence in the case.

The fire broke out on Monday night in the third floor offices, where a completed docket and two notes scribbled on paper were destroyed.

Captain Opperman said police were not prepared to speculate on the cause of the fire.



## Council's offer on arrears rejected

Sta 19/1/90  
The Witbank Interim Civic Association has rejected the kwaGuqa town council's offer of a freeze on rent arrears and a R100 flat rate for rent and services for each householder.

The association demanded that in future the TPA and the kwaGuqa town council should make decisions in consultation with the "popularly elected leaders of the people".

The association called for the following flat rates for rent and services:

- Squatters on improved sites — R5, pensioners, no charge.
- Houses with electricity R30. — and houses without R10. — Highveld Bureau.

# D-day looms for township rent crisis

By Claire Robertson,  
Pretoria Bureau

Crucial negotiations on the rent crisis in black townships are in progress as the deadline for the Transvaal Provincial Administration's bridging finance "austerity measures" nears.

In two weeks, the TPA will implement its R16 million-a-month bridging finance package to black local authorities in an effort to make the available funds last the year.

The budgeted sum of R26 million for the 1990/91 fiscal year has been eroded by payments of up to R75 million a month in the first half of the year.

Councils which do not manage to negotiate a resumption of rent and services payments in the next month may have essential services cut off.

"The timing is critical," Transvaal MEC for local government Olaus van Zyl said yesterday. The cutting-off of services "may be unavoidable in some areas", Mr van Zyl said.

## Encouraged

Province had appealed to the Government for additional funds for the past "two or three months" but he doubted these would be available.

He was, however, encouraged by the negotiations between residents' organisations — local people's delegations and civic associations — and councils taking place in about 30 townships.

In at least 10 townships, negotiations have been successful in halting boycotts. "I am still confident we will be able to reach an amicable solution," he said.

Province had also contacted

bulk suppliers of services in an attempt to minimise the effect on essential services such as water, and sewage and refuse removal, which, if stopped, would present a health hazard.

"The tragic thing is that cutting off services may affect people who have paid and it could affect areas such as health clinics that are essential," said Mr van Zyl.

In some cases the bulk supplier was the adjoining white town or city, many of which realised "that if it goes bad there (in black townships) it will affect them, too", Mr van Zyl said.

"In general, the funding situation hasn't improved, and strictly speaking there won't be additional funds. But the aim is not to curtail funds, and not even to stop the boycott, but to find the problems in local authorities and thus to stop the boycott."



# Warning on R50-m revamp for Shareworld

By Shirley Woodgate

Multimillion-rand plans to revive the Shareworld recreation complex outside Johannesburg would only get off the ground if taxi owners and operators were offered a "sizeable financial stake" in the scheme, transport consultant Nat Horwitz warned yesterday.

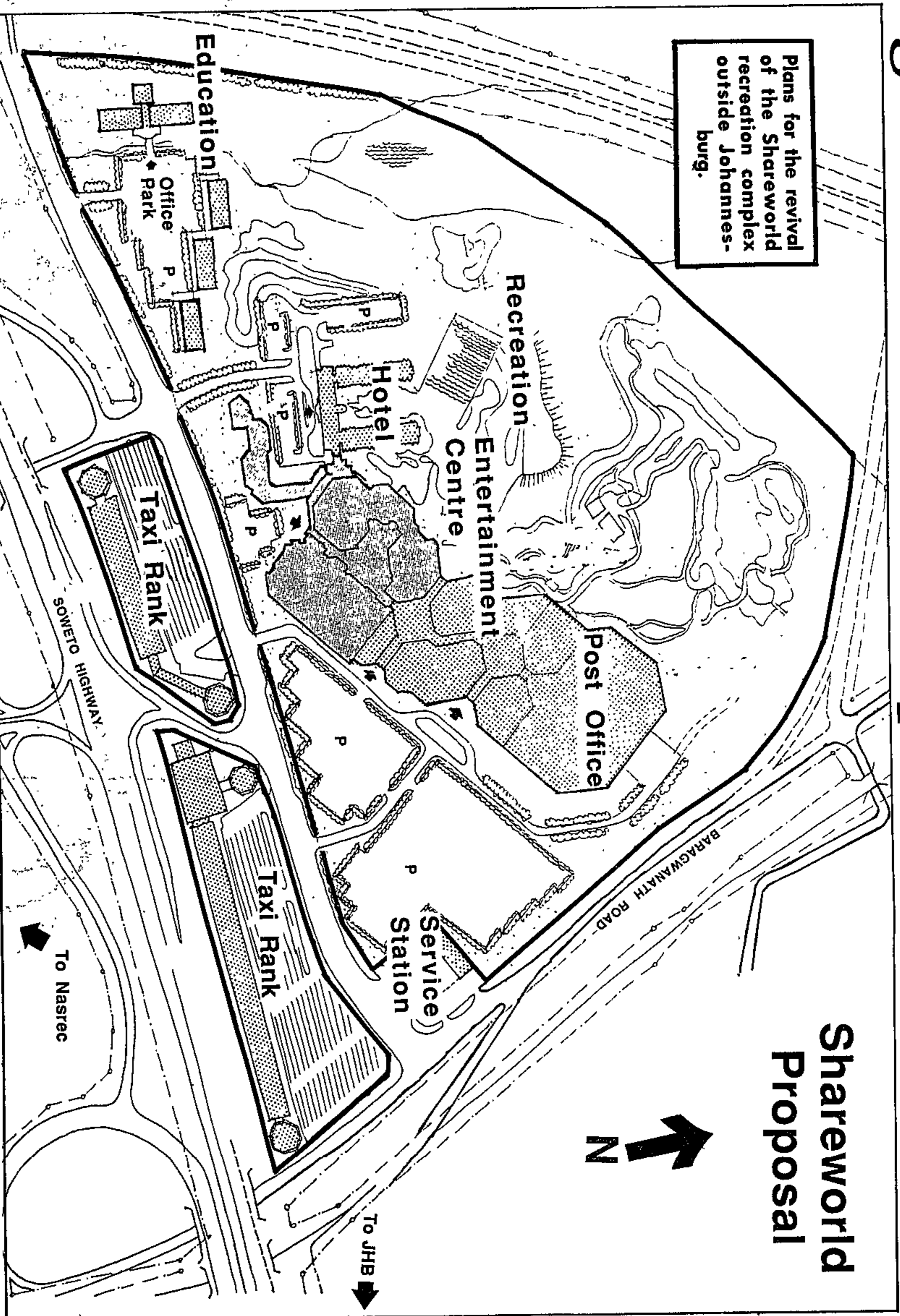
Commenting on the announcement made on Monday by Johannesburg management committee member Paul Asherson of a R50 million revamp of the insolvent project, Mr Horwitz said the taxi industry should be treated as a business when planning the incorporation of the world's biggest taxi interchange — catering for 6 000 people a day into the new Shareworld.

Private enterprise has been urged to invest in the revamped project, which was originally launched on 35 ha between Johannesburg and Soweto for R300 million, but sequestered in March this year, owing Standard Bank R52 million.

## Network

Described by Mr Asherson as "the hottest piece of real estate in the country", the area is well served by a network of major highways, lies adjacent to Nasrec and Soccer City, is 15 minutes from Johannesburg and a stone's throw from Soweto.

Plans for the revival of the Shareworld recreation complex outside Johannesburg.



Shareworld  
Proposal

● With postal deliveries down to a minimum in Soweto, a major magnet at the new complex is expected to be the post office intended to house 25 000 post boxes, making

it the biggest in the southern hemisphere, if not the world.

The post boxes will be surrounded by 90 shops, from chemists to restaurants, automatic banking tellers for depositing or withdrawing wages, public notice boards for advertising "stokvels" and batteries of telephone call-boxes.

● The taxi interchange consisting of 400 platforms is planned to be a mega-centre, equal in size to any other in the world, and is due to be constructed next to the Soweto Highway where work has already started on the offramp.

The interchange will have extensive facilities for long distance travel

as well as short trips, enabling Sowetans to alight or disembark from points anywhere on the Reef.

● An extensive garage complex planned for the revamped Shareworld — the third largest in the world — will provide fuel for 6 000 taxis, as well as repair facilities.

● The existing entertainment centre will be redeveloped, including eight

cinemas, a multi-sport arena for 3 000 delegates at union meetings, a night club accommodating 1 500 people, restaurants and gyms.

● Also in the pipeline are an office block, a creche for children, and a replica of a large Cape Dutch homestead where wines can be introduced to the lucrative black market.



# Assets of Old Mutual's five unit trusts up 39%

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**LINDA ENSOR**

PORTFOLIO managers of Old Mutual's five unit trusts, the combined assets of which climbed 39% to R2,52bn in the year to end-June, have taken a long term view of market conditions and have not increased liquidity to the same extent as other fund managers.

Senior portfolio manager Rowland Chute says the objective was to build up a solid portfolio with the potential of long-term earnings growth.

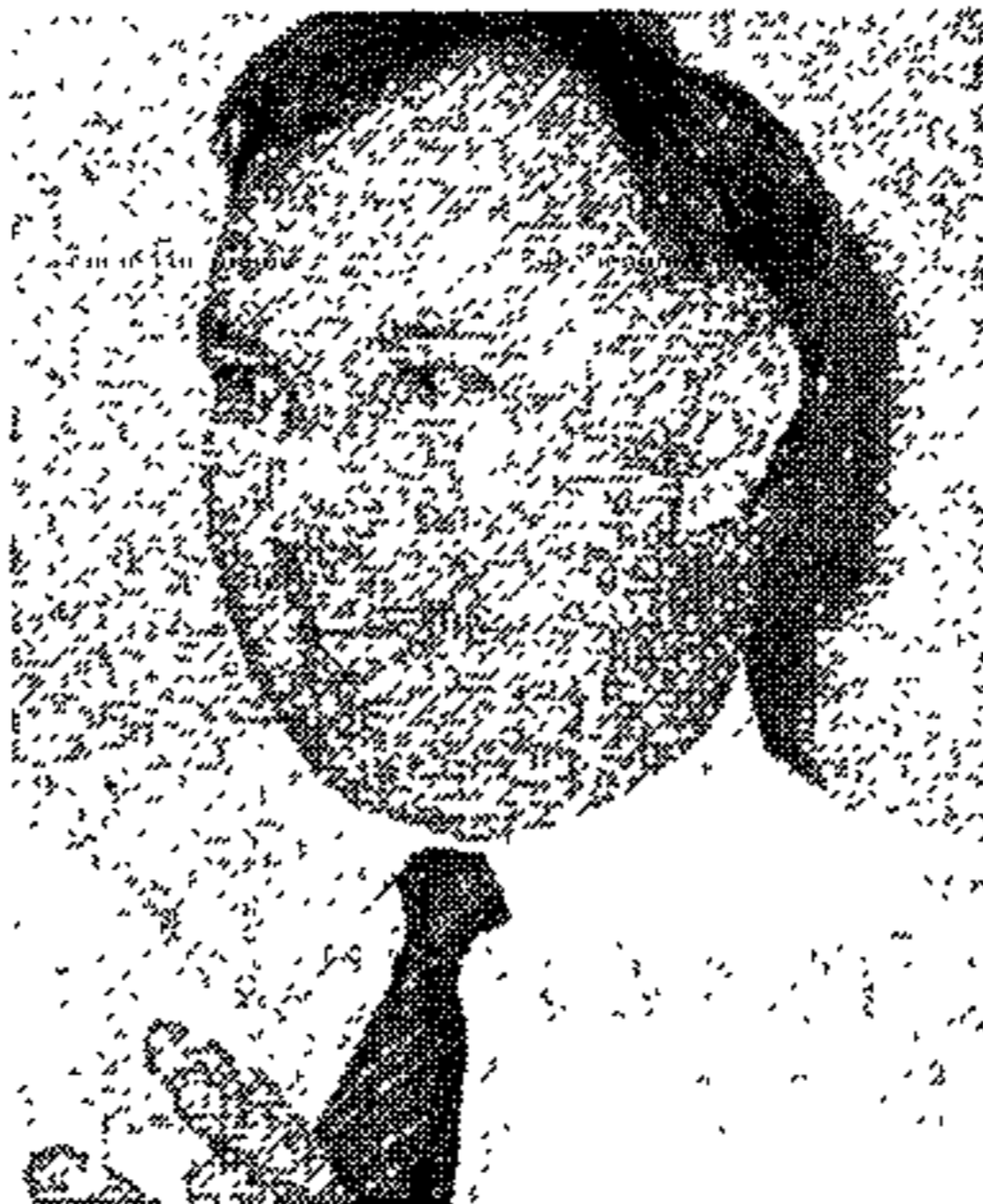
More than R660m was invested in Old Mutual's unit trusts during the year, bringing the total number of accounts to about 270 000.

Two new specialist funds, the Industrial and Gold funds, were launched during the year.

Old Mutual's Investors' Fund, with assets of R2,249bn, declared a total dividend of 105,73c — 35% higher than the previous 78,41c. The return over five years is 30%. Liquidity was increased from 14,6% to 17,4% but otherwise few changes were made to its equity portfolio.

The fund's largest deal was a R10m switch from C G Smith into Barlows.

The holding in Genbel was increased by R1,4m, the rights offer in Mid Wits was followed and the holdings in Beatrix and Vaal Reefs were sold.



● CHUTE

Chute says the fund will be kept fairly fully invested, with the mix of mining and industrial shares being kept much the same.

The weakness in the market will be used as a buying opportunity, he says, adding that liquidity will not be pushed up too high as investors invest in the fund to buy equities and not for cash management.

Liquidity of the Industrial Fund, launched on May 21, was 14,9%. Assistant GM of Old Mutual's unit trust management company, Bastiaan van der Westhuizen said sales were well beyond expectations. The market value of the fund with 4 000 investors

was R20,5m at end-June.

Top 10 holdings are Rembrandt, Lonhro, Richemont, Barlows, Pick 'n Pay, Haggie, UBS, Nedcor, FIT and SA Breweries. Nedcor, Stanbic, UBS, Mutual & Federal and Liberty in the banking and insurance sectors feature in the portfolio. Second-liners with good growth prospects were also acquired.

Policy in the Gold Fund for the quarter was to maintain a fully-invested position, with the objective for liquidity being 6% to 7%. Maiden dividend for the year was 4,48c with the market value of the portfolio at year-end R42,3m.

Kinross was added to the portfolio for the first time and major additions to existing stakes were made in the case of South Vaal, Western Deep, Southgo, Genbel, Unisel, Elandsrand and PGA.

The Mining Fund, with a market value of R186,9m, raised liquidity to 15,63% (11,37%), and despite a decline in the value of the fund from R201,9m to R186,9m in line with the fall in the gold price, the total dividend for the year increased to 16,31c (14,17c.)

Major purchases were made in Genbel, Keeley, Kloof, Palamin, Rusplats and Samancor. Shareholdings in Amcoal, Messina, Ofsil, Rand Mines, Southvaal and Vaal Reefs were reduced, while Amgold, Implats, Iscor and Oceana Fishing were sold off.

FIM 20/7/90 (58)

Registrar of Financial Institutions Piet Badenhorst has reportedly called in five insurers for discussions after all short-term insurers completed a special financial return for the first quarter. The five were noted as having underperformed badly.

Now the issue is a return to underwriting profitability before another large insurer emulates the fate of AA Mutual.

In 1984 reinsurers took control by changing automatic arrangement terms, forcing insurers to raise premiums. But they are not taking the lead this time, says Swiss Re's Dieter Kopsch, as the problem lies largely in the personal lines market, where reinsurers are seldom involved. One of the few cases in which they are is where they cover catastrophes, like the Welkom tornado.

So insurers will have to put their own house in order.

Much is made of solvency margins. But Rutherford stresses the importance of a company's financial base — the sum of free and technical reserves as a percentage of net premium income.

**SHORT-TERM INSURANCE (58)**

**Full circle**

Hollard MD Miles Japhet believes the troubles facing the short-term insurance industry are rooted in the AA Mutual collapse. After the liquidation of the third-largest insurer in 1986, R500m of business was dumped on the rest of the market overnight. Japhet says this false boom, combined with a period of low claims in 1988, created unrealistic expecta-

tions of growth.

"The industry has been trying to match those figures ever since." However, in the nil-growth phase the economy entered in 1989 "the only way to achieve this was by cutting premium rates."

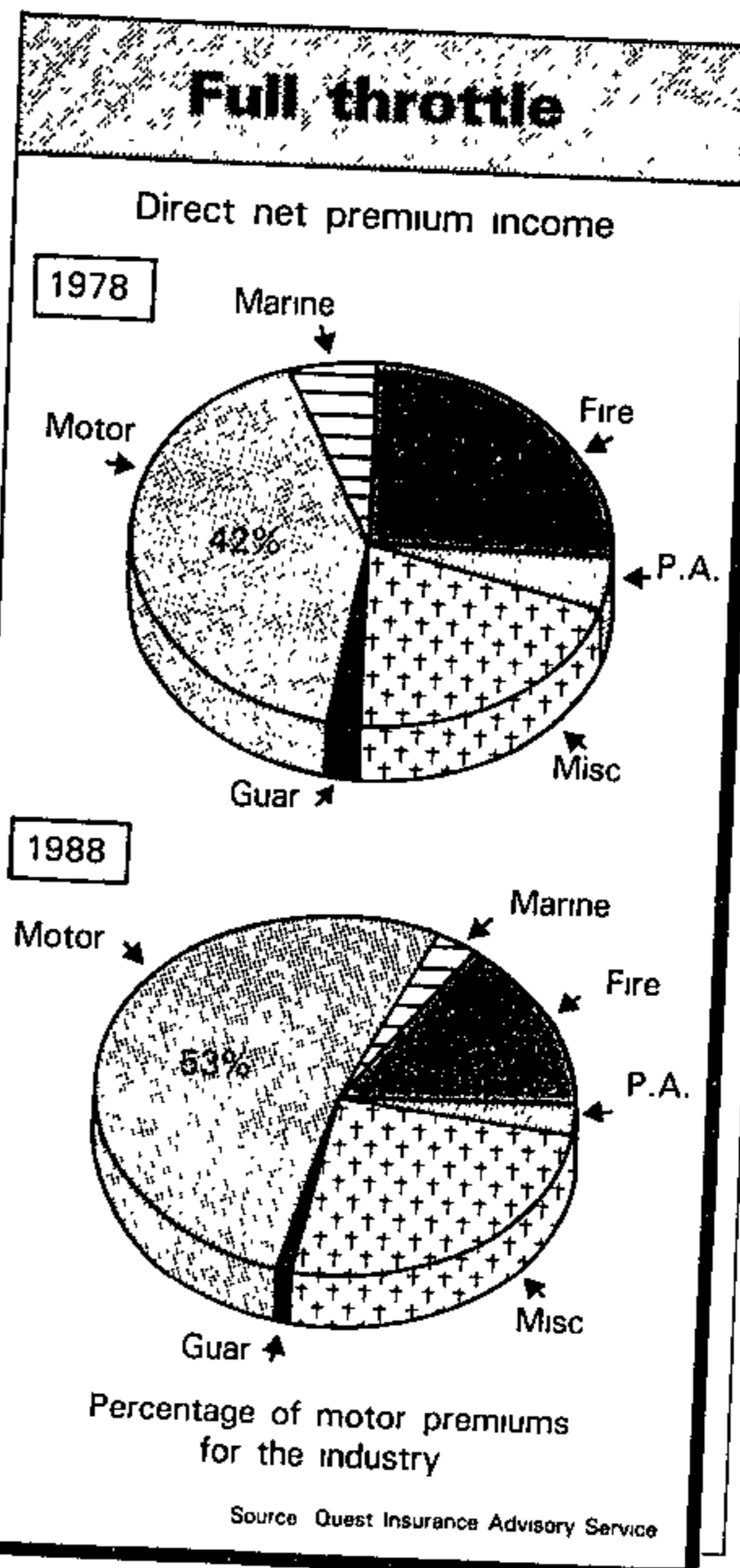
Now, Commercial Union MD Bill Rutherford notes, with underwriting losses becoming critical, premiums have to catch up with both rising inflation and a soaring claims ratio.

Most claims come from motor insurance, biggest contributor to net premium income. According to advisory service Quest, motor insurance, which accounted for 42% of net premium income in 1978, brought in 53% in 1988. In 1990 this proportion is expected to range between 40%-60%, depending on the company.

This class of business seriously deteriorated. Where premium income from motor insurance income used to fund claims in other classes, these have been funding motor insurance since late last year.

Among the reasons are a massive increase in theft, accidents and inflation which pushed up replacement costs. Also playing a part has been cash-flow underwriting — underwriters drop premiums to attract business, then invest the cash and use interest earned to pay claims. Japhet explains that while cash-flow underwriting makes good business sense in an era of high interest rates, claims paid out of investment income must remain well below that income.

As the ratio of claims rose payouts absorbed rising share of investment income.





F/M 20/7/90 (58)

rush started on June 1 when the R70m tender was oversubscribed twice; the pattern continued, reaching an oversubscription of 7,5 times for R100m offered on July 6 and 6,5 times for R100m offered last Friday. It is reckoned another R500m in TBs can come from this source over the next five weeks.

The rate, which had been hovering between 18%-17,96% since May fell last Friday to 17,85% — the lowest since October.

As the Bank has not satisfied demand for TBs (now rediscounting at 18%), interest has spilt over into liquid Land Bank bills, which rediscount at 18,15%. Land Bank tenders in the past two weeks have also been oversubscribed — six times on July 10 and more than five times on Monday. The rate has declined from a high of 18,21% on May 22 to 17,93% on Monday.

As part of its seasonal funding, the Land Bank will create at least R1bn additional liquid bills over the next three months to finance the maize crop farmers are getting ready to plant.

RMB senior dealer Rory Kirk says lower inventory financing by manufacturers, financed almost exclusively by liquid BAs, has contributed to the shortage. The BA is trading below its rediscount rate of 18,30%, "which is as it should be," says Kirk. On Monday it briefly touched 18,15%.

The recent shortage follows several years in which banks disinvested from government stock because of low yields and high capital risk. "A three-year RSA yielding 15,25% which has to be funded with marginal call money of 20% doesn't make sense," says one. "So banks have run down holdings of government stock and rely on other banks to meet liquid asset requirements."

The recent move on TBs is aimed at providing sufficient paper for banks to meet liquid asset requirements. Reserve Bank Deputy Governor Chris De Swardt says there are no "specific" monetary policy connotations. He says the Bank would like to restore the status of the TB as a liquid asset and a money market instrument.

□ The new Deposit-Taking Institutions Act will require both cash and liquid asset reserves, says De Swardt, denying a rumour that the Bank was considering doing away with liquid asset requirements in favour of cash reserves only. "We are reassessing the basis as well as the level of such requirements but are likely to have both."

Jacquie Bullard

## MONEY MARKET

F/M 20/7/90

### Bull hug

(58)

Expectations of lower interest rates before the end of the third quarter have prompted banks to build up holdings of liquid assets. They hope to make a capital profit as the value of assets rises. They are also preparing for September 15 when R1,8bn RSA stock matures, reducing the supply of paper which qualifies as liquid assets (government stock with less than three years to maturity).

As no RSA stock will become liquid by then, they fear a more serious shortage than when R1,2bn RSA stock matured in May. That was countered by R1,9bn RSA stock becoming liquid in May, while another R424m became liquid on July 15.

This inflow has now been absorbed.

The Reserve Bank confirms that R2bn earmarked in the Budget for a special capital fund in March was paid over this Monday, partly in the form of Treasury bills with various maturity dates over the next six months. This should ease the supply.

Nevertheless, full advantage has been taken of the larger — R100m — allotments of TBs which the Reserve Bank has made since the June 15 auction (*Economy* July 13). The



TRUSTBANK F/M 20/7/90

## Casualty area (58)

The decision to lower the profile of Trust-Bank makes sense. Its entrepreneurial start, colourful history, chequered fortunes and operational disasters have created an image problem. By building former merchant bank Senbank into a powerful corporate bank and making it the Bankorp group's centrepiece, executive chairman Piet Liebenberg is giving Trust an opportunity to recover.

A casualty of the restructuring is Trust MD Chris van Wyk, formerly CE of Bankorp. Van Wyk joined Trust in 1977 and became MD in 1983. The Bankorp appointment, under the non-executive chair of Tjaart van der Walt, followed the death of Sanlam's Fred du Plessis. With poor results in the financial year to July 1989 and a series of staff departures and casualties in the financial markets, Gencor's Derek Keys was appointed executive chairman. He relinquished this role to become non-executive chairman when Liebenberg accepted his present job.

Van Wyk, whose role shrank to that of Trust MD and had been steadily diminishing since Liebenberg's arrival, resigned this week "to pursue his personal interests."

The scenario is likely to become familiar in the months and years ahead. There is a pressing need for rationalisation in banking.

Opportunities for restructuring will be created by new legislation. Vulnerable and smaller institutions are unlikely to survive in the new environment in which relaxation of restrictions on bank ownership opens the way for mergers and acquisitions. Speculation now will centre on the three smaller building societies, Allied, Natal and Saambou. ■

# Heavy sales of govt stock

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GRETA STEYN

HEAVY sale of government stock was a feature of monetary policy in the first months of the new fiscal year, with comfortably more than half of government's borrowing requirement already raised from the capital market.

According to figures provided by Reserve Bank Deputy Governor Chris de Swardt, the Bank has sold stock amounting to R3,5bn in the first three and a half months of the new book year. The funding requirement for the year, on a cash basis, is R5,2bn (including roll-overs of R3,8bn).

The nominal or face value of the stock sold so far amounts to R4,6bn.

Asked how the borrowing exercise had tied in with monetary policy, De Swardt said: "As in previous years, the marketing of government stock during the first quarter of the financial year assisted in offsetting the seasonally high level of government expenditure."

The usual liquidity injection because of high government spending in the first

quarter was moderate compared to previous years. The latest exchequer figures show government spending in the first quarter was a little below Budget — only 24% of the total was spent and the increase from last year was only 6,6%.

Another feature has been an increase in money market borrowings by selling Treasury Bills (TBs). The amount of bills on offer at the weekly TB tender has been increased to about R100m from R70m, most importantly because of the strong demand for liquid assets and the fact that the TB had hardly been used as a monetary policy instrument since April 1988.

Banks are experiencing a dire shortage of liquid assets which they need if they want to receive cash from the Reserve Bank's discount window. Bank rate, currently 18%, is the rate at which TB's are rediscounted for cash at the window.

● See Page 3

02/11/88  
12/11/88  
13/11/88

# Deadline set for end of rent boycott

**Political Staff and Sapa**  
Black local communities in the Transvaal have been given a month in which to end their rent boycotts.

The deadline for the communities to resume rent payments has been set nationally at August 31.

The Government is looking urgently at the problem of financing services.

A statement from the office

of the President announced last night that communities which had not paid rent and service charges would have to "take purposeful steps" to resume payment to ensure that their councils would be in a financial position to continue to provide such services.

President de Klerk expressed this view after discussions in Pretoria yesterday with the administrators of the

Star 20/7/90  
four provinces, MECs and senior officials. He was assisted by Cabinet colleagues Barend du Plessis, Adriaan Vlok, Amie Venter and HERNUS Kriel.

The statement said that any additional bridging finance which might be necessary would have to be found from sources other than those of communities which were meeting their obligations.



# Argus Holdings sees significant growth opportunities ahead

By Magnus Heystek,

Despite a problematic economic and business environment Argus Holdings Limited is forecasting increased earnings in the current financial year, says Murray Hofmeyr, chairman of the group.

Writing in the group's annual report, published today, Mr Hofmeyr says the group's portfolio of interests represented a wide spread of businesses active in the information, communication and entertainment industries.

"Overseas research indicates that these activities will enjoy significant growth opportunities in the current decade and into the new century. We are confident that the

same scenario will apply to South Africa and are intent on ensuring that our strategies for growth through expansion and acquisition will enable the group to remain in the forefront of advances and development in our core strategic businesses," Mr Hofmeyr says.

In the financial year under review group turnover increased by 17,6 percent to reach R1,582 billion which translated into a 15,6 percent increase in operating income to R136,157 million.

Income after taxation rose by 15 percent to R82,726 million while attributable income rose by 9,9 percent to R56,548 million. Earnings per share were 2769c out of which total dividends of

875c a share were paid.

Argus' growth was affected in the second half of the year by the economic slowdown, losses in the former stationary division of the CTP Group and taxation which arose in the Hortons group on the exhaustion of assessed losses.

The group balance sheet continues to reflect strength, Mr Hofmeyr added. Interest bearing borrowings fell from R100,788 million to R76,659 million to reflect a gearing ratio of 18,1 percent, down from 28,3 percent at the end of the previous financial year.

"The past year has been momentous in world terms, with Eastern Europe moving rapidly to freedom and democracy," Mr

Hofmeyr said. "South Africa itself has been part of this process, and long overdue action has been taken to prepare for an end to apartheid and the beginning of negotiations aimed at establishing a constitutional framework for a democratic society.

"The changing scenario is one which we welcome. Our newspapers have, for many years, been in the forefront of opposition to apartheid.

"It has never been easy, and sometimes impossible to keep alive the basic principles of a free press, but because Argus newspapers have tried — often under threat — to do so, their credibility has been heightened."

**-COMPANIES****Provincial earns a return on average assets of 1,5%**

PROVINCIAL Building Society of SA achieved a return on average assets of 1,5%, which is among the highest in the industry and well above competitor returns of less than 1%, chairman Dr Errol Drummond said at the AGM yesterday.

This enabled Provincial to increase its distribution reserves to assets to 9,9% notwithstanding the fact that the society continued to offer investors market related interest rates while charging borrowers competitive rates of interest, Drummond said.

The society is participating in a

LIZ ROUSE

new small loans housing scheme, the object of which is to assist purchasers who do not have the customary 20% deposit. In these circumstances the borrowers finance 5% of the purchase price while the society finances the balance of 95%, subject to insurance guarantees covering up to 30% of the society's exposure.

Drummond said there were certain restrictions, namely that the value of the property may not exceed R45 000 and the maximum loan

is R35 000. (58)

This low-cost housing scheme would assist in alleviating the housing shortage in this particular sector. B104 20/7/90.

In any event, Provincial had always taken cognisance of borrowers who could only afford to purchase property in the cheaper areas, said Drummond.

This concern for all income groups was evidenced by the fact that the average balance on residential property bonded to the society was less than R34 000.

D

CAPE TOWN 28/7/90

# Black house subsidy cut, buyers lost

By PETER DENNEHY

GOVERNMENT funds for subsidies for black first time home-buyers have dried up — leaving some 8 400 prospective home-owners in the lurch.

This was revealed yesterday by Mr Johan Grotsius, executive director of the National Association of Home Builders (NAHB).

"There are 8 400 applications for this subsidy (for black people) in the pipeline as financial institutions have approved the bonds," he said.

He said that in some cases houses were already in the process of being built.

Mr Grotsius was worried that some prospective buyers might be able to avoid their obligations, claiming that one of the conditions upon which they had entered contracts had now fallen away.

"The buyer might not be willing or able to make up the extra amount. He might tell the developer to keep the house. That multiplies the problem for the developer," he said.

"You can't run a business on the basis of having customers for the first four months (this year's subsidy funds became available in April) and then

closing your doors for the rest of the financial year. One needs forewarning for planning purposes."

All this had been conveyed to the government, which fully appreciated the problems of the building industry and the plight of the individual who entered into contracts under the mistaken assumption that subsidy funds would be available, he said.

Mr Grotsius said that if all 8 400 applications in the pipeline were to be granted, it would cost R20 million for just one year.

This meant that on average, the value of the subsidy for each home-buyer would be in the region of R2 400 a year, or R200 a month.

Mr Tim Hart, executive director of the Association of Mortgage Lenders of SA, said it was unlikely that many of those who now failed to get the expected subsidy would be able to avoid their obligations.

One could back out only at a very early stage, he said. However, it might become plain to a financial institution or a developer that certain clients were "headed for disaster" without the subsidy.

Mr Hart said he understood that "the plug had not been pulled out" on the subsidy scheme completely, and negotiations were still taking place.

## DP urges rethink

Political Correspondent

THE Democratic Party yesterday urged the government to reinstate the subsidy which has dried up for black first-time home buyers.

The announcement this week by the Minister of Planning and Provincial Affairs, Mr Hernus Kriel, that funds for subsidising first-time black home-owners had run out, could not have come at a worse time, said the DP spokesman on black affairs, Mr Jan van Eck.

He said this would have a serious effect on the already critical housing situation in the black community.

Mr Van Eck said: "It should be questioned why funds for black first-time buyers have dried up while it was announced this year in Parliament that additional funds have been made available for white first-time home buyers."

If the subsidy benefit was designed to benefit the needy, then all needy home buyers should receive the subsidy.

Mr Van Eck said the latest decision by the government would have the following effects:

- Increase the number of homeless since most black first-time home buyers were not able to afford a house without the subsidy.

- Increase the demand for informal housing and squatting.

- Create hardship for first-time buyers who were acting in the belief that they would receive the subsidy.

- Increase demand for cheap rented accommodation which the government refused to provide.



# Townships banking on stokvels

STOKVELS, informal savings clubs developed in the townships, are another manifestation of the black market's distrust of and negative experiences with the formal First World economy of South Africa.

Inferior service from financial institutions, inability to afford a minimum deposit for building society accounts, mutual distrust and fear of receiving back money loaned or saved led to the development of stokvels, which account for about R52 million annually.

Stokvels are a club of savers, who contribute an equal amount of money every month. The total proceeds of the stokvel is awarded to a different member every month, with every member getting a turn. Members contribute an average of R39 to R106 a month.

According to Y&R's *Consumer Insights* newsletter, research conducted by Markinor estimates that about 680 000 black adults are members of a stokvel and that there are about 24 000 stokvels in the metropolitan areas.

The most popular type of stokvel is savings clubs, from which the cash that goes to a particular member is used to pay for the deposit on a house or minibus, finance the education of children, pay for furniture or electrical appliances, and so forth. Other stokvels are burial societies, where the money generated is saved, and only withdrawn to finance the funeral of a stokvel member or his/her family.

The SA Perm appears to be the only financial institution to have made a formal approach to stokvels through its advertising, to encourage them to save the joint proceeds in their Club Account.

## Vive La France

PICK 'n Pay has always latched on to topical themes in its advertising.

In an ad linking to Bastille Day on July 14, Pick 'n Pay advertised a number of French delicacies. The ad was completely in French, including the fine print which indicated the stores at which these products were available.

## Cartoon advertising

OFFICE furniture advertising tends to be very serious.

Now, the Office Chair Warehouse has come up with a novel advertising approach, using a cartoon strip, which will be carried in Weekend Argus every Saturday.

While the first cartoon ad in the series, which fo-



Chris von Ulmenstein

THIS column focusing on the marketing and advertising industry is carried weekly in Weekend Argus Business section. It is written by Chris von Ulmenstein, a Cape Town-based lecturer and consultant in marketing and communications.

On the Chippendales is humorous, the ad announcing the cartoon ad series and its specials is confusing. The headline "When other office furniture companies advertise?" does not link to the visuals or copy and therefore does not make sense.

## Marketing heaven!

A recruitment ad this week advertised for sales staff to "market a unique piece of heaven".

Calling for "dynamic marketing consultants" who would not be "embarrassed at the prospect of earning R10 000 per month," the company promises that qualified sales leads will be brought to "our plush Claremont offices."

On enquiry, the "heaven" to be "marketed" by the "marketing consultants" is Little Eden, a timeshare resort in the North-Eastern Transvaal!

## Going nuts

VIEWERS are going nuts about the new Trust Bank TV campaign, featuring the squirrel Cyril who brings his acorn to the Trust Bank for safekeeping, as well as a live owl, fox and cobra.

Developed by Darcy Masius Benton & Bowles, the TV and print advertising campaign is charming in their communication of the benefits of saving at the Trust Bank. A print ad announces "five unbeatable ways to squirrel away your savings." All five of the savings options promise "very competitive" rates.

Research conducted by the Bureau of Market Research in conjunction with Impact Information has proven that animals in advertising have a positive effect on the liking of a commercial.

## Colourful competition

PALMOLIVE Soap is running a competition, linking the colour of its wrappers to each of five Uno Fire's that are being awarded as prizes in the competition.

Palmolive Soap wrappers have to be used as competition entry forms.

## School holidays

JOHANNESBURG-based marketers are often ignorant of events that relate to the other provinces. A print ad for CNA is a case in point - it appeared last week to announce that "winter fun and games begin at CNA."

The ad is clearly aimed at school children who are on holiday, but is timed to coincide with the start of the Transvaal winter school holidays, which have started later than all the other provinces.

The CNA might have gained more sales had they placed their ad in Cape Town newspapers three weeks ago, to coincide with the start of the Cape school holidays.

## Hyperactive

THIS week saw a very aggressive retaliation by Pick 'n Pay to the opening of the new Hyperama at NI City. Both retailers have focused on roads as advertising themes: The Hyperama invited readers to "take the Hy-way to low prices", while the Pick 'n Pay Hypermarket ads feature a highway, with signposts to the two local hypers.

While the Hyperama ad was visually more appealing in its use of full colour in a double page spread ad, Pick 'n Pay Hypermarket advertising could not be missed, with seven full-page ads in black and white and spot colour, in the same paper!

Pick 'n Pay advertising emphasises that it was the first retailer to introduce one-stop shopping through hyper stores in South Africa. Even Raymond Ackerman appears in one of the ads, albeit as a line drawing. A new Pick 'n Pay Hypermarket TV ad is also being flighted.

## Canned radio

ALL Gold and Radio Good Hope have announced their "Double the Value" competition in the form of a recipe.

Instructions direct readers to open a can of All Gold Soup, to tune into Radio Good Hope Stereo and thereby stand a chance to win R500 cash each day.

# Riot protection for free

Star 21/7/90

58

LIBERTY LIFE has responded to the high demand for War and Riot protection cover by including it in the group's life assurance schemes, as well as its Group Income Plus Plans at no extra cost.

"We have realised for some time now, that in line with the

## FINANCE STAFF

general market, considerable concern is caused where disability cover is excluded in respect of claims arising from War or Riot related incidences," Mike Garbutt, Deputy General Manager Sales and Marketing.



JABULANI SIKHAKHANE  
**JOHANNESBURG.**— The lingering threat of a 300 million-share "overhang" held by the Industrial Development Corporation could help keep Iscor share prices in the doldrums for years.

The share, which swept to R2,85 in January after opening at R2,25, declined to around R1,90 in December and is currently trading around its issue price of R2,00.

And brokers warn that factors beyond the IDC's holding could affect the share's price, possibly for several years, before it finds its market level.

They say the current weakness in Iscor shares can be attributed mainly to the huge issued share capital — R1,85 billion — and the large number of relatively unsophis-

Mr Brian Thompson, of brokers George Huysamer, says in a report on Iscor that as was the case with building societies after their de-mutualisation, it will take time, perhaps years, for the share register to stabilise.

Mr Thompson notes that it took more than two years for UBS, with only 241 million shares in issue, to stabilise its share price at a market-related level.

He says the combination of Iscor's failure to meet forecast earnings and the large quantity of loosely-held shares could lead to a steady supply of scrip which could take years to absorb.

"These considerations will have a correspondingly negative effect on demand, so prolonging the process of consolidation".

Recent debates on nationali-

also had a negative impact on the share price.

The overhang of 300 million shares (16,2 percent of the total capital) still owned by the IDC and earmarked for sale "as soon as practicable", is making matters worse.

**Cheap way**

Of these shares at least 75 percent must be offered at 15-for-100 to other shareholders by way of a rights issue.

This means that when it decides to sell, the IDC will offer its holding to all holders of Iscor shares in the ratio of 15 shares for every 100 they already own at a price fixed by the IDC.

The price of shares offered in a rights issue is often pitched below the market value as a cheap way of raising cash. Buyers usually do not have to pay brokerage, which is borne by the company.

In these circumstances institutions are unlikely to increase their holdings by going to the market where the price might be higher.

Analyst Keith Bright of Frankel, Kruger & Vinderine doesn't think the IDC is likely to dump its shares on the market at the present time and diminish the value of its holdings.

**Positive note**

But he points out that the large number of investors — including employees — who got discounts of up to 20 percent on the issue price through preferential schemes, could sell their shares at the current price and still make a handsome profit.

On a more positive note, Mr

*See page 5*

# Iscor shares are facing a long haul

W/KMG 21/7/90 From page 158

Thompson says there is probably little downside risk in the current share price, given that holders will probably not be inclined to sell below the original issue price.

Also the share must at some stage overcome the present period of indigestion, permitting a rating based purely on fundamentals.

But although disillusioned investors have been selling Iscor, the outlook suggests the shares are cheap at their extremely depressed price.

Consider:

- The rand-dollar rate has declined moderately, thereby aiding export receipts which account for more than 30 percent of Iscor's turnover. And "logistical" problems relating to Iscor's export drive have been overcome.

- Western Europe's steel industry is already recovering. Although European production of basic steel was down by 2,3 percent in the first five months of 1990 (against this period last year), the May figure revealed a rise.

It could be the start of a sustained upswing, as steel companies begin to benefit from the reconstruction of East European economies.

- Iscor is starting to benefit from improved access to foreign markets, as unofficial boycotts diminish in intensity. It has, for example, achieved a breakthrough with exports of iron ore to Poland.

- Iscor is stepping up its involvement in beneficiation.

A R120 million joint venture with Dorbyl to manufacture seamless steel tubes will go ahead, and there is the distinct possibility that a semisteel plant will be launched at Saldanha Bay. Iscor may also enter the stainless-steel market.

Rising exports should have helped ensure that Iscor's earnings a share reached 48c in the year to June 1990.

The original dividend forecast of 17,6c will almost certainly be met. On this basis, the prospective dividend yield is a generous 8,8percent.

Although the domestic steel market is weak, expected international improvement should lead to a further export boost.

Hence, it would not be surprising to see Iscor earn at least 55c a share and pay 20c in the current financial year for a forward yield of 10,1 percent.

**ISCOR shares price faces a long haul**

**haul**



CONFUSION about identities and services offered by the new Bankorp Group has clients crying all the way to their banks.

Account-holders with TrustBank and Santambank have been informed by letter that the rationalisation of the functions of Bankorp banks will result in some accounts being moved to different banks.

A number of clients with both banks say they are not sure what they should do. However, one said he had been advised by his Santambank manager "not to go into panic mode" and that all would be clarified by a change-over date in November. He said he would leave his current account overdrawn at that time to avoid any chance of funds going astray.

# Confusion down at the bank

The letter advised clients that new cheque books and credit cards would be issued to them.

Santambank clients who operated savings, cheque, credit cards or who have loans with the bank would in future be banking at TrustBank. TrustBank clients would retain their account numbers but instalment accounts would now be under Santambank's umbrella.

Earlier this week Trust Bank head Dr Chris van Wyk resigned amid reports that he was not happy with the restructuring.

Some clients have objected to the corporate decisions and feel

## FINANCE STAFF

that banking is a personal matter based on individual needs.

Two account-holders, who asked to remain anonymous, wanted to know who would foot the bill for new cheque books and credit cards. Confusion on what to do about debit orders and instalment changes also have made for unhappy customers.

Ettiene van Loggenberg, head of communications in the Bankorp Group, says the decision has been made to reduce over-

heads, which resulted in duplication of work and personnel.

"The rationalisation within the group will ultimately lead to cost savings which could be passed on to the clients.

"Clients may continue to use their existing cheque books until they are finished — even after a new cheque account number has been issued. The numbers have been electronically linked to each other and this should result in the least amount of inconvenience to the clients," he says.

"The same applies to debit orders and credit cards where the two numbers are linked."

A Santambank customer, who does not wish to be named, said that he lacked faith in the institution's ability to bring about these changes without major errors.

"I am closing my accounts immediately before my money is rerouted into someone else's account," he said.

The Bankorp group has done extensive research on the attitude of clients, said Dr van Loggenberg.

"The results showed that some people would not be happy as they did not like the image of TrustBank and would not bank there by choice.

"However, the corporation could not please everyone."

C/11/160 22/7/90 (58)

# Civil servant's dream of a home is shattered

DREAMS of a home to retire to have turned into a nightmare for Ottosdal civil servant Lucas Molete.

The house is so much smaller than was expected that the Molete family cannot move into it, and bond arrears mean their debt has risen from R56 000 in 1988 to R64 000 today.

The building society is about to repossess the unoccupied house.

This will mean Molete's R11 000 pension - for which he qualifies in two years and for which he has worked in the same job for 36 years - will be forfeited.

Civil servants get housing subsidies which cover deposits as well as monthly bond repayments. The deposit is guaranteed by the Department of Public Works and Land Affairs, secured by the applicant's pension fund.

If a house is repossessed, the bank or building society usually sells it for the amount owing to them after they have collected the guaranteed amount from the department.

If you lose your house, you lose your pension. And two years before retirement, that's a hard blow.

"If you could see our house, you would be ashamed. The rooms are so small, the lounge can take only four

chairs and nothing else," Molete told *City Press*.

Echoing complaints from other *City Press* readers, Molete said the rooms on the plan he saw when he signed for the house looked much bigger than they actually were.

The Allied Building Society told Molete it could not assist him because he had signed a contract showing the house which had been built for him.

Molete insists the original plan he was shown was much bigger.

*City Press* advised Molete to avoid the Allied repossessing the house by selling it himself as quickly as possible.

It would have been better if he had tried to sell the house as soon as he realised it was not what he wanted. This would have saved several thousand rand in bond repayments deducted from his salary in the past year by his employers for a house he has never lived in.

If the house is sold now and the bond paid off, Molete will not lose his pension.

He may not have a home to retire to, but at least he will still have a pension to live on.

# Timelife's ahead of its time

TIMELIFE Insurance is considering scrapping traditional life office financial reporting systems in favour of a new internationally accepted one. Timelife believes it will measure more accurately the company's earnings performance.

The system, called the embedded value approach, is used by several UK assurance companies. Timelife managing director Bill Haslam predicts that before long other SA assurers — including the giants — will follow the trend.

"The traditional way of reporting life company profits is extremely conservative compared with the manner in which other industrial and commercial companies calculate earnings.

"The embedded value approach is the way of the

By IAN SMITH

future. It benefits shareholders, prospective shareholders and the financial market through a greater and more realistic disclosure of profits." *S (Two) 22/1/90*

## Distinct

Timelife's decision to look at embedded value was made when directors agreed they should seek a reporting system which would give shareholders a more realistic idea of their net worth.

Embedded value recognises profit as distinct from distributable surplus — by reference to changes in values of future streams of distributable surplus.

Timelife, a member of the Time Holdings group, report-

ed a taxed profit of R1-million in its first year of operation to last December. But, using the embedded value method applied by an independent actuary, the company could have reported profit of almost R1.5-million, says Mr Haslam.

"Traditionally, life companies have reported financial results to shareholders on the basis of statutory requirements. This caused capital invested in acquiring business to be immediately written off."

Timelife's view is that although suitable for testing solvency, the statutory approach, by charging the capital cost of new business to revenue and ignoring the future surplus stream

attributable to new business, fails to display in any accounting period a meaningful account of the trading activity.

Mr Haslam believes that if this route is taken Timelife will be the first SA life office to adopt the method.

## Debate 58

However, he wants feedback from brokers, accountants and similar people before making a decision. "We would like to put the issue up for debate," he says.

Will others follow the Timelife lead?

Mr Haslam concedes: "It is easier for a small life company to do it. It takes a lot of work and time, and this is probably why it has not been widely adopted here."



# BANKORP HOLDS FIRE

THERE'S no quick fix for beleaguered Bankorp. The effects of the extended shake-up at Sanlam's banking arm will be felt far down the line.

Surgery by former Nedcor chief executive Piet Liebenberg, who took over as executive chairman on June 1, will take time to produce a cure. *SI Times 22/7/90*

Group results for the year to June 30 are likely to be delayed — and analysts expect poor figures, possibly earnings a share cut by nearly 40% to 77c.

Mr Liebenberg has predicted that the

By IAN SMITH

benefits of a leaner bank with three operating divisions will show on the bottom line only in the next financial year.

The share price has barely moved through the drama of the past two weeks, sticking at 285c, comfortably above its year's low of 250c, but well below the 1987 high of 705c.

It would make sense to present the worst scenario in the results now due, and investors are staying out of the market in spite of the attractive price:earnings ratio of 2,6.

A banking analyst says: "Piet Liebenberg's personal stock is high after the good job he did at Nedcor and he appears to have done many of the right things."

"But the market will want to see positive effects. It will want to be sure no more skeletons are left in the cupboard."

## Staff *(58)*

The likelihood of a new rights issue also overhangs the share.

The new Bankorp executive in charge of communication, Etienne van Loggerenberg, says the restructuring is working down from the top management level.

A central rationalisation committee is looking at all operations and it has been accepted that staff numbers will have to be reduced from 16 000.

Dr Van Loggerenberg cannot give a date for publication of results. "There is a lot of work to be done."

## Pooh-poohs for platinum claims

Business Times Reporter

*SI Times 22/7/90*  
CLAIMS about two platinum finds are being treated with scepticism by the South African industry — although there was some foreign selling of platinum shares after the London report.

The Indian deposit has not been publicised before, but the Peruvian deposit has been known for some time.

A laterite deposit in north-eastern India is reported to show platinum grades of between 220 and 520 grams a ton. Platinum alone in the Bushveld complex is about 4g/t.

A geologist says India was a part of Gondwanaland and it is not impossible for ores similar to SA's to occur there. However, laterites are notoriously inconsistent and usually shallow.

It seems more likely a case

of exaggerating the early results of grass-roots exploration than a find ripe to ruin the established platinum market, he says.

The deposit in southern Peru is reported to yield two tons of concentrates a day and contain high values of platinum group metals. But a high amount of iron makes refining difficult.

A backer of the Peruvian deposit says SA refineries have rejected approaches to treat the material. This seems unlikely because the refineries' major shareholders lack information about the deposits.

Underlining scepticism about the size and value of the Indian find is its announcement at a time when rhodium in particular is buoyant. There are few suppliers, making the price vulnerable to manipulation.

Mervyn Key and Lawrie

51 Times 24790  
**Volkas**  
**on wheels**

VOLKSKAS Industrial Bank has changed its name to Volkas Motorbank and will concentrate on motor financing. (56)

The bank has been involved in industrial instalment financing since 1977.

The bank has 13 branches on the Reef, in the Cape Peninsula, the Free State and Durban.

# The week on the JSE

BANKS were as safe as houses on the JSE this week.

Nedcor added 60c to R11,60, Allied was up a cent at 168c on large volume, and UBS was 20c stronger at 695c. Standard put on 100c to R28,50.

Bankorp held up at 285c. Most analysts agree that it will be a buy sooner or later under new management, but the market is slow to forgive. It took Nedbank several years to regain credibility after its poor showing.

The market undertone was firmer and the rand gained ground against the dollar, closing above 263c.

Stock began to dry up a little, and the firrand improved on two counts. The first was the return of foreign investors to the gilt market, which helped the firrand up from 398c to 389c to the dollar.

The second concerns Nelson Mandela's foreign

## Nedcor leads as banks go higher

By JULIE WALKER

tour. World commentators believe the ANC has got the message that its espousing of nationalisation is not the road to riches and increased foreign investment. They hope the ANC's tone will moderate.

Much of the dealing was jobbing between brokers struggling to meet their overheads in the absence of business from clients. Other than a few special deals, the market general churned over between R30-million and R40-million a day.

Gold quarterlies showed

the parlous state of many mines, even the biggies showing losses. The results should have held no surprises, but some ex-bulls must have had their noses bloodied.

The bad news must have been discounted in share prices, which drifted but hardly collapsed. Historic yields still look high on some, and dividends will not be maintained unless gold surges. It traded about \$360 all week.

Iscor tried hard to regain its mettle. It broke through its issue-price barrier of 200c, and retained it on big volumes. *S/Times 22/7/90*

### Shell

The Old Mutual — which took few Iscor before the share was listed last November — has been a large buyer at under 200c. The shares have been included in the Mutual's unit trust portfolios for their long-term potential.

The second big deal in as many weeks took place in Anglo-Alpha, which trades lightly. More than 100 000 changed hands, the price closing 25c up at R25,25.

Arwa dived 100c to 200c. The hosiery assets are to be sold and holdings in Safrican Life and Hoskens injected into the shell.

Interboard announced a rights offer and gave pro forma window-dressing to bad results. But it was not enough to calm the market. Interboard shares gave up 5c to 40c after touching 48c. Subsidiary Buildcor gained 3c to 14c on a worse performance.



# Time marches on to life assurance

STimes 22/7/90 (58)

**TIME HOLDINGS** is following a well-trodden path in insurance and property — but the initial steps were out of sequence.

The usual route is to start in life assurance and move into property development later.

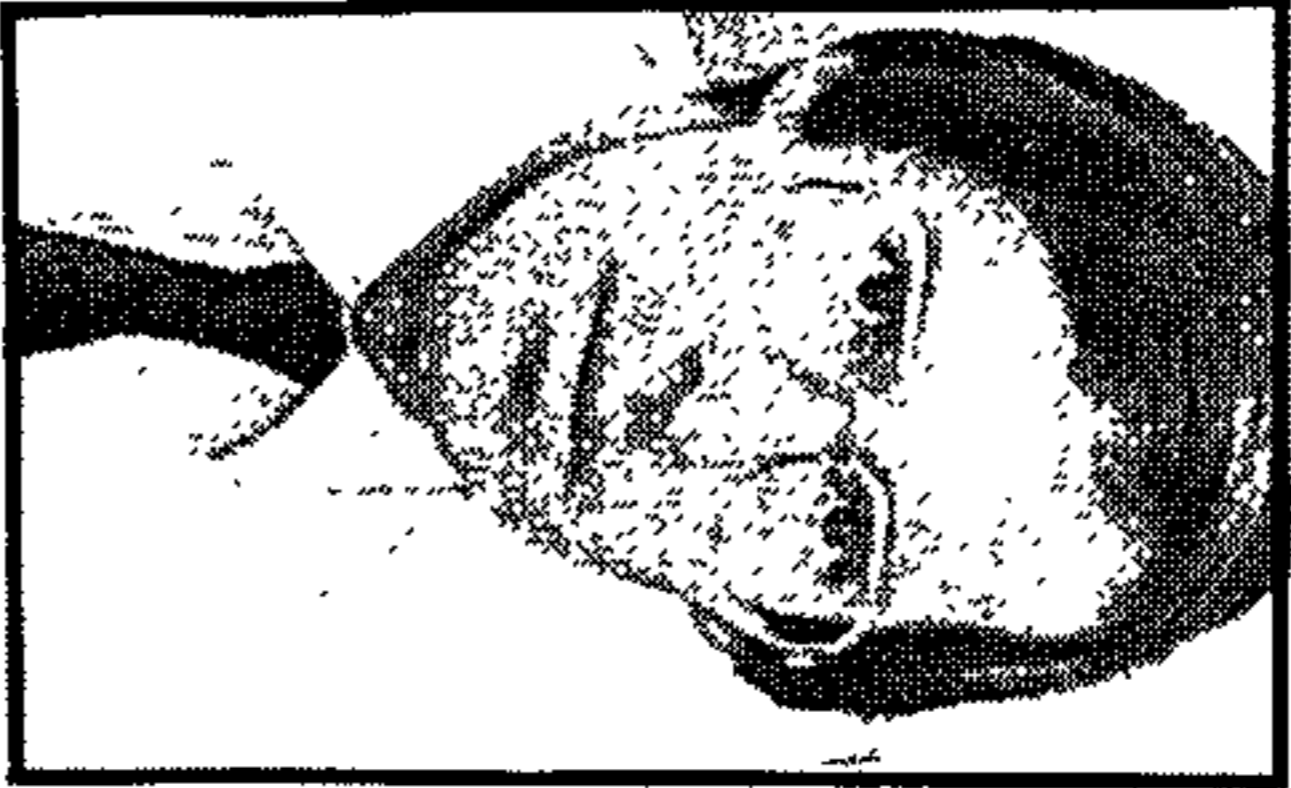
Chairman Colin Hibbert studied project management in America for a year before establishing Time Projects in SA eight years ago. He did it to challenge himself.

## RISK

The job involves overseeing the development of property on behalf of clients. He started in commercial property, the Sandton and Rosebank booms especially, and expanded geographically and strategically.

When Time Holdings was listed in 1987, every market expert would have identified it as a black housing operation, a field it entered in 1983 when the black market was waxing and the white was waning.

Developing housing requires land stocks — either bought outright or through consortiums, the Time chose. It meant a higher risk for the hitherto



COLIN HIBBERT ... far from a one-man show

fee-earning project management.

Black housing was not forecast to be cyclical. Demand is ever-growing, but affordability varies. The past year has been difficult for every player. Mr Hibbert says that although margins are satisfactory enough, volumes have shrunk.

Political as well as economic reasons apply — sometimes it is impossible to get work crews into the townships. But he is optimistic that better times are ahead.

The backlog, the rising population and the absence

of a secondary black housing market are in his favour.

Time has also picked up a contract to build houses at Mossel Bay — a scoop.

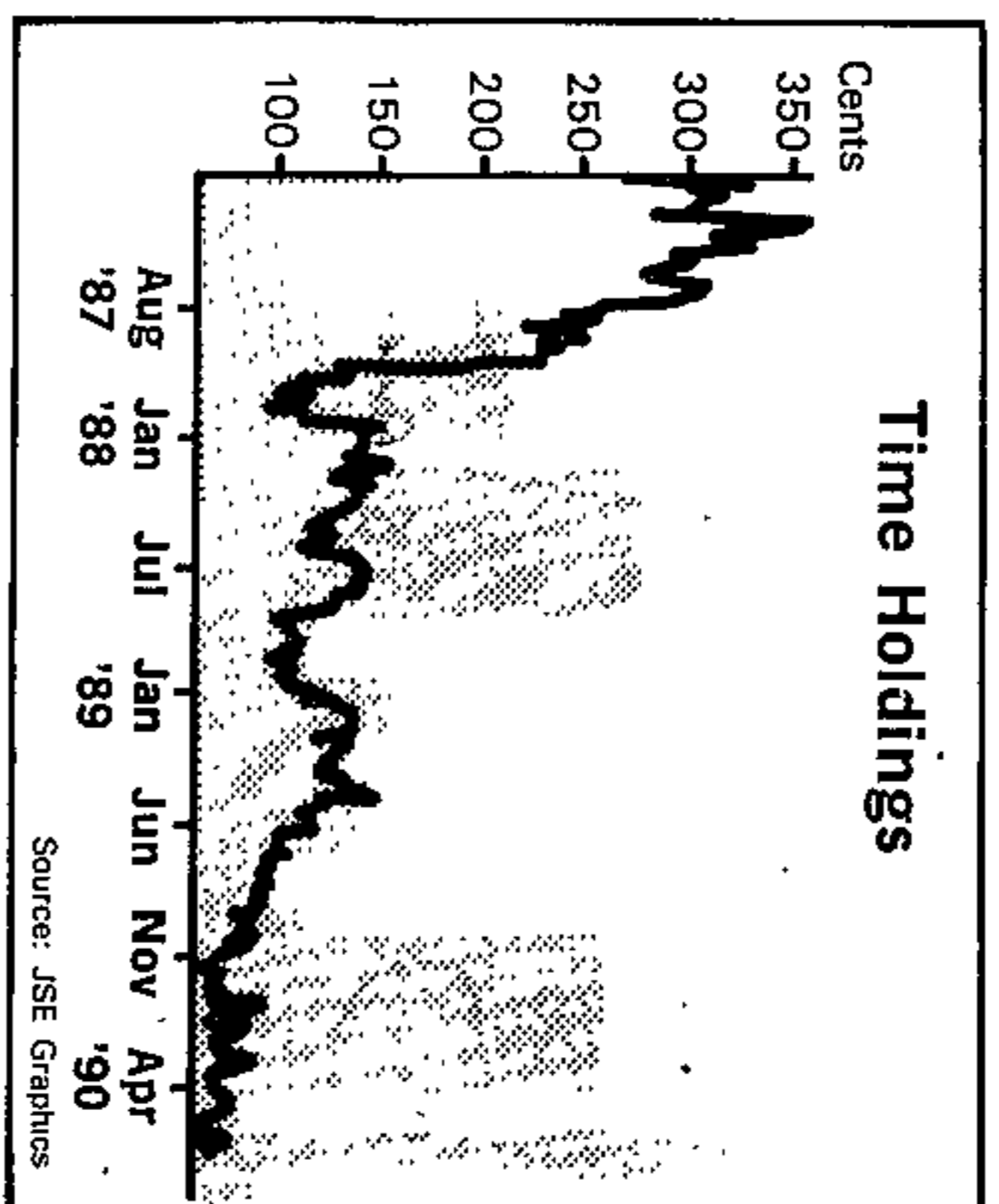
Mr Hibbert sees some middle ground for co-operation between the public and private sector. The Government should take care of the lowest end and the private sector the top. But somewhere in the middle — about R15 000 — the Government could provide assistance in the way of guarantees.

TIMEProp is the rationalised product of the original projects and developments divisions with an investment function. It is handling R500-million of commercial developments making it one of the largest non-institutional property companies.

Financial services is the newest shoot. The insurance business started because property owners are required to have bond protection. Time Life has since expanded to a full life office, chipping in about R1-million to the bottom line last year.

It has a close relationship with IPC brokers and is gaining ground with other independents. Mr Hibbert says there is vast potential, especially in the black community.

Time originally looked for a life assurance partner, but could find no suitable match.



so applied for its own licence. After scrutiny, the Registrar granted it.

Other divisions comprise mining and industrial services and a small but adequate project-management service. A corporate division acts essentially as banker to the group's operations while allowing largely autonomous management.

Mr Hibbert maintains he has never operated a one-man show, although Time Holdings has perhaps been so portrayed. The depth of management has been strengthened considerably in the past two years by the recruitment of good guys

from good companies, each with the skills to do the job well.

I went to Time with a preconceived idea of a large egoist ruling the roost. I left with an altogether different impression.

## VOGUE

Smaller companies are not in vogue, but the downside on Time's shares is negligible. At 70c, they are on a historic dividend yield of 14.3%.

Time could be hard pressed to maintain earnings this year, but the potential is not undermined by the current difficult climate.

THE healthy trade figures produced in June have been greeted with a sigh of relief in South African business circles.

A low gold price and massive loan repayments have placed South Africa's foreign exchange reserves under severe pressure, but the 43 percent jump in the trade surplus since May to a huge R1,54 billion in June indicates that current strict monetary policies are paying off.

South Africans are taking a lot of pain due to a sharp rise in business bankruptcies and mine closures, but at least the sacrifices are not in vain.

Our trade figures simply reflect the total value of goods sold abroad (exports) and the total value of imports. If you buy more than you sell, you

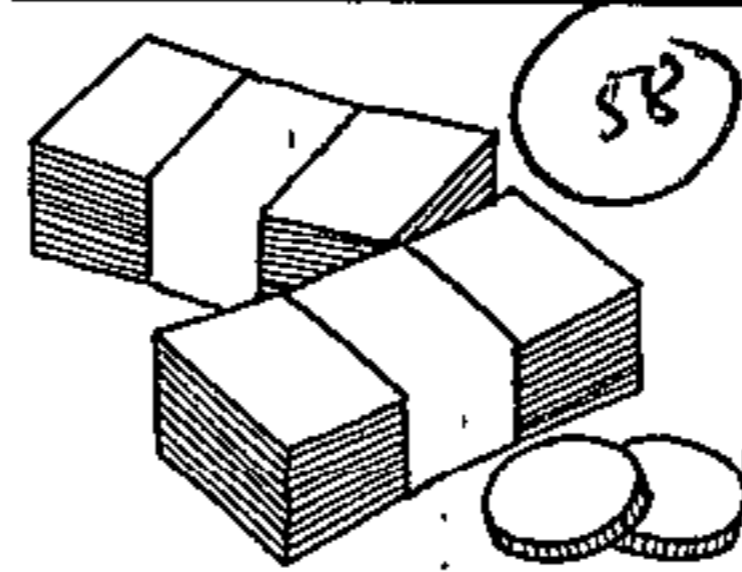
# Good trade figures give SA business a breathing space

show a deficit and you must find money to pay.

It is now important for business that with this year's heavy debt repayments behind us, South Africa must start rebuilding its depleted reserves. This is an essential prerequisite to finance the next business upswing.

Being a so-called open economy (which means that we are heavily dependent upon foreign trade for our prosperity) our imports tend to rise strongly during upswings.

At the moment our reserves are so low that an



## MONEY TALK

upswing will only be of a very short duration. Patience is therefore the name of the game.

The partial closure of important gold mines which was announced this week, is extremely worry-

ing. Gold is still our most important earner of foreign exchange.

However, the heartening news is that management and labour are at last beginning to co-operate to try and keep struggling mines alive. Clem Sunter, head of Anglo American's gold division, said during the week labour was coming forward with some very interesting ideas to keep costs down and production going at certain mines.

This is in sharp contrast to the bad old days when they were at each others throats most of the time. Hopefully this attitude will percolate through to other sectors of the economy because nobody wins when disputes lead to lengthy closures or even bankruptcy of businesses.

## COMPANIES

### FSB budget may exceed R8m

THE budget for the Financial Services Board (FSB) may be more than double the R4m allowance presently granted to the Financial Institutions Office (FIO) which it is to replace.

The FSB is to be funded mainly by fees charged for its services and by levies placed on the industry, state grants and donations.

Registrar Piet Badenhorst says he is looking to January 1 1991 as a provisional date for the enabling Act — passed in the last parliamentary session — to become fully operational. *58*  
*6 PM 23/7/90*

He says the FIO has sought the views of institutions similar to the FSB in other countries on how they are funded in order to determine the FSB's funding mix.

He sees a sharp escalation in the budget due to the high cost of office rents and administration services and the need to introduce market-related salaries.

Also, accountants, actuaries, lawyers

LINDA ENSOR

and statisticians will have to be employed.

It is probable the FSB will, as an interim measure, arrange with the Finance Department to pay for services such as personnel, accounts, workstudy, computer, and the provision of office equipment.

Badenhorst says three investigations are presently being undertaken by outside consultants to compile personnel regulations and service agreements, to determine a market-related remuneration package and an efficient staffing structure and to draw up rules for a private pension fund.

Also, the FIO's computer specialist is examining the options of computer utilisation. The FIO presently uses the department's main frame computer and should it decide on having its own, this will add significantly to the start-up costs of the FSB.



FINANCE

# Restive bulls brush aside warnings on Bank rate

Bloom 27/7/90

58

BULLS in the money market have again been increasingly restive, bidding for assets and trimming rates. The Treasury bill (TB) rate was pruned by two points on Friday and rates on shorter term negotiable certificates of deposits (CDs) eased after two stagnant weeks.

Dealers report that more activity was apparent last week than during several weeks past, spurred on by the conviction that an easing in Bank rate is relatively imminent. The attitude of the bulls is "we know it's going to happen soon but we don't know when". Predictions of a cut in the rate during early August are prevalent and warnings are being brushed aside.

My view is that any change before October is unlikely and there are some who believe that a lowering of Bank rate this side of the new year is improbable.

Once again the demand for Treasury bills has been strong. The tender for the R100m bills on offer was over-subscribed nearly five-and-a-half times with strong support coming from the market. The average rate was 17.83%.

A difference of opinions is always good for markets — and market makers — and the bulls are putting their money where



## IN THE MONEY MARKETS

Harold Fridjhon

their mouths are. The rate on three-month CDs has been trimmed by 10 points to a double of 19.35/25% and that for six months paper into January has been reduced by 15 points to 18.95/85%. The 12 month rate is unchanged at 18.60/50%. Some issuers of CDs report a relatively heavy demand.

The rate for 90-day liquid bankers acceptances (BAs) dropped to 18.15% from 18.25% last Monday but the market had second thoughts on Tuesday and backtracked to 18.20%, probably because more paper than could be absorbed was thrown at the houses.

The bullish perceptions were not responsible for the expected mid-month trimming of the wholesale call rate to an average 18.5%.

# Old Mutual considers trust for small saver

Business Day Reporter

OLD Mutual is considering new unit trusts to create more opportunities for the small saver and to service certain niche markets, yesterday's Sake-Rapport said. One of the trusts being considered will be offered at a low unit price to give easier access to small savers. A unit trust which only invests in second line listed stock is also under consideration. This would limit its investments to companies with a turnover of less than R200m.

8/12/89

# Major shake-up predicted

NEIL YORKE SMITH

58

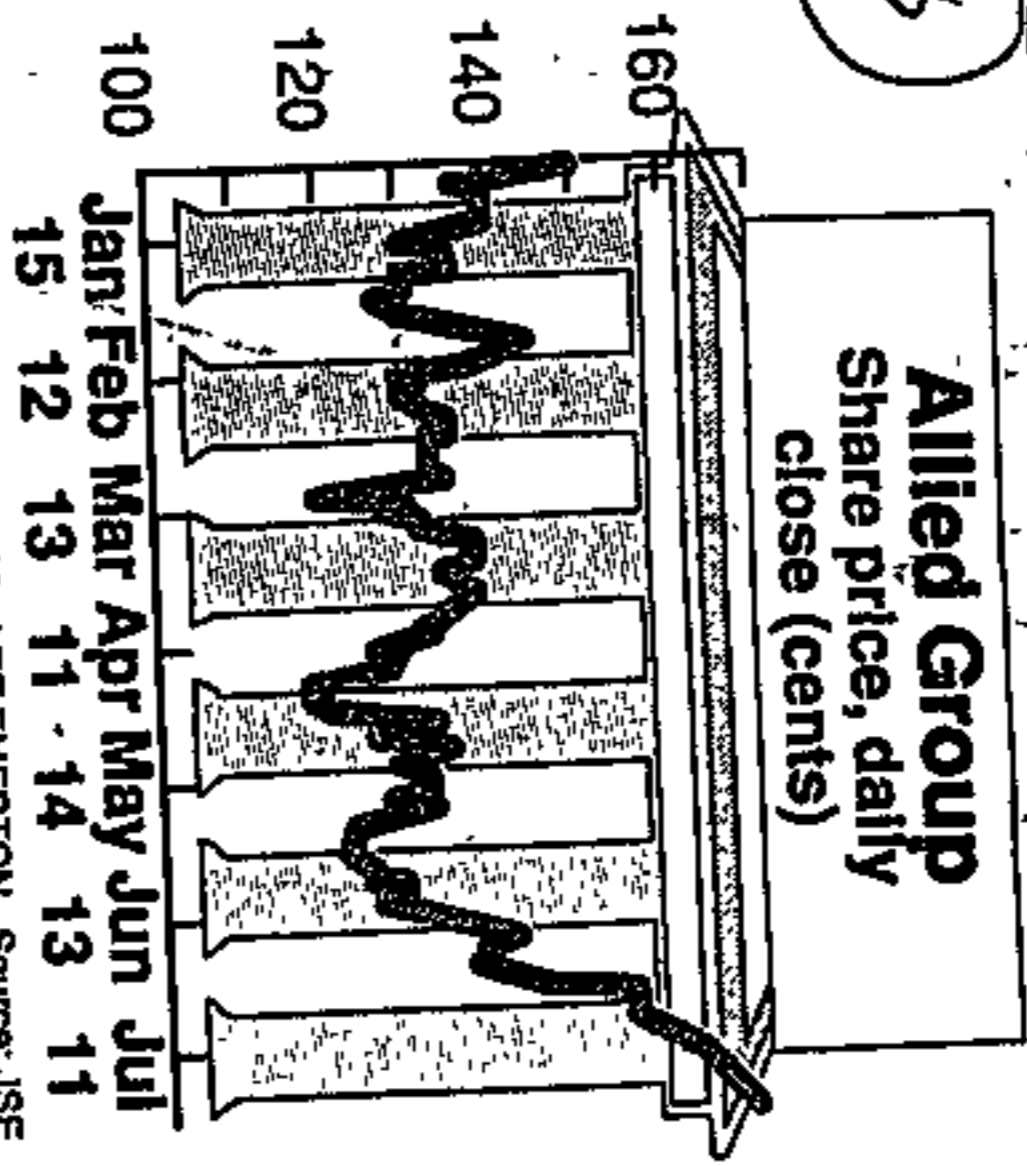
THE surge in building society shares in recent weeks indicates the beginning of what could be a major shake-up in the sector, according to market and industry sources.

A number of mergers and takeovers could be on the cards when the Deposit Taking Institutions Act comes into effect early next year.

Previously, a single investor could hold only 10% of a building society. The new legislation allows investors to build large stakes in any deposit taking institution, facilitating mergers and acquisitions.

Stockbrokers have confirmed there has been heavy institutional buying of these shares.

"Institutional demand for the shares is underpinning the market," Edey Rogers



Graphic: LEE EMERTON Source: JSE

banking analyst David Southey said. "The institutions which already have strategic banking investments appear to be consolidating their positions."

□ To Page 2

## Shake-up

6/10/91 23/1/90

dating their holdings." Volkskas holds 10% of UBS, Sage and Rembrandt are powerful in Allied, Norwich Life is the biggest investor in NBS and Volkskas the biggest Saambou shareholder.

There are also crossholdings between UBS, Sage, Allied, Volkskas and Rembrandt.

Allied Group MD Kevin de Villiers, whose company is bearing the brunt of takeover speculation, confirmed a range of institutions had built stakes in Allied, but stressed they were primarily investing in Allied's underlying value.

Allied is not the only group whose shares have outperformed an otherwise listless market. Saambou, UBS and NBS have all recorded significant share price gains since the beginning of this year.

58

□ From Page 1

JD Anderson banking analyst Susan Cassidy said the speculation regarding takeovers had lent support to some share prices.

Most building societies were well capitalised and made "attractive targets" for banking groups looking to strengthen their capital-asset ratios and acquire "quality book", Cassidy said.

Alan McConnochie of stockbrokers Ed Hern, Rudolph said: "Excellent financial performances from some of the building societies has boosted demand for the shares."

"Institutional buyers are absorbing the available shares, so prices have increased without abnormally high trading volumes." This did not necessarily imply a spate of takeover activity would follow, he added.



# Move to free prime rate being resisted

NEIL YORKE SMITH

THE Reserve Bank favours freeing the prime rate, but Finance Minister Barand du Plessis is resisting the move, Bank officials have indicated.

Prime, the rate banks charge their best customers, is at present 21% — three percentage points above Bank rate, at which the Reserve Bank (lender of last resort) lends to the commercial banks.

The differential is maintained in terms of an unwritten gentlemen's agreement between the Reserve Bank and commercial banks. This ensures the commercial banks keep prime at levels in line with Bank requirements.

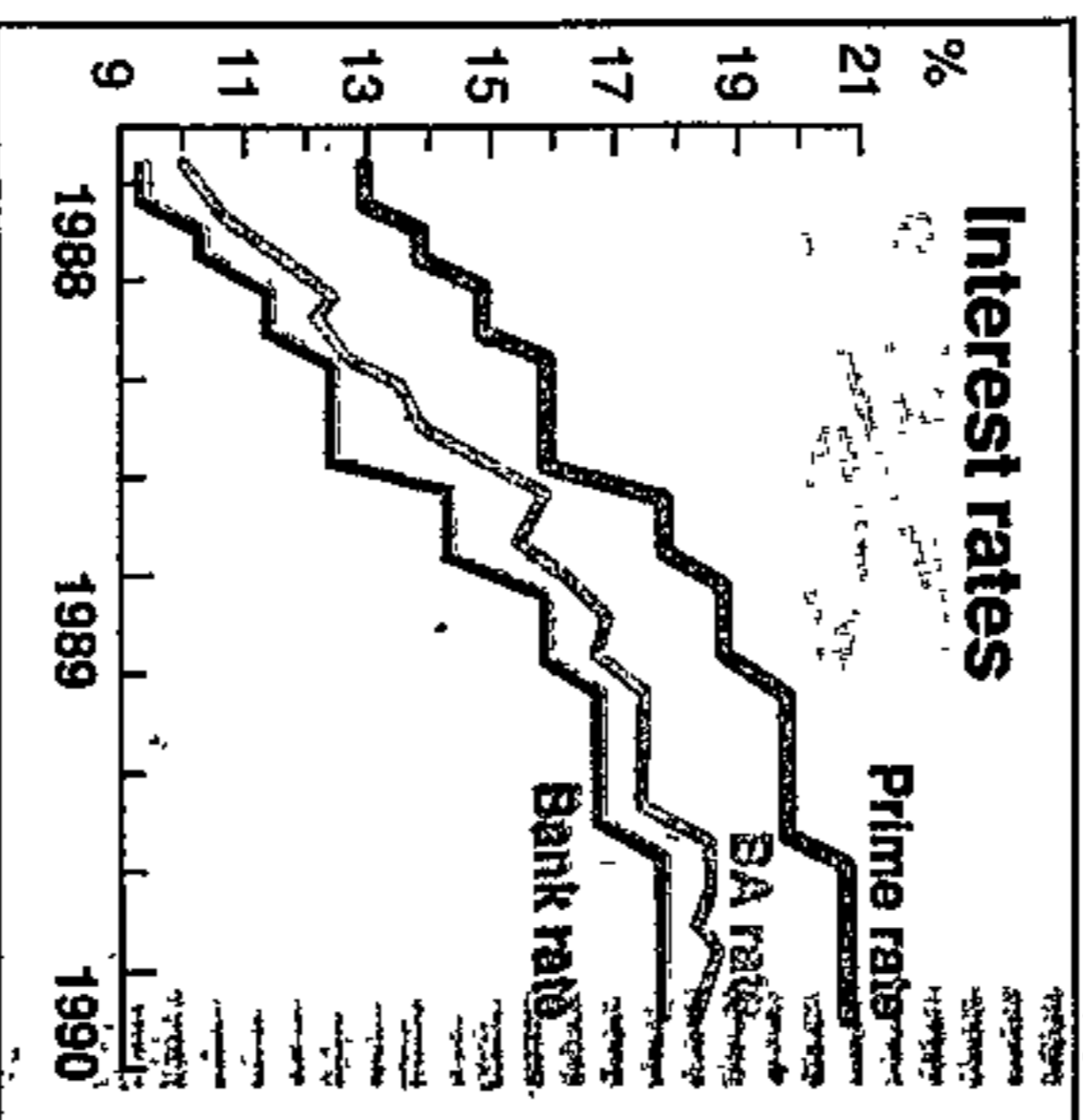
A senior Bank official, who declined to be identified, said senior officials were in favour of delinking prime and Bank rates, but still needed government's agreement.

Reserve Bank Governor Chris Stals raised the possibility of freeing prime at a bankers' meeting in April.

The idea is not new, having been suggested by previous Governor Gerhard de Kock who wanted to "de-politicise" prime in favour of a more free-market approach.

Reserve Bank Governor Stals has emphasised he will use monetary policy to combat inflation, "a commercial bank treasury official said.

"Until inflation reaches the desired levels, the freeing of prime is unlikely. "The banks would never lower their



Graphic: FONIA KRISCH

prime rates against the wishes of the Reserve Bank," he added.

Legally the banks were fully entitled to raise or lower their prime rates at their discretion.

"The government uses interest rates as a management tool so it is unlikely the authorities will allow prime to be freely determined by market forces," First National Bank economist Cees Bruggmans said.

But Bankorp chief economist Nick Barnardt believed a more free market approach to the prime rate was almost inevitable.

"It is not a question of whether prime

To Page 2

## Prime rate

will be delinked from the Bank rate, only when.

Barnardt said freeing prime could be "politically difficult" in the short term. With the current money market shortage, freeing prime before the Bank rate declined could result in some banks' prime rates increasing.

"Under these conditions delinking the rates would be a difficult concept to sell to the public. It would be easier when Bank

rate was falling," he said.

Without the gentlemen's agreement, banks would compete with each other on the basis of interest rates. Depending on money market liquidity this could benefit consumers and result in a lowering of rates, bank sources said.

Finance department and ministry spokesmen could not be reached for comment.

From Page 1

Comment Page 4

# Old Mutual strengthens leadership

Southern  
23/7/90

58  
2

OLD Mutual Unit Trusts strengthened its leadership position in the industry with unit holders investing more than R660 million in its five unit trusts for the financial year ended 30 June, 1990.

In this period 64 000 new accounts were opened, bringing the total to some 270 000 and making the company by far the most popular choice of unit trusts in the country, the giant institution says in a statement.

"These numbers constitute the investments of the man-in-the-street of which a large portion invest on a regular monthly basis," said Mr Bastiaan van der Westhuizen, assistant general manager for investments: unit trusts.

More than half of the accounts opened were debit orders.

The combined assets of the five unit trusts exceeded R2,5 billion, a leap of 39 percent from

the previous year, making the organisation's unit trusts more than twice as large as its nearest competitor.

Van der Westhuizen contributed their success to an exceptional "track record", its range of products and the value for money investors received.

"Unit holders received more than R110 million in distributions declared during the financial year.

"In addition, we offer superior investment returns.

"For example, in over five years the Investor's Fund achieved a return of 30 percent. An amount of R25 000 invested on 30 June 1985, was worth more than R93 000 on 30 June 1990.

"We were also the most active unit trust company during the past 12 months, launching two new specialist funds.

"The Gold and Industrial Funds were introduced to offer investors a wider choice. The investor's fund is the ideal vehicle for the average investor, but for the investor who takes a view on gold and industrials, we offer superior share selection," he said.

EDWIN UNDERWOOD

SA IRON ore exports to the EC jumped 38% to 6.2-million tons last year from 4.5-million tons in 1988, boosting EC iron ore imports to a 10-year high.

Iscor mining products GM Emile Raads said last week SA's three

810ay 2317190 (56A) (4)

## EC iron imports reach 10-year high

major western European customers had made slight adjustments to their production techniques to accommodate SA exports, which were slightly cheaper. Subsequently, certain technical difficulties, which resulted from dealing with other iron ore ex-

porters, were overcome.

Simpson, Spence & Young's (SS&Y) July monthly shipping review said EC imports of iron ore rose 6% to 134.8-million tons in 1989 — the highest level of the decade — compared with 127-million tons in 1988.



# Syfrets cuts back on blue chip holding

58  
Star 24/7/90

By Derek Tommey

While investors in shares and unit trusts face an unpredictable six months or so, more and more people are switching to fixed deposits, says Anthony Gibson, portfolio manager for Syfret's two unit trusts.

Syfret's Growth Fund, as a result of Mr Gibson's acumen, was one of the top performers of the mutual fund industry in the June quarter, so for this reason alone he deserves a hearing.

However, his decision in the June quarter to sell many blue chip counters including 53 000 De Beers (or 40 percent of the growth fund's holding of this market favourite) and put the proceeds into fixed deposits also suggests that his thoughts are worth noting.

## GOLD PRICE

The lower gold price and the Government's actions to curb inflation, says Mr Gibson, have put the economy in a recessionary phase which will affect company earnings and dividends.

The share market has already signalled this. Since February the gold share index has fallen 10,2 percent and the industrial index has fallen 10,3 percent since April.

Mr Gibson expects this weakness to continue.

He does not see the gold price recovering materially from its present level. He expects political uncertainty to continue while the decline in the level of profit growth from companies will bottom out only towards the middle of next year.

"Above all, the availability of fixed deposits paying interest rates in excess of the rate of inflation will tempt investors to remain out of the share market," he says.

## SCEPTICAL

Though share prices will rally from time to time during the coming months "we (at Syfrets) as investment managers remain sceptical of share price rises based on weakening economic fundamentals."

For this reason the growth fund intends keeping 30 percent of its investments in cash for some time to come.

However, this does not mean that Mr Gibson and Syfrets are against share investment.

He says the high quality assets in the portfolio will provide a return over the longer term which will comfortably exceed the rate of inflation.

In the June quarter the growth fund sold part of its holdings in Anglo American, JCI CG Smith, SA Breweries and its two Rembrandt counters. It also sold its entire holdings in Sasol, Driefontein and Vaal Reefs.

This switch to cash resulted in the capital value of the units falling only 0,2 percent in the quarter in spite of the JSE overall index falling 5,5 percent.

The growth fund's only purchases were shares in Rustenburg Platinum, Minorco and Delta Electrical.

The growth fund's 10 top holdings at June 30 were Richefont Securities, Delta Electrical, Liberty Holdings, Hudaco Industries, Middle Witwatersrand, Foschini, Rustenburg Platinum, Trencor, SA Breweries and De

## Industry

Labour Party's spokesman on ion technology, said the importation was less what would happen, which was a symbol of what industry might have been, and out Hoskyns, the UK software y taken over last week by the group CGS. Software was the ure, he said.

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The growth fund's 10 top holdings at June 30 were Richemont Securities, Delta Electrical, Liberty Holdings, Hudaco Industries, Middle Witwatersrand, Foschini, Rustenburg Platinum, Trencor, SA Breweries and De Beers Centenary.

During the quarter the growth fund paid a distribution of 3,13c making a total payment of 8,37c for the 12 months ended June. This was 46 percent more than it paid in the previous 12 months.

Capital appreciation plus income in the 12 months period was 34,2 percent.

### INCOME FUND

At Syfrets Income Fund, advantage has been taken of the narrowing of the yield difference between cash and 20 year stock to switch from cash to medium dated stocks and deposits.

The percentage of the fund in cash and short-term deposits fell from 40 percent of the portfolio at the end of March to 18 percent at the end of June.

Mr Gibson says the switch reflects the belief that short-term interest rates are set to decline in the December quarter.

The income fund paid out 4,1c in the June quarter making a total of 16,63c for the year. This represents a return of 16,5 percent on the unit price a year ago.

# istry

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speculation in the City of the proposed deal might be for Northern Telecom, the manufacturer which is the single shareholder, to buy the group. — Financial Times

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Graphic: FIONA KRISCH Source: SA RESERVE BANK

## Growth in money supply goes down

58  
GRETA STEYN  
and ANDREW GILL

MONEY supply growth plunged to 17,66% in June from 19,12% in May to edge closer to levels regarded as acceptable by the Reserve Bank.

The Bank has said it would like to see growth in M3 — deposits with banks, building societies and the post office — of between 11% and 15% this year. Annualised rate of increase from the base of the target (fourth quarter 1989) was 15,43%.

The June figures confirm that the slow-down in the real economy is finally being reflected in the financial sector. But the sharp decline in the year-on-year rate of increase in M3 is partly technical — it was off a high base in June last year. The figures are also preliminary, and could be revised upwards, as was the case in May.

The money and capital markets reacted bullishly to the encouraging falls in the money supply and inflation rates, combining with a sharp rise in the gold price to push key interest rates lower.

The 90-day liquid BA rate fell to its lowest level in nine months as bullish speculation about a possible fall in the Bank rate gained momentum.

It closed 10 points lower at 18,10% from Friday's 18,20%. It is now 60 points off its January high of 18,70%.

The capital market reacted similarly as the key long stock indicator, the Eskom 168, traded well down at 15,93% from Friday's 16,04% after breaking through the "psychological" 16% level and the chartist's 15,98% resistance level.



# Sechold finalises Distriksbank deal

THE Securities Discount House Holdings (Sechold) banking group yesterday finalised the acquisition of a 49% stake in Boland Bank's subsidiary Distriksbank — the maximum such stake allowed under the present Banks Act.

When the Banks Act is superseded early next year by the Deposit Taking Institutions Act, Sechold will boost its stake in the Cape-based bank to 70%, giving it control.

Sechold MD Arthur Kelly said in an interview that the 49% stake had been acquired at net asset value, and involved the injection of an equivalent amount of capital into the bank, to be renamed District Securities Bank Limited.

As it will have an initial share capital of R6,6m, this puts the effective consideration at R3,23m. *β 10m 24/7/90*

The deal automatically gives Sechold access to Distriksbank's banking licence. Granted in 1892, it is one of the oldest banking licences still operative in SA.

ROBERT GENTLE

Kelly conceded that acquiring the licence in this way had been far easier than making a formal application to the Reserve Bank.

While the criteria for the granting of licences were quite strict, this did not mean Sechold would not have met them, Kelly said, adding that the deal had the approval of the Registrar of Banks.

Other benefits of the deal, he said, included the exposure to the lucrative Cape-based market — where a lot of Sechold business was already done — and the established credibility of a bank in the Boland stable.

On the synergy side, Sechold's trading experience in money, capital and derivative markets were expected to complement Distriksbank's exposure in such areas as farm lending, hire purchase and loans to individuals.

# Building societies expect boost as funding limits go

Blom 24/7/90

58

THE scrapping of short term funding limits for building societies is likely to boost their profits, according to Saambou MD Christie Kuun.

"Without the limits we will be able to respond faster to falling interest rates, thus maintaining margins. Previously, with a large element of long term funding we had to sweat it out when interest rates turned against us," he says.

The Reserve Bank last month scrapped the requirements which limited building societies' short term funding to a maximum of 30% of total funding. Banks were not subject to the limits.

United Bank MD Mike de Blanche says: "The rationale behind the limits

## NEIL YORKE SMITH

was that building societies, being long term lenders, should also be long term borrowers."

He says banks are now active in the mortgage lending market, and many building societies are developing banking divisions.

"Both groups now operate in similar markets so it would be illogical to maintain limits for building societies which did not apply to banks."

"Building societies will benefit from the opportunity to shorten their funding in a volatile interest rate climate," De Blanche says.

"The full effects will take some time to work their way through the system."

Allied MD Kevin de Villiers says

the limits had effectively fallen into disuse anyway.

"Building societies with banking ties would raise funds via the bank and wash them through the system as they pleased," he says.

But NBS GM Mark Farrer says the building societies will benefit from increased flexibility and an improved ability to manage their funding on a day to day basis.

"This is especially important at the top of the interest rate cycle as with a shorter funding book we will benefit sooner from a drop in interest rates," he says.

The removal of the restrictions is also in line with the new Deposit Taking Institutions Act which will level the playing field for all financial institutions, Farrer says.

leave would be 42 days on a three cycle and the night shift minimum

TOP EXPECTED TO 7-MILLION

52  
Dec 24/90

# Ical leases Richmond Corner

RMS Syfrets has concluded what is believed to be the largest single tenancy leasing deal in the Richmond suburb of Johannesburg.

International Combustion Africa Limited (Ical), a member of NEL Africa, has signed for 4 500 sq m with Sanlam Properties for the entire building known as Richmond Corner, on a prime site at the corner of Menton Road and Stanley Avenue.

## FOR 10 YEARS

The lease, negotiated by RMS Syfrets' executive directors, Mark McCreedy and Mike Deacon, will run for 10 years with a base rental of R18 a sq m net.

Escalation will be at 12 percent a year.

The charge for the 163 parking bays will be R80 a bay monthly.

"The lease negotiations stretched over six months and it is nearly a year since we introduced Ical to Richmond Corner," said Mr McCreedy.



GM-  
7/15/90  
25/7/90  
58  
7/15/90

## Bond boycott to continue

Staff Reporter

THE five-month Khayelitsha bond boycott will continue despite an "agreement in principle" with all financial institutions involved, a lawyer for the residents confirmed yesterday.

Mr Bulelani Ngcuga, who is also regional chairman of the UDF, said finalisation of the agreement was "imminent" but declined to disclose details, saying residents were still being briefed.

He added that the boards of the NBS, Perm, SA Housing Trust, UBS and Boland Bank were also studying the agreement.

# Investors pouring into Western Areas

Star 25/7/90 (58)

By Derek Tommey

The price of Western Areas shares has jumped about 20 percent in the past two days.

This suggests investors are happy with the planned reorganisation and re-financing of the mine announced last Friday.

Mining analysts have welcomed the move. Rodney Yaldwyn of Simpson McKie said yesterday the move should change a large, unprofitable mine into a small, profitable one.

Tom Dale of Ed Hern and Rudolph said it should make Western Areas profitable again.

Western Areas has two aims: the first is to make its gold mining operations profitable again; the second is raise cash to repay its heavy debt and eliminate the interest payments on it.

Measures aimed at increasing profitability include halting mining operations at the unprofitable North Shaft — except on the Middle Elsburgs to enable the mine to honour its uranium contracts.

Management will be reduced to what is needed to maintain production at the profitable South Shaft.

JCI has agreed to charge less for its management services and the Reserve Bank has arranged the forward sale of about half the mine's expected gold output in the next 12 months at a price of R33 114 a kilogram. This compares with the current price of around R30 865 a kilogram.

The South Shaft has always been profitable and it is expected that the mea-

asures will enable the mine to start showing profits from its operations.

In order to retain these expected profits Western Areas will raise new funds by selling its 41 percent stake in the South Deep project to a new listed exploration company. (Western Areas shareholders will be entitled to subscribe for shares in the new company).

The money so raised will be used to repay debt.

A key question is how much Western Areas will receive for the stake.

Market conditions are not particularly favourable for raising new capital.

But if Western Areas were able to raise enough money to repay the R95,9 million it owes JCI and the R36,4 million it owes on lease and rental agreements for trackless mining equipment, it could save up to R30 million a year in interest payments.

## Financial position

This would make a great difference to its financial position.

It is assumed at the moment that Western Areas will sell its entire interest in South Deep.

But some analysts believe that if market conditions change it might reconsider. It could retain a stake in the venture and share further in financing what could be a major new mine.

Exploratory drilling has indicated that South Deep contains a rich ore body.

Western Areas officials say it probably represents the largest and most important known and delineated orebody

remaining to be exploited anywhere in the world.

However, participants in the South Deep project are approaching the exploitation of the orebody with considerable caution.

It lies 3 000 metres below ground and it is not the normal narrow reef, but forms a huge lump.

As a result, mining the ore while supporting the hanging wall could be tricky.

Owing to the current difficulty in raising new money through the share market for gold ventures, speculation is that the new company to be formed to take over Western Areas' stake in South Deep will have limited initial objectives, probably confined to repaying Western Areas and financing further exploration.

But later, when financial conditions improve, the new company could be expected to seek billions of rands from the market.

It would need to sink a shaft to exploit the orebody and this could cost R800 million to R1 billion at today's prices.

Further large sums would be needed for air-conditioning, for initial development and for the construction of the ore treatment plant.

A purchase of Western Areas shares now could enable an investor to get in on the ground floor on this venture. But with any new mine still some years away, it seems that the purchase of shares to participate in South Deep should, at this stage, best be left to the professionals.

# NEI shareholders have little reason to cheer

By Ann Crotty

Given the strength of the order book at end financial 1989, NEI shareholders will be disappointed by the 20 percent drop in earnings reported for the six months to end-June.

Although turnover was up 20 percent, tighter operating margins and a sharp increase in finance costs knocked the bottom

line, with earnings per share down to 176,6c from 219,9c. The dividend was unchanged at 55c a share.

Turnover was up 19,7 percent to R308,5 million (R257,7 million), but operating income was down 1,5 percent to R28,5 million (R29 million), reflecting the sharp drop in operating margins which were down to 9,2

percent from 11,2 percent.

New chief executive Lawrence Hyslop attributes the tighter margins to more competitive market conditions and rising overheads without a commensurate improvement in productivity.

"The fact that turnover in the major contracting companies within the NEI group does not accurately reflect invoiced sales because of the long-term nature of large contracts should also be borne in mind."

Net financing costs soared 80 percent from R3,9 million to R7,1 million.

There was no increase in gearing, so this hike was due to higher interest rates.

Attributable income was down 16,7 percent to R11 million (R13,3 million).

More shares were in issue because of last year's share-financed acquisitions.

Mr Hyslop says trading conditions for group operating companies have shown signs of improving since May.

"I remain confident that the second half of the year will continue the improved trend, provided the political climate does not suddenly deteriorate."



# Institutions lift stakes in building societies

Star 25/7/90 (SR)  
Finance Staff

Heavy institutional buying of building society shares has continued to fuel speculation of takeovers.

Reports last week started the ball rolling and shares have continued to climb ever since.

Allied, Saambou, UBS and NBS have all recorded significant share price gains since the beginning of this year.

Sources in the industry say that following the introduction of the Deposit-Taking Institutions Act next year, many institutions could be rationalised or taken over.

The Act, due to come into effect early next year, will allow investors to build large stakes in deposit-taking institutions - until then, single investors continue to be limited to a 10 percent holding in a building society.

According to market and industry sources, there could be a number of mergers and takeovers when restrictions are lifted.

There is considerable crossholding in the industry already with Volkskas holding 10 percent of UBS, Sage and Rembrandt are powerful in Allied and Norwich Life is the biggest investor in NBS. Volkskas holds the largest number of Saambou shares.

# United Bank setting up international networks

UBS Holdings' United Bank is embarking on a drive to set up an international agency network with about 120 banks in 40 major countries as part of its long-term strategic plan to better serve the small corporate sector.

These banks would act as conduits for foreign transactions with United Bank. Credit lines would be established, and payment would be on a fee basis.

United Bank MD Nallie Bosman said in an interview yesterday the first contacts would start in early August and should last two months.

The move will put United Bank in the same bracket as banks like Standard Bank, TrustBank, Volkskas and French Bank which have offices or agency networks abroad.

At present, United Bank is able to offer its clients only routine forex facilities like foreign travel allowances.

Bosman said the absence of an agency network meant other forex transactions —

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**ROBERT GENTLE**

like a private client paying school fees abroad or a corporate client buying a foreign product — had had to be referred to another bank.

"With our own agency network, we would be able to handle these transactions ourselves," he said.

While the plan coincided with the current easing of anti-SA sentiment abroad, it was in effect part of the long-term strategic goals drawn up when the bank was formed three years ago, Bosman said.

Until now, United Bank had been concentrating on establishing the retail side of its business. The small corporate sector — and the international links they imply — was now receiving priority, he said.

Bosman said the agency network was being limited initially to around three major banks in each of the 40 countries selected.

# Banks' risk to be monitored

S8 | GRETA STEYN

THE Reserve Bank is tightening its monitoring of banks' risk exposure in a move that will enable it to act far more rapidly when it becomes aware of a threatening crisis. *5 Day 25/7/90*

The move is believed to be partly in response to the major loss suffered by TrustBank on uncovered options last year.

Registrar of Banks Hennie van Greunen said yesterday a project to get details on banks' risk was already well under way. Senior bankers were also being consulted on the information the authorities would need. Risk exposure forms, to be completed monthly, would be finalised some time this year.

The emphasis was on uncovered positions in the money and capital markets, vulnerability to interest rate movements and large credit exposures. Special attention was being given to derivative instruments such as futures and options.

The move is in line with the focus on risk

in the new Deposit-Taking Institutions Act and is a dramatic change from the past when the emphasis was on economic importance. There was no formal gathering of risk information.

"A bank's business is risk management and the information we want should be part of any bank's management information as a matter of course. Those banks whose management information is lacking will benefit from a system compelling them to take a close look at exposures. We are helping the industry in setting a standard for risk assessment."

Some bankers are against providing the authorities with too many details on their exposures, fearing unnecessary interference.

But Van Greunen stressed the Bank had no intention to intervene — unless a major problem came to light.



# Sanlam sees severe recession in primary sectors of economy

Star. 25/7/90 (5P)

## Finance Staff

Severe recessionary conditions are being experienced in the primary sectors of the economy and in the manufacturing and construction sectors, Sanlam says in its latest Economic Survey.

Describing the overall trend in the economy as "slightly recessionary", Sanlam says sectors in the service industry such as trade, transport and communication and other government services were, until recently, not as badly hit by the cooling of the economy.

"It is clear, however, that in the past few months the weakening financial position of business enterprises and consumers has begun to have a detrimental effect on a growing number of economic activities."

This tendency has been apparent not only in the sales of durables such as cars and household appliances, but in the turnover of semi-durable and durable goods.

On the brighter side Sanlam says the poor economic conditions and restrictive measures being applied to businesses should lead to greater cost savings and rationalisation of business interests.

"This will in due course put them in a better position to make full use of the next economic upswing — which might begin in the middle of 1991.

"In these circumstances, we expect almost no real economic growth for 1990, but believe a growth rate of two percent next year is possible."

Sanlam predicts that the current account of the balance of payments — which weakened appreciably in the second quarter of this year — would improve during the rest of the year.

"If the gold price more or less maintains its present levels for the rest of the year, we expect the current account of the balance of payments will still yield a relatively satisfactory surplus of between R5 billion and R6 billion."

Turning to interest rates, Sanlam says a decrease in the demand for bank credit, a rise in the net foreign reserves and a further deceleration in general economic activity will contribute to an easier domestic liquidity situation in the second half of the year.

The report says that as capital spending is the real driving force of the economy, the deterioration in fixed investment experienced since the beginning of the 1980s, is a source of great concern.

This is reflected in the percentage of gross domestic fixed investment to total domestic spending, which dropped from 28,3 percent in 1980 to 21,7 percent.

"Only about 18 percent of new investment has been contributed to the country's capital stock over the past five years, which is a disturbing trend.

"It is clear that we can hardly embrace the future, with its special challenges — including more rapid economic growth, a drastic acceleration in the creation of job opportunities and the more equal distribution of wealth — without extensive capital expenditure.

"It is therefore vital that a climate be created and maintained that will be favourable for investment."

Important factors in this regard are political stability and maintenance of law and order as well as an economic dispensation that inspires confidence and guarantees capital safety.

# Aida hopeful about future franchise profits

**FUTURE** profits from Aida Holdings will show the benefits of the recent opening of two new offices and the increase in sales staff, chairman Aida Geffen said in the 1990 annual report.

Offices had been opened by the Northern Johannesburg franchise in Randburg and Kensington.

"The impact of these two extra offices can already be

## CHARLOTTE MATHEWS

felt in the February 1990/March 1990 results." An additional motivation to sales staff would be provided by the group's move to a new corporate head offices towards the end of the year.

In the year to February Aida returned after-tax profits of R516 010 on turn-

over of R7,7m compared with 1989's profits of R751 492 on turnover of R7,85m.

Geffen said there had been a considerable slowdown in the residential property market over the past year.

"There is no question that the unbanning of the ANC and the ongoing pronouncements by its leader-

ship are having a strange push-pull effect on the market," she said. (58)

In the year under review Aida Holdings increased the number of franchise offices in SA to 51 from 41 in the previous year.

"In spite of tremendous difficulties, the group's penetration into the black housing market has been slow but sure," Geffen said.

# Contraction 'likely' in financial services

Business Day Reporter

TRENDS in the overseas and local financial services community continue to suggest there is likely to be a period of contraction and restructuring throughout the industry, Investec Holdings (Inhold) chairman Ian Kantor says in his latest annual review.

Opportunities for the acquisition of financial services-related companies are expected to arise as this process unfolds, and Inhold will increasingly be in a strong position to identify, evaluate and capitalise on these opportunities, he says.

The banks and financial services-listed group, the sole investment of which is its 75.7% holding in Investec Bank (Investec), posted a 38% rise in earnings to 53.3c (38.6c) a share to end-March and a 25% climb in total dividends to 20c.

Kantor says its performance reflects the "excellent" results achieved by Investec.

"The bank's consistent and impressive growth record, notwithstanding the highly competitive and constrained environment in the financial services industry, is largely attributable to its continued emphasis on employing and developing good people and its policy of operating in strictly-defined areas of business," he says.

Its four business units, given greater definition during the period under review — Investec Bank, Metboard, Investec Merchant Bank and the Investec Property Group — are expected to develop in their chosen niches and contribute to Investec's continuing growth trend, he adds.

"Consistently high levels of service are fostered through the strong direction and control provided at group level.

"Investec as a whole continues to derive benefit from the strong business synergies

existing between the units, the healthy balance sheet between fee-based and annuity income, and a diversity of revenue sources which provides protection from the cyclical nature of the individual businesses."

According to Kantor, prospects for Inhold remain "at this time" directly related to those of Investec.

"It is important to note, assuming Investec maintains its historical rate of growth in both earnings and dividends, that Inhold is able to grow its dividend distribution at the same rate, at least, as Investec.

## Sound

"In the future, dividends receivable relative to the average cost of the preference shares should allow the company to increase its dividend growth rate relative to that of Investec."

He notes that Inhold has, in the past five years, shown a growth in earnings a share of over 20% annually, with earnings a share growing by an average of 33% per annum compounded, and dividends by an average of 23% per annum compounded.

Inhold remains financially and strategically sound, well-placed domestically and abroad through the business units which, as material constituents in their respective markets, are not only effective and profitable, but also offer clients a high level of service via specific and integrated financial products, he says.

In view of this, directors believe the group's outlook remains positive.



# Large insurer calls for safeguards

COMPOSITE insurer Commercial Union has called for safeguards when the ban on the use of life policies by non-tax paying organisations, such as municipalities, are lifted.

Assistant Registrar for Long-Term Assurance Oppie Opperman was reported last week as saying he hoped enabling legislation would be passed in the next parliamentary session.

Commercial Union GM John van der Linde said in a statement yesterday that non-standard endowment policies which produced untaxed yields for municipalities were of great use as sinking funds to replace expensive capital goods.

But, he said, municipalities wanting to invest in non-standard endowment policies should call for tenders and place business on the basis of an assurer's actual investment performance.

LINDA ENSOR

"In the Transvaal, municipalities were not allowed to take out policies with a life assurance company unless it was on the Provincial Administration's approved list, which had nothing to do with investment performance," he added. (58)

"This was an undesirable restriction and it led to problems when one municipality placed business with a life assurance company and later tried to get out of the contract on the basis that the company was not on the list."

Van der Linde said another undesirable practice in the past was the placing of business on what was virtually a deposit basis but at higher commission rates than could be obtained from other financial institutions.

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ESTATE AGENTS ACT (58)

**New emphasis**

Big changes are on the cards for the way aspirant estate agents will be allowed to practise their craft. FIM 277790

In conjunction with Trade & Industry Minister Kent Durr's revised Estate Agents Act (*Business* July 13), which will overhaul the way in which newcomers are introduced to the industry, it emerges that the examination syllabus used in conjunction with the Act is also being given new emphasis.

The Estate Agents Board is revising certain aspects of the syllabus with a view to introducing some changes when the Act comes into force next year.

The board says changes will mean an examination of more practical relevance — which will have greater benefit to clients — compared with the existing one which tends to focus on theory.

The revised Act will require newcomers either to write a pre-entry examination or

FIM 277790 (58)

serve a two-year apprenticeship followed by an all-or-nothing examination before being allowed to conduct property sales and transfers unsupervised.

Board president Eskel Jawitz says: "The examination syllabus to go with this new legislation must be practical, relevant and of a certain standard to ensure that the basic

knowledge of graduates is above the minimum that the public is entitled to expect.

"That is the direction in which we are working as opposed to determining a level of competence, which is a totally different thing."

He explains the emphasis will be away from theoretical learning and memory tests. However, he stresses the board is not writing a totally new syllabus. It has the existing one as a yardstick and is picking out the most relevant and practical aspects rather than designing a new examination curriculum from scratch.

"In comparing the existing and new examination, one must take cognisance of the emerging SA with many players who weren't in the property market before but for whom the examination must also be relevant.

"The objective is to test to about a matric level of education compared with an existing examination which is probably equivalent to a second year university standard (though there are probably some who disagree)," says Jawitz. ■

FIM 27/7/90 (58)

MONEY SUPPLY FIM 27/7/90

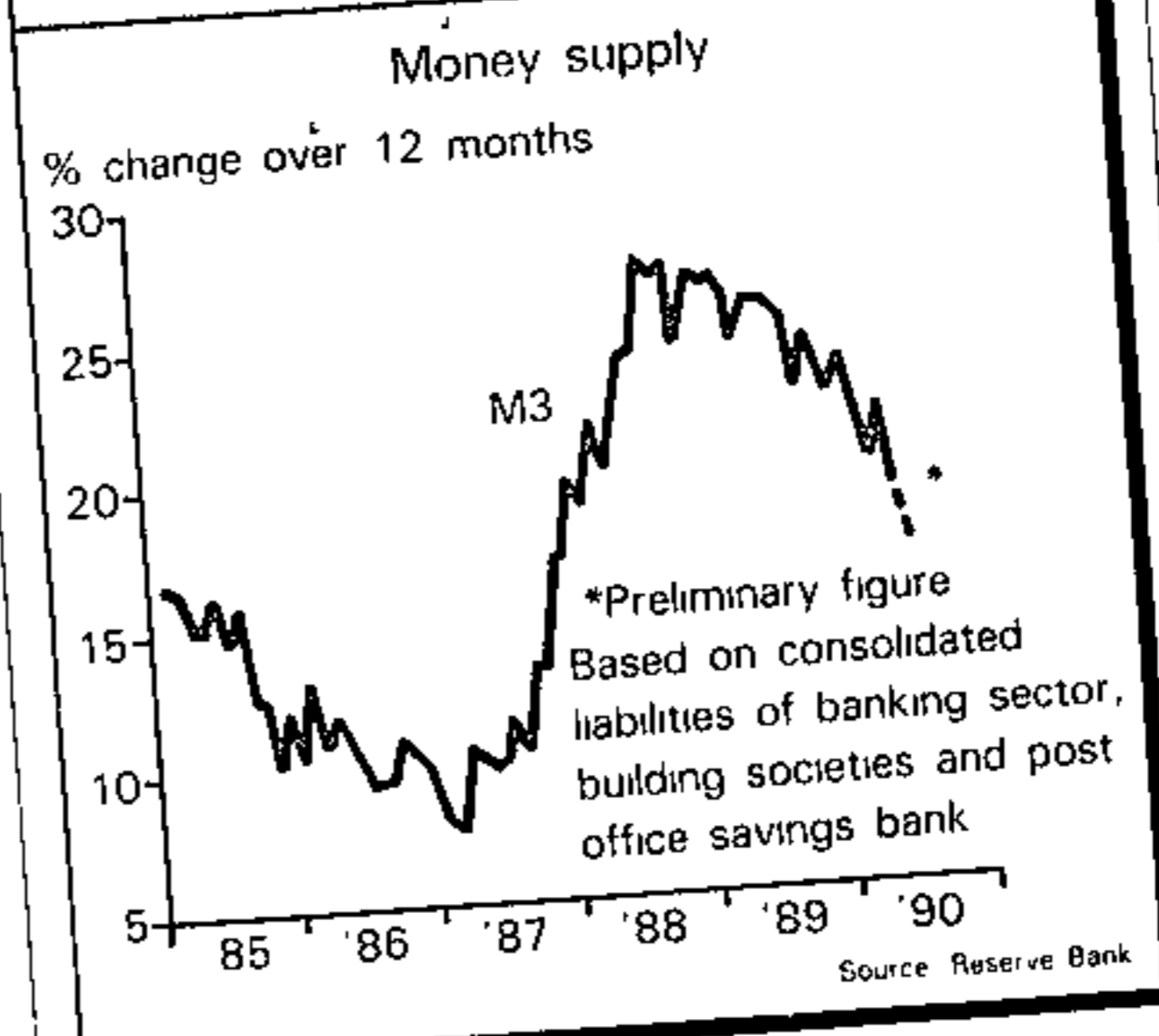
### Falling into place (58)

Money supply growth slowed in June. The broad monetary aggregate M3 grew an annual 17,66% to an estimated seasonally adjusted R153,4bn. Growth from the base of the target year (mid-November) was provisionally set at 15,43% — nearing the top of the 11%-15% target range.

Provisional figures for May were revised upward to 19,12% year-on-year (originally 19,03%) and 16% from the base of the target

FINANCIAL MAIL JULY 27 1990

### Tailing off



year (15,82%) — to R152bn (R151,9bn.)  
In the 12 months to May, M1A grew 10,9% to R25bn; M1 15,3% to R48,2bn; M2 23,7% to R122,7bn; and M3 19,12% to an unadjusted R151bn.

Credit extended by banks to the domestic private sector rose 1% in May to R121,1bn. Debt redemption by the government sector of R1,2bn in April was followed by bank credit extension to government of R394m.

Credit extension to the private sector by monetary institutions grew 1,2%, to R149bn. To government it rose nearly 300% to R2,1bn, with a decline of about R750m in Treasury's account with the Bank and a more than R780m increase in gross claims. Deposits fell as government funded expenses, but the increase in claims was partly due to demand for government stock.

The shortage of bankers' acceptances has increased the desirability of gilts maturing in under three years. To satisfy demand, these were put into the market.

Total credit extension rose 2,2% to R151,3bn. ■



FIM 27/7/90 (58)

15 years ago," says Prof Robert Vivian, business economics, Wits University.

"But our judicial system is beginning to emulate that of the US. This sort of thing takes a long time to filter through to the public but, when it does, the practice is likely to snowball. The public should be concerned about some of the legal foundations upon which such a case may rest."

The first case was in 1932 — Perlman vs Zoutendyk. "That and a further case in 1954 did not succeed," says Vivian.

Then in the Transvaal in 1977 came SA Bantoetrust vs Ross & Jacobz. This, says Vivian, was the first action for pure economic losses caused by negligence which clearly succeeded.

"The doctrine was approved with few words and little motivation." The matter was approved by the Appellate Division in 1979. This established a precedent that the courts will recognise claims for pure financial losses. "It poses a major threat to the business community," says Vivian.

Robert Koch, an actuary specialising in damages claims, says: "In other words, reckless irresponsible business behaviour can now lead to major liability to third parties."

Lord Denning, former Master of the Rolls in England, pointed out: "The only way professional men can safeguard themselves against ruinous liability is by insurance." And also by taking care, says Koch.

He says: "The success of the Vermaas action depends on a duty of care owed by the large institutions to small investors with whom there is no privity of contract. Are small investors to live with their losses or can they transfer the cost of their bad judgment to large institutions and through the pricing system to the public at large?"

"If our law allows compensation in this case, it could create an investment climate of 'heads-I-win-tails-you-lose.'" *Jacque Bullard*

LIABILITY FIM 27/7/90

## Testing new ground

The first action of its type in SA has been brought against the minister of finance, the Reserve Bank and Volkskas for R14m. The claim is for "pure financial losses," a new development in our law of delict. This provides a remedy for pure financial losses unrelated to any physical damage or injury.

The claim is for damages suffered by various investors in the operations of Pretoria attorney Albert Vermaas and his companies in 1987-1988. Summons was issued through the Pretoria Supreme Court on Thursday last week. The Bank and Volkskas have received "documentation," but a spokesman says the minister has had no official notification.

SA courts have gradually extended the specific Roman Dutch common law to provide a general remedy for delictual claims. "Such a claim would have been impossible





**Allied's De Villiers ... in a narrowing stream**

53% to R58,3m. UBS properties in possession amounted to R57m after a write-down of R15m to estimated market values (up 33% on 1989). Contrary to the trend, Saambou's properties in possession fell 32% to R6,9m.

With growing competition, it is not surprising that most building society groups want to spread their business. Allied, UBS and, particularly, Saambou, are hoping to increase profit contributions from their banking operations. Allied has been hasty — it has introduced 42 banking services since January 1987 — and some say it has tried to run before it can walk, at the expense of margins and efficiency. Banking's contribution to total profits is 5% at R3,4m.

The UBS annual report says banking's contribution to profits rose by 24% to R36,5m in 1990 (18,5% of the total). But this includes the 30% equity-accounted holding in Volkskas. If this is subtracted, and only UBS's 50% shareholding in UBS Bank accounted for, a loss of R300 000 in 1989 was transformed to a profit of R2,35m in 1990. The bank concentrates mainly on the retail banking side. UBS has positioned itself as "provider of low-cost services to the consumer" but hopes to enter the corporate market by a takeover or merger with an institution which has the necessary expertise.

Saambou, the smallest group, with assets of R3,7bn, has taken a hesitant step into banking: Saambou Bank has produced a profit since it started last year and is mainly involved in personal loans, HP, leasing and short- and medium-term corporate loans. Net income from this division increased 117% to R2,7m from a low base and contributes 11% of the total. Planned extension of banking could put some stress on capital structure. Group MD Christie Kuun says more capital than the R6m raised last year

will be needed this year

NBS's banking division concentrates on medium-size corporate clients and high net worth individuals. Farrer says banking business almost doubled from the year before and contributes about 5% of group profits. Exact figures are not released as the banking section includes "other," which relates to the holding company. Nevertheless, the group intends concentrating on its home-

loan business and sees itself as "a specialist bank mainly in mortgage loans."

Insurance is also an area which goes naturally with the home-loan customer base. UBS Insurance's attributable income rose 22% to R34,2m and contributed 17,4% of the total. This is complicated once again by its 30% equity-accounted shareholding in Commercial Union (CU). Without CU, insurance profits rose 24% to R23,1m.

Allied Insurance provides a hefty 33,9% slice of profits, or R23,3m. Saambou is still going through growing pains. It only recently acquired a full life assurance licence. High



**NBS's Gafney ... working through channels**

tirement village market.

Others were even worse off. NBS Developments posted a loss of R2,4m against a R2,3m profit, attributed by MD John Gafney to high interest rates and escalating building costs. But Saambou managed to increase its stock turnover and net income before the extraordinary item (a R6,7m capital market loss) by 16% to R2,2m.

NBS's tight management and UBS's strong capital give them prime position for building societies on the JSE. Investors rate NBS on an 8 p:e ratio and 4,7% dividend yield while UBS has a p:e of 8.5 and 4,6% yield. Shrouded in controversy, Allied falls into third place with a p:e of 7,2 and yield of 6,8%. Lack of confidence in Saambou's ability to keep up with the others causes it to lag behind on a p:e of 4,2 and yield of 9,2%.

Next year the banks and financial services sector is likely to look very different. Speculation of rationalisation is heating up. The new Bill raises the maximum allowed shareholding in what was a building society from 10% to 49% in any deposit-taking institution. Some institutions are already believed to be in the middle of wide-

**Leaving home? Contributions from subsidiaries (to March 31 1990)**

	UBS	NBS	Saambou	Allied
Building society	R100m (+34%)	R33,8m (+76%)	R13,7m (+36%)	R39,4m
Banking	* R36,5m (+24%)	Not specified	R2,7m (+59%)	R3,4m
Insurance	R34,2m (+22%)	R2,7m (-42%)	R6,4m (-19%)	R23,3m
Property development	* R2m (-5%)	-R2,4m (n/a)	R2,2m (+16%)	n/a

(\*) Compared to 1989 \* Including 30% equity-accounted shareholding in Volkskas. Including 30% equity accounted shareholding in Commercial Union.

development costs related to new products caused net income to fall 19% to R6,4m. Insurance contributes 25% to total business. NBS's insurance subsidiary's attributable income also fell, mainly because there was no transfer from the life fund (1989: R2,3m).

Other business areas have also shown losses. When low-cost black housing developments first came to the fore a few years ago, building societies jumped on the bandwagon. But this proved less profitable than expected. UBS reported a decline in sales of housing units from 690 in 1989 to 472 in 1990; it reduced its investment in land and housing units on hand by 32% to R23m. United Development Corp saw a slight reduction in attributable income from R2,1m to R2m — and a larger decline was prevented mainly by reduced investments and success in the re-

ranging negotiations.

The best able to cope with growth in new markets is UBS, thanks to its strong capital base.

Others will have to take more wary steps, watching the relationship between shareholders' funds and assets. Asset-liability management is becoming more of a priority. There is no way newly structured groups can afford to carry excess baggage.

Growth in new business areas will need extra capital. For some this could mean rights issues; for others, tie-ups with former competitors, either fellow building societies or other financial institutions.

The situation is fast-changing and investors can look forward to more excitement in share prices.

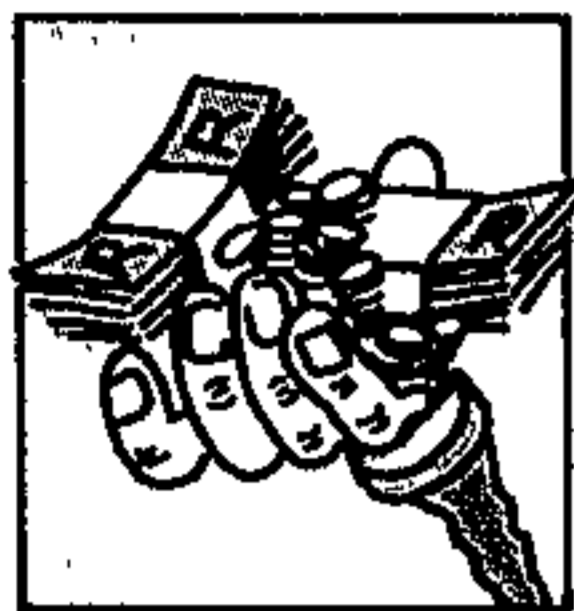
Heather Formby



# Elbowing into the unknown

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■ The restructured groups are finding mixed success in their new field



Building societies, as we once knew them, are coming to an end. They are embarking on major restructuring to come to terms with the blurring of the line which separates them from banks. UBS Holdings (which controls the old United Building Society) has far outstripped its smaller competitors in this and while there is always likely to be room for smaller players, speculation is growing that some of the smaller fry may have to get together if they want to stand up to not only UBS, but to the banks as well.

Rumours centre on Allied, in many ways one of the more innovative societies, but also one that has been rocked by management and boardroom conflicts (*FM* cover leader June 22). The Allied share price has risen from 120c to 170c since early April. MD Kevin de Villiers confirms that several institutions have built up their holdings in Allied. While he claims this is because of his group's "underlying value," that could turn out to be misplaced complacency.

Once the Deposit-Taking Institutions Bill is promulgated, probably on January 1, the societies will be playing on those famous "level playing fields" with other deposit-taking institutions (except insurance companies). Some funding differentials have already fallen away: building societies must no longer, for example, hold at least 70% of operating capital in mortgage loans.

Most societies have March 30 financial year-ends (the Perm, now part of Nedcor, is the exception, at September 30). The recent annual reports show some successes — and a few failures — in the new business areas of those seeking to become fully fledged financial service organisations. Ironically, it is in the basic home loan market that many

are feeling the strain of economic recession.

Restructuring has meant moving business from the top of the funding pyramid to becoming wholly owned subsidiaries of holding companies. In other words, the "building society" component will in future concentrate on home loans, while deposits are channelled into the banking subsidiary.

UBS, for example, has transferred all interests held by the building society in UBS Insurance and United Development Corp to UBS Holdings — a process finalised late last year. Fixed property held by the building

with Allied Group and Saambou Holdings.

Restructured groups are using the client base of the business they know best — home loans — to piggyback into other services: banking, insurance and property development. Because these slow down when the home loan business eases, all groups are intent on further expansion of their home-loan books.

In all cases, building society business still makes the largest contribution to attributable income: UBS (50,8%), Allied (57,3%), NBS (76%) and Saambou (54,4%).

But how much more can it grow? Apart from natural market limitations, building societies' move into banking business has been paralleled by banks moving into domestic mortgages. The cake may be big enough for all to share — for the moment. The burgeoning black market is one reason; another is people borrowing against mortgages to consolidate debt or just to keep living to familiar standards.

But the longer-term outlook remains uncertain. Keener competition may have harmed the quality of business and increases in interest rates in the past couple of years have hit many new mortgage borrowers

hardest. Most groups are anticipating large losses on mortgage loans and increases in the number of properties in possession: doubtful debt provisions have risen significantly.

UBS increased its specific doubtful debt provisions by R5m to R8,2m with no general doubtful debt provisions, says CE Piet Badenhorst. Allied's specific provisions rose 84% to R10,5m with general provisions undisclosed. NBS increased general doubtful debts 78% to R30,7m (specific doubtful debt provisions are not released) while Saambou would not reveal its doubtful debt provisions. Analysts will also be scanning the next Nedcor report closely, as the Perm has been most active in the worst hit market of all: low-income blacks.

NBS Management Services GM Mark Farrer says doubtful debt provision is partly for prudent reasons: "The situation is volatile. We must provide for the unexpected."

Already, in NBS's 1990 annual report, properties in possession rose 110% to R34,4m. Allied's were up



UBS's Badenhorst ... planning beyond bigness

society arm will be transferred to a wholly owned subsidiary of UBS Holdings, giving capital gearing advantages.

Natal Building Society (NBS) said in its report that all major subsidiaries will become directly owned by NBS Holdings. Allied and Saambou have already done this



	UBS	Allied	NBS	Saambou
Total assets (Rbn)	15,7 (+19%)	9,8 (+14%)	5,8 (+29%)	3,7 (+18%)
Advances (Rbn)	12,1 (+13%)	7,9 (+14%)	4,8 (+33%)	2,6 (+18%)
Interest payable (Rm)	1914 (+51%)	1338 (+50%)	676,8 (+60%)	480,8 (+56%)
Operating expenditure (Rm)	514,2 (+30%)	328,5 (+30%)	223,8 (+45%)	150,3 (+27%)
Pre-tax profit (Rm)	251,4 (+17%)	89,6 (+24%)	73,2 (+51%)	29,2 (+18%)
Attributable income (Rm)	166,3 (+35%)	68,7 (+30%)	42,3 (+35%)	25,2 (+37%)
Taxed profit (Rm)	196,9 (+31%)	68,7 (+24%)	46,4 (+42%)	18,5 (+0,5%)
Earnings (c)	82 (+30%)	23,3 (+30%)	76,6 (+39%)	29,6 (+37%)
Dividends (c)	32 (+19%)	11,5 (+10%)	29 (+26%)	11,5 (No change)

( ) Compared to 1989. \* Before extraordinary items. \*\* After R8,7m loss on off-balance sheet stock



INVESTMENT AND THE UNIONS

FM 27/7/90

## Measuring reality

The trades union movement here, partly as a result of the rapid process of political reform, has had its brush-up and is riding a wave of euphoria. It is becoming increasingly braggart in its claims and irrational in what it believes its future role should be in a more egalitarian society.

The danger for it is that it might not appear to have noticed the pit into which it could quite easily stumble. The acid test in the years immediately ahead is not going to be whether it has achieved high percentage wage increases but whether most of the members it has now will still be in jobs and on its books.

From the way the movement is going, it may well find that the surge in membership of recent years is soon quite abruptly reversed. That certainly was the case in Britain during the Eighties when, after 30 years of trade union hegemony, public opinion rounded upon it. As the British economy first contracted and then — when wages and prices were stabilised — began to grow and restructure with a strong bias towards high technology and the provision of services, the unions lost more than 10m members.

What trades unions tend to forget — when they are demanding higher wages that are not economically justifiable — is that they are not enriching the people at large at the expense of the capitalists.

They are enriching themselves at the expense of the people.

Higher wages without productivity gains inevitably lead to fewer jobs. As lay-offs increase union membership decreases of its own volition. For trades unions traditionally have no interest in the unemployed — nor in the general state of economic wellbeing. And the more successful they are at achieving high wage settlements, the more they themselves represent a diminishing sectional interest.

Indeed, as one of this country's few internationally acclaimed economists, the late Prof Bill Hutt, used to teach at UCT, the more unions use the intimidation of collective bargaining to raise wages, the more they inhibit economic growth or the size of the cake available for distribution. The result, as market forces adjust over a period, is that their wage gains were illusory. So it can be argued that the more successful the unions are in the short run, the greater the seeds of their enfeeblement later on.

Over more than 10 years there has been a significant shift in real earnings here from whites to blacks. White real wage increases over that period have been below inflation whereas black wages have maintained their value. The consequences are already beginning to bite.

Last week the *FM* reported some employment trends on coal mines that should send a cold chill down the spine of every union member. From 1984 to 1989 the skilled annual wage increases per man rose by 96,6% while those of unskilled men (mainly blacks) rose by 128%. But the number of unskilled miners dropped by 21,2% while skilled employ-

ment rose 4,5% and coal production rose 9,2%.

In terms of tons produced, unskilled productivity rose 38,2% while skilled productivity rose only 4,2%. The reason was that as wage costs climbed, collieries increasingly mechanised to contain costs.

This trend is prevalent throughout the manufacturing industry. Each week more companies report that profit growth is down as a result of disruptive labour action — that is strikes. See the report elsewhere on AECI.

What trade unionists will be very quick to point out is that, though corporate profits are down, they are still showing increases substantially above the rate of inflation. That is true but what they don't evidently understand, or want to, is that those profits do not accrue entirely to the benefit of shareholders.

Of course, dividends are paid from those profits. But they are generally not excessive and are determined by competitive forces. A company that pays dividends that are too high for too long will not be reinvesting in its own future. One that pays dividends that are too low simply will not get the capital it requires to grow.

In any event, workers through their pension funds (heavily subsidised by employers) benefit indirectly from those dividends as, in fact, they do from profits retained by enterprises to invest in the technologies, research and innovations they require to stay in business.

As leftwing-inclined economists like Joseph Schumpeter have pointed out, the amount of profits reinvested in a company is of increasing importance, if not critical, if the enterprise is to survive and grow in a world where technological advance has become terrifyingly rapid. Simply put, without that reinvestment, competitors who have invested in the future will swamp the laggards. Jobs will be lost without new jobs being created in the enterprise in question.

There are times when wages should fall so that companies, particularly in the older industries and some of our gold mines, are able to contain costs and attempt a return to profitability. The alternative is eventual closure, perhaps staved off for a time by ill-advised State subsidies, and unemployment.

Others will claim that wages should not be allowed to fall below what is claimed to be the minimum level needed to support a family of four in a black township. What they don't say is that this level is determined usually by academic sociologists according to their own criteria. Reality is more often than not remote. As any accountant will explain, the determination of costs is the principal area of creative endeavour in his profession.

As unions increasingly face the reality of their own self-interest, they will hopefully come to realise that it is far better in the long run for them to foster enlightened employment practices in a competitive economy than attempt to use their collective strength to thwart economic reality. ■





## Well-educated staff sought by Nedbank

To meet and exceed clients' requirements, Nedbank, a member of the Nedcor group, seeks to employ well-educated people who measure up to the demands of fierce competition within the financial industry, as well as rapid advances in technology.

Nedbank is primarily an urban-based countrywide banking network committed to delivering a wide range of innovative, quality services and products to clients in clearly identified markets.

This principle of quality has been embedded in Nedbank's banking practice throughout its 101-year history to provide "simply better banking".

The commercial banking division is probably the most visible part of Nedbank's banking operations and caters mostly to the specific needs of individuals.

School-leavers who join the division usually start their careers at one of the branches in the network, typically in clerical positions.

Learner-controlled instruction training programmes, which are tailored to individual needs, are provided to all levels of staff. For those who have more specific post-matric qualifications, the division provides structured and carefully monitored accelerated learning programmes.

The corporate banking division services mainly corporate clients and provides, among other things, a comprehensive financial advisory service for projects involving development, industrial ventures, mining and other schemes.

Clients are also assisted in the purchase of capital goods such as machinery, equipment, vehicles, property and even ships and aircraft.

Other services include the development of financial scenarios, legal documentation and tax advice.

The corporate banking division relies heavily on sophisticated computers and other information technology, and has a special department which identifies and develops reliable and advanced electronic banking products to satisfy customers' needs.

Entrants to the branch network require a sound knowledge of the products offered to clients "across the counter", as well as an ability to market these successfully.

To facilitate the development of these skills, Nedbank is harnessing the computer and providing self-paced computer-based training (CBT) programmes at more than seven training centres throughout the country. CBT considerably reduces training time and increases comprehension, thus enabling staff to move into the "front line" sooner and with greater confidence.

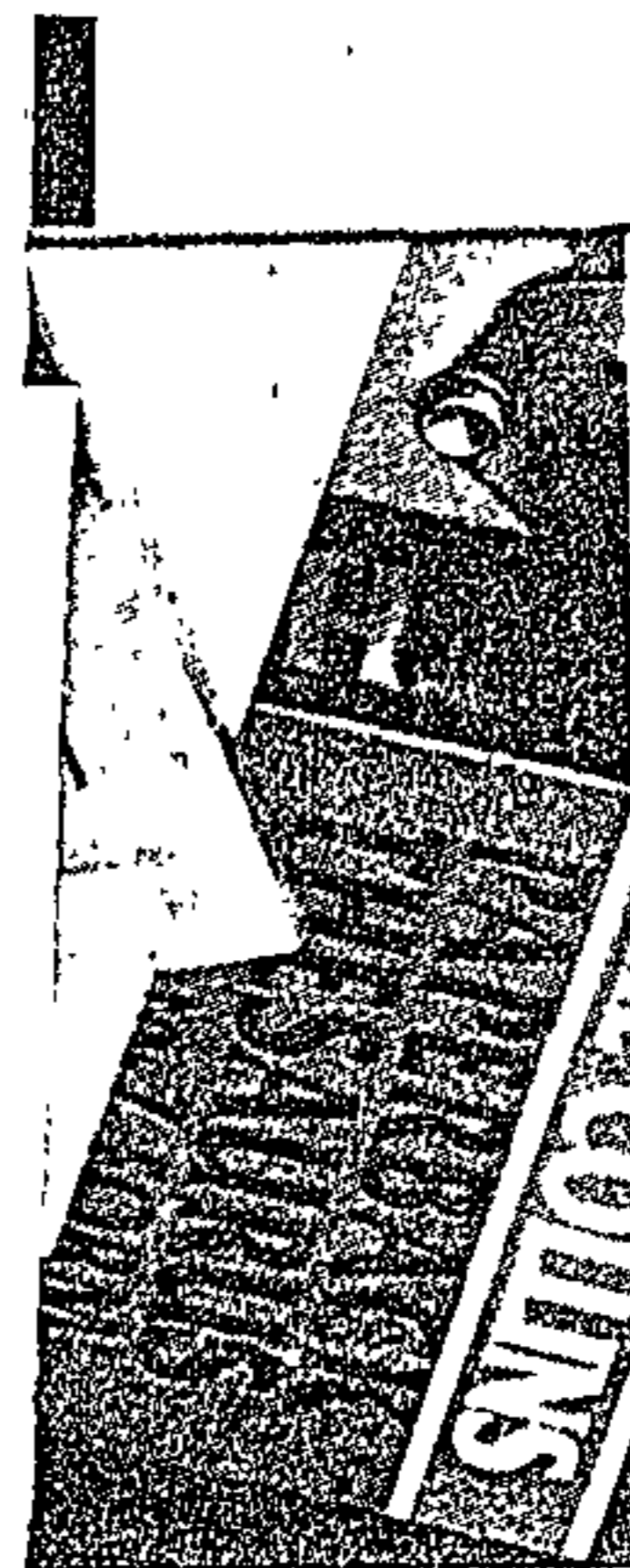
Nedbank's aim is to develop and nurture an environment in which people — and profits — can adapt to and flourish in, the competitive banking environment of the 1990s and beyond.

This will enable the bank to satisfy the ever-changing needs of its clients, confident in the knowledge that Nedbank staff are well equipped to face the challenges and demands in the decade that lies ahead.

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# Progress means more opportunities

56-27790 (58)

Staff Reporter

South African banks are playing a key role in determining the monetary policy for the country, through their ability to create money and grant credit to the private and government sectors.

Just as commercial activity in South Africa has broadened during the past 30 years, so the range of services offered by banks has widened to keep abreast of the dynamic, socio-economic developments in South Africa.

Accepting deposits and granting overdraft facilities was once their main function. Today banking has diversified so enormously that — in the face of considerable competition — it has geared itself to meet virtually all the needs of the business world.

Perhaps the most dramatic changes have come in the manner in which banks communicate and market their services. Gone are the days when a client had to come "cap in hand" to seek an overdraft. In the face of today's keen competition in the financial services sector, banks are now active marketers.

## Unpredictable

This is done through extensive advertising campaigns and on a personal basis by frontline branch management and staff, in tandem with personnel framed in the wide spectrum of specialist services, which the bank can now offer.

Banking depends on two of the most essential and unpredictable factors in our society — money and people.

The recognition of avenues of opportunity, and the development of banking staff to their full potential to meet these challenges, is the key to success. Development and expansion. Opportunities for promotion and advancement are almost limitless in a wide variety of activities for those who work with enthusiasm and integrity.

Commercial banking, of course, is not the only kind of banking. While commercial banks offer such services as cheque accounts, overdrafts, insurances and foreign exchange, merchant banks, for instance, offer

a different range of services, usually providing short or long-term capital, planning and raising finance and providing investment advice and portfolio management.

A wide range of specialised activities such as mergers, take-overs, loans, share issues and stock exchange listings, project finance, international banking services, money market services and privatisation issues are dealt with.

With the changes taking place in the country, trade-related finance is becoming more readily available and personnel are often involved in overseas travel to promote the acquisition of foreign funds for the bank's clients.

Careers are available not only in the structuring and marketing sides, but also in the administrative and support fields, such as human resources management, financial and management accounting and information systems management, as well as economics and operational research.

On the other hand, general banks perform certain specialist banking functions they grant credit to clients who wish to lease or buy assets on instalment credit or on suspensive sale (which was previously known as hire purchase).

The general banks' clients range from the man in the street to major corporations. Among the assets the banks finance are motor vehicles, caravans and boats, computers and industrial plant and equipment. Instalment credit has been recognised by the authorities, consumers, industry and commerce as a vital and integral part of modern life.

With the rapid growth of the general banking industry, leasing and instalment credit techniques have become very sophisticated. As a comparative new field, general banking is growing and diversifying, as well as responding rapidly to change and adapting to economic developments. This makes it a very challenging work environment.

The changes in the world of banking have opened an exciting range of stimulating new careers, there is something for everyone — particularly those ambitions enough to take advantage of the magnificent study opportunities virtually all banks make available.

## Looking for variety? Try merchant banks

For someone contemplating a career in banking, merchant banks offer a variety of career paths.

Rand Merchant Bank Limited (RMB) has five major income-earning divisions, staffed by personnel with a diversity of qualifications ranging on-the-job training to with doctorates. The divisions are:

**Corporate Finance**  
This division is staffed by graduates and chartered accountants interested in activities such as

qualifications and anyone wishing to become a dealer is tested and trained. **Project Finance**

This division is staffed by personnel with degrees, majoring in accounting, who have advanced skills in computer modelling and a very good knowledge of taxation.

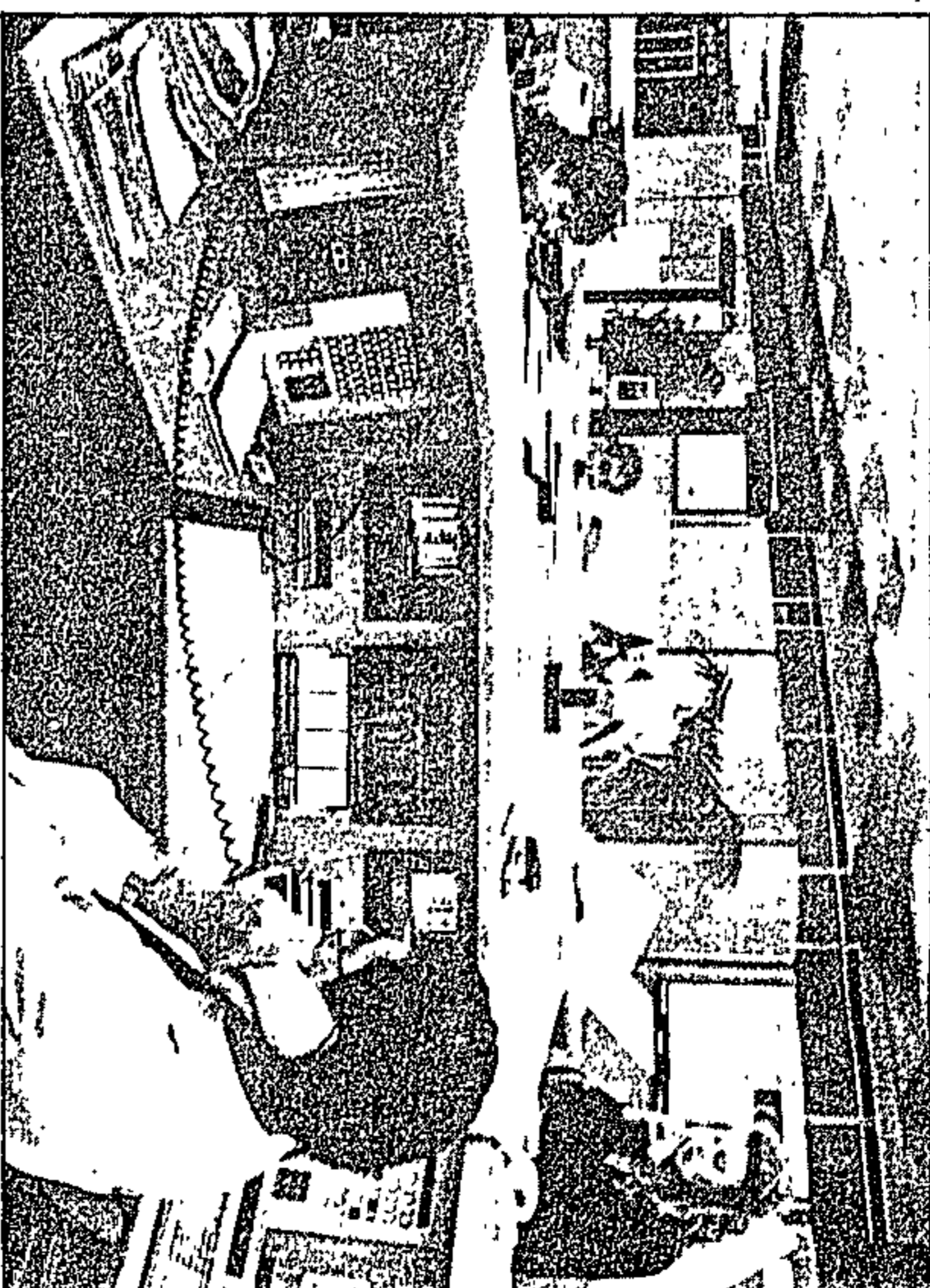
This is a most interesting division as major projects often exceeding several hundred million are financed. The ability to be in-

dealers and marketing staff who keep in constant contact with clients.

**International Division:**

RMB spends large sums on computer and human resources to ensure that this division has a technical edge. This is essential as foreign exchange trading among banks has become extremely competitive, resulting in the margins being materially reduced.

The division requires dealers and marketing personnel.



Another side of banking... Workers in the foreign exchange department of the Standard Bank.

## Industry diversifies as it grows

General banks perform certain specialist banking functions: they grant credit to clients — while commercial banks offer such services as cheque accounts, overdrafts, insurances and foreign exchange.

With the rapid growth of the general banking industry, leasing and instalment credit techniques have become very sophisticated. As a comparative new field, general banking is growing and diversifying, as well as being able to respond quickly to change, and to adapt to economic developments. This makes it a very challenging work environment.

The Association of General Banks, representing 28 general banks and finance houses, was established to protect the interests of those companies in the field of leasing and suspensive sale.

Because of the need for specialised education for people working in general banking, special examinations have been developed in conjunction with the Institute of Bankers, which handles the administration and conducts the examinations for staff employed by the general banks and finance houses.

The business interests of the association's members are very varied, and therefore staff needs vary widely too. There are opportunities for school leavers, graduates and diploma holders who may have no previous experience. There are challenges for people who have experience in related fields such as commercial banking, insurance, the motor industry, the building societies and many other areas.

Salaries depend on experience, qualifications and performance, but the general banks normally pay competitive salaries.

General banks and finance houses have a high commitment to staff training and development, and staff are actively encouraged to study.

There is also in-house training, and staff are encouraged to attend seminars, courses, lectures, study groups or pre-examination revision courses.

The certificate and diploma examinations conducted by the Institute of Bankers are for students wishing to specialise in general banking. Although many of the subjects are "common" to all the institute's courses, there are three specialist subjects for general banks — they are Instalment Credit, Credit Law and Financial Method.

There are several overseas "banking schools" and special industry seminars and short courses which are relevant to the work of the members of the association.

To be able to work with figures is important. Bankers should be able to work under pressure and should be able to make quick and accurate decisions on behalf of the bank.

A Senior Certificate is required. For those who wish to specialise in monetary matters, Mathematics is essential. Matriculation exemption is required for entry to a degree course at university.

Thorough in-service training is provided in both general banking procedures and specialised services. The major banks have their own training colleges where theoretical and practical training is provided.

The Institute of Bankers offers facilities for training for a Certificate in Banking, as well as the Banker's Diploma Course and the Trustee Diploma Course. These courses are offered on behalf of the banks by The Rapid Results College and the School of Banking and can be studied by means of correspondence courses. Those candidates who do not wish to study by correspondence may do so extra-murally at a technikon or university.





# Little good seen in institutional buy-out of agents

By Frank Jeans

Despite high bond rates and building costs and the ever-widening affordability gap, the Natal Building Society is having a boom time in lending.

After a record run last year, the society's loan balances for the first quarter again hit new highs.

Trevor Olivier, NBS assistant general manager, loans, says no single sector has been responsible for the rapid growth.

"What is particularly gratifying is that, despite the attempts of certain financial institutions to corner the market by linking with estate agencies, it is obvious that many people are exercising their freedom of choice about which financial institution they wish to deal with," he says.

"The idea that home buyers are forced to deal with a particular financial institution because of a link with an estate agent or group is a position which the NBS opposes.

"Our latest results prove that this course of action coincides with the fact that responsible South Africans do not like being told where to put their business."

Outright purchase of estate agencies by banks and building societies could be disastrous, says Mr Scott McRae, MD of a leading real estate group, Camden's Nationwide.

Any move by institutions to set up their own field forces of agents could be equally problematic.

"On the other hand," says Mr McRae, "there are considerable benefits for all concerned if institutions acquire only a minority stake in agencies and leave the management intact."

## IN TANDEM

"The major financial backing of institutions should work in tandem with the hard-driving, estate agency's market sense and professionalism."

He sees the suggestion of institutional involvement, particularly in today's highly competitive market, as understandable insofar as finance houses want to gain access to a captive market to promote financial services.

"Hence, the institutional interest in taking a direct stake in selected agencies.

"However, that stake should be a financial one only, leaving the incumbent team to manage affairs," he says.

Mr McRae believes the partnership of bank or building society and estate agent would work extremely well, with the institution providing the financial muscle and the agency the marketing expertise and access to a client base built up over the years.

"The British property market is in disarray because of institutions taking control of estate agencies and attempting to manage them," he says.

"The agent of the Nineties is a highly motivated individual with an in-depth understanding of the nuances of the market.

"His particular kind of knowhow is simply non-existent, for the most part, in the larger institutions.

It would be fatal for institutions to try to call the shots when it comes to marketing of property."

## Reports of

### SOUTH ROODEP AREAS

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#### OPERATING RESULTS

One millid - tons	
Gold recovered - kilograms	
Yield - grams per ton milled	
Revenue - per ton milled	
Working costs - per ton milled	
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Working costs - per kilogram	

#### FINANCIAL RESULTS (R000)

Revenue from gold and silver	
Working costs	
Working profit	
Sundry revenue	
Operating profit	
Net interest paid	
Net profit before taxation	
Taxation	
Net profit after taxation	
Capital expenditure	
Available for distribution	

#### DEVELOPMENT

Ventersdorp Contact Reef	
Advanced - metres	
Sampled - metres	
Payable - metres	
Channel width - centimetres	
Average value - grams per ton	
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Main Reef	
Advanced - metres	
Opening up - metres	
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Payable - metres	
Channel width - centimetres	
Average value - grams per ton	
- centimetre grams per ton	
South Reef	
Advanced - metres	
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CAPITAL EXPENDITURE  
The unexpected balance of cash on the board at 30 June 1990 was

# Relief on high interest rates likely by year-end

The end of high interest rates is in sight, says Southern Life economist Mike Daly. Writing in the group's latest Economic Comment he says relief on this front should be seen in the fourth quarter.

"Trading conditions have now become increasingly difficult with turnovers falling sharply in an environment where the high cost of borrowing is hitting both the corporate sector and the consumer buying on credit."

Mr Daly points out that with the intense fears and expectations that naturally accompany a historic political negotiation process as is currently under way, widespread job destruction cannot be afforded.

He points out, however, the decline of the gold price is a major cause for

concern, given the outlook for slower overseas economic growth and probably static non-gold export performance.

The consequent drop in exports would mean that import volumes would have to fall more steeply than appeared necessary earlier in the year if the desired build-up in foreign exchange reserves is to be achieved.

Therefore a more rapid cooling of domestic demand conditions would be needed, involving a higher level of short-term interest rates than otherwise would have been the case.

However, he still believes that the first cut in the bank rate will take place in the fourth quarter and would be about one percentage point.

Sytrets Managed Assets (SMA) econ-

omist Elmien de Kock, cautions that the half-year trade figures, which reflect a 43.3 percent increase after the June surplus of R1.54 billion (R1.08 billion), are not an occasion to anticipate any immediate relaxation in the tough controls imposed on the economy.

She warns that it remains essential that substantial trade surpluses continue to be achieved in the months ahead in order to boost foreign exchange reserves to the levels necessary where some easing of restrictive monetary policy can be considered.

"This is not going to be easy. A slowdown in international economic activity is expected over the remainder of 1990 and this implies lower export volumes.

The gold price remains lacklustre and commodity prices in general are expected to continue weakening, so little material relief is likely from this quarter", she adds.

"At the same time the terms of trade have been deteriorating which means that more goods must be exported to pay for the same volume of imports. It will, therefore, require an even sharper fall in the level of imports to compensate for that continued deterioration."

The conditions do not necessarily imply, however, that nominal interest rates cannot come down — in line with falling inflation — in order to ensure that real interest rates will be maintained. — Sapa.



# Development programme launched by Nedbank

Star 27/7/90



Nedbank has established a corporate banking development programme in co-operation with the University of Pretoria's Business School.

This development for prospective employees will help them upgrade and fine-tune their knowledge of legal, economic, tax and other aspects, which affect the profitable and effective provision of corporate banking services.

Consistent with its desire to satisfy a complete spectrum of customer requirements, Nedbank has an international banking division which concentrates on enabling customers to expand their global activities.

## Credit financing

Among the numerous and sophisticated products provided by this division are export credit financing and the arranging of self-liquidating trade lines linked up to the movement of goods.

The division maintains close links with a network of correspondent banks, and also operates in a number of overseas representative offices such as London, Hong Kong and New York.

It offers many exciting career opportunities, not least because of promising political and economic developments in southern Africa.

Considerable trade opportunities are

likely to unfold as relationships with countries in the region improve.

Nedbank's specialised banking operations enable it to offer a wide range of focused services, including investment banking, business-related travel services, property, financing, factoring, debtor administration and import/export facilities.

Nedbank also has a number of head office units, such as marketing, human resources, legal services, accounting, information technology and other support divisions.

The bank recognises that the success of the organisation will be determined by the quality of its staff, and is pledged to continuously expand and refine the training and development of all its personnel.

To enable all staffers, irrespective of race, colour and creed, to develop their knowledge and skills, Nedbank provides a wide variety of training and development programmes at all levels.

More than 11 000 employees passed through training courses in the past financial year.

With an eye on the future, Nedbank is constantly refining its training and development efforts.



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Staff Reporter  
27/7/90 (38)

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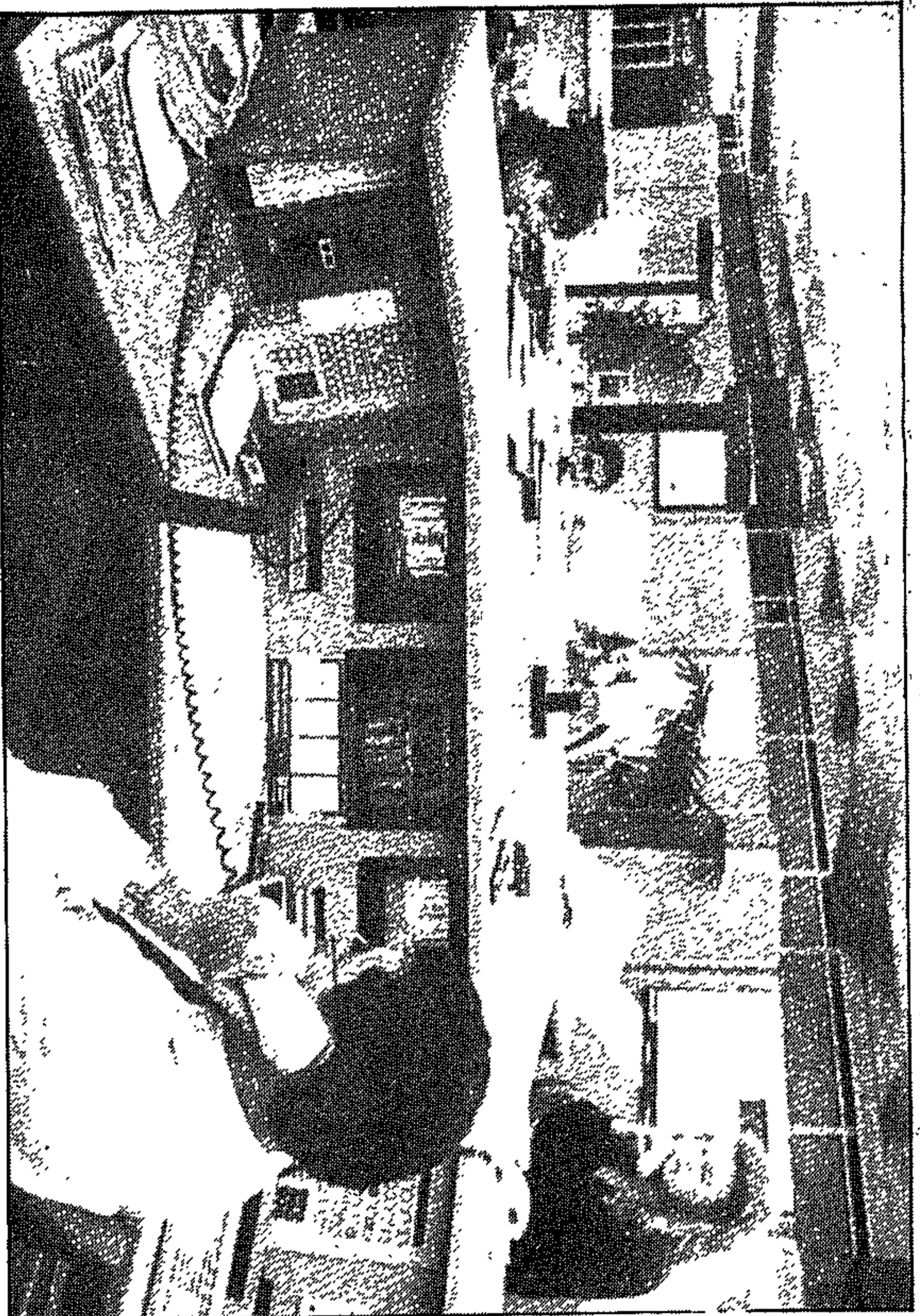
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## Corporate Finance

This division is staffed by graduates and chartered accountants interested in activities such as mergers, acquisitions, corporate restructuring, rights offers and the listing of companies on the Stock Exchange.

Investment Banking is another area to which the division devotes time.

## Capital Market

RMB is a major participant in the physical gilt market with an annual turnover of more than R100 billion. It pioneered the development of the derivative financial instruments market in South Africa.

The division is staffed by dealers who are able to operate under great stress when the markets are volatile. Dealers tend to have different backgrounds and

qualifications and anyone wishing to become a dealer is tested and trained. *Stn 27/7/90 (58)*

## Project Finance

This division is staffed by personnel with degrees, majoring in accounting, who have advanced skills in computer modelling and a very good knowledge of taxation.

This is a most interesting division as major projects often exceeding several hundred million are financed. The ability to be innovative and to develop structures which will minimise the cost of financing projects is an essential prerequisite.

## Treasury and Advances

This division could be described as the boiler room of a merchant bank, particularly an independent merchant bank such as RMB. Its function is to raise deposits for the bank. These funds will in turn be used to make advances to clients and to provide finance to the project finance division, corporate finance for investment banking deals and special projects. The funds raised are the essential element needed to turn innovative ideas into deals.

The division employs several

dealers and marketing staff who keep in constant contact with clients.

## International Division:

RMB spends large sums on computer and human resources to ensure that this division has a technical edge. This is essential as foreign exchange trading among banks has become extremely competitive, resulting in the margins being materially reduced.

The division requires dealers and marketing personnel.

## Special Projects

The special projects division was formed to handle ad hoc assignments and to take responsibility for the development and implementation of new products in conjunction with the other specialist divisions within the bank. The division is active in structuring transactions outside the scope of conventional banking.

## Technical Development

The technical development division, although not a profit centre, is an essential division which by developing sophisticated computer programmes and state-of-the-art financial concepts ensures that RMB remains innovative and competitive.



**DEPARTEMENT VAN BUITELANDSE  
SAKE**

No. 1739 27 Julie 1990

**GELOOFSBRIEFOORHANDIGING**

Hierby word bekendgemaak dat Sy Eksellensie mnr. Nelson Thompson Mizere op Dinsdag, 26 Junie 1990, by Die Presidensie, Pretoria, deur die Staatspresident ontvang is en dat hy by daardie geleentheid sy Geloofsbrief as Buitengewone en Gevolmagtigde Ambassadeur van die Republiek Malawi in die Republiek van Suid-Afrika oorhandig het.

(72/158/1)

No. 1740 27 Julie 1990

**GELOOFSBRIEFOORHANDIGING**

Hierby word bekendgemaak dat mnr. Marinus Leonard te Water Naudé op Dinsdag, 3 Julie 1990, deur die Groothertog van Luxemburg ontvang is en dat hy by daardie geleentheid sy Geloofsbrief as Buitengewone en Gevolmagtigde Ambassadeur van die Republiek van Suid-Afrika in die Groothertogdom Luxemburg oorhandig het.

(4/2/103)

**DEPARTEMENT VAN FINANSIES**

No. 1729 27 Julie 1990

**RENTEKOERS VAN TOEPASSING OP  
STAATSLENINGS**

Hierby word bekengemaak dat die Minister van Finansies ingevolge artikel 26 (1) van die Skatkiswet, 1975 (Wet No. 66 van 1975), die standaardrentekoers van toepassing vanaf 1 Augustus 1990, en tot nadere kennisgewing, op lenings deur die Staat toegestaan uit die Staatsinkomstefonds op sestien komma sewe vyf persent (16,75%) per jaar vasgestel het.

Bogenoemde standaardrentekoers is van toepassing vanaf 1 Augustus 1990 en tot nadere kennisgewing, op alle trekkings van lenings uit staatsgelde, uitgesonderd lenings ten opsigte waarvan ander rentekoerse spesifiek deur wetgewing of die Minister van Finansies gemagtig is.

**DEPARTMENT OF FOREIGN  
AFFAIRS**

No. 1739 27 July 1990

**PRESENTATION OF CREDENTIAL**

It is hereby notified that His Excellency Mr Nelson Thompson Mizere was received by the State President at The Presidensie, Pretoria, on Tuesday, 26 June 1990, on which occasion he presented his Letter of Credence as Ambassador Extraordinary and Plenipotentiary of the Republic of Malawi to the Republic of South Africa.

(72/158/1)

No. 1740 27 July 1990

**PRESENTATION OF CREDENTIALS**

It is hereby notified that Mr Marinus Leonard te Water Naudé was received by the Grand Duke of Luxembourg, on Tuesday, 3 July 1990, on which occasion he presented his Letter of Credence as Ambassador Extraordinary and Plenipotentiary of the Republic of South Africa to the Grand Duchy of Luxembourg.

(4/2/103)

**DEPARTMENT OF FINANCE**

No. 1729 27 July 1990

**RATE OF INTEREST ON GOVERNMENT  
LOANS**

It is hereby notified that the Minister of Finance has in terms of section 26 (1) of the Exchequer Act, 1975 (Act No. 66 of 1975), fixed the standard interest rate applicable from 1 August 1990, and until further notice, to loans granted by the State out of the State Revenue Fund at sixteen comma seven five per cent (16,75%) per annum.

The above-mentioned standard interest rate is applicable from 1 August 1990, and until further notice, to all drawings of loans from State moneys, except loans in respect of which rate of interest are specifically authorised by legislation or the Minister of Finance.

# Bank robberies: 3 in row

By Craig Kotze

Three banks were robbed in Johannesburg and the East Rand in rapid succession yesterday — two of them possibly carried out by the same gang, police said.

A security guard from Fidelity Guards was injured in one hold-up.

The first robbery was at 9.20 am when gunmen stormed into a Volkskas Bank in Van Riebeeck Street, Edenvale.

They held up Fidelity Guards employees and grabbed cash. One of the guards was injured but police did not have details at the time of going to press.

The gang escaped in a cream-coloured BMW, registration HGF 637T.

At 10.15 am, five gunmen held up staff and clients at the First National Bank in Boksburg North and grabbed cash.

They escaped in a white BMW without number plates. Ten minutes later, another

gang of five gunmen held up another FNB branch, on the corner of Bree and Rissik streets in Johannesburg.

They took cash and fled in a white BMW, also without registration plates.

A police spokesman said detectives would investigate to see whether the two FNB raids were linked.

● Johannesburg traffic police this morning arrested four suspects who allegedly planned to rob a garage in Jeppe, but were thwarted because it opened late.



**Activities:** General bank; provides comprehensive range of banking and trust services.  
**Control:** No shareholder owns more than 9,9%.

**Chairman:** P P B Hugo; **MD:** G Z Liebenberg.  
**Capital structure:** 13,45m ord. Market capitalisation: R56m.

**Share market:** Price: 415c. Yields: 11,1% on dividend; 26,7% on earnings; p:e ratio, 3,7; cover, 2,4. 12-month high, 450c; low, 370c. Trading volume last quarter, 200 270 shares.

Year to Mar 31	'87	'88	'89	'90
Total deposits (Rm)	1 308	1 558	2 166	2 811
Total assets (Rm)	1 478	1 770	2 423	3 057
Taxed profit (Rm)	8,4	11,7	13,6	14,9
Earnings (c)	124	87	101,4	110,8
Dividends (c)	40	42	46	46
Net worth (c)	1 096	752	848	917

tain the present level of profitability in the new financial year." This is simply not good enough. If EPS in 1991 are again about 110c it means that no value has been added.

In this overbanked sector, and in the economy as a whole, there is a desperate and urgent need to increase productivity at all levels. If Boland Bank, or for that matter any other enterprise, cannot add value to the services it provides and come out showing increasing earnings that at the very least equate with inflation, its existence is either threatened or not necessary. Small wonder that it stands on a p:e of 3,7 when the average for the sector is 6,9. *Gerald Hirshon*

**BOLAND BANK FIM 277790**

**As we were (58)**

**Boland Bank** is displaying a marked similarity to a hibernating tortoise. And only the tortoise itself knows what is going on in the shell.

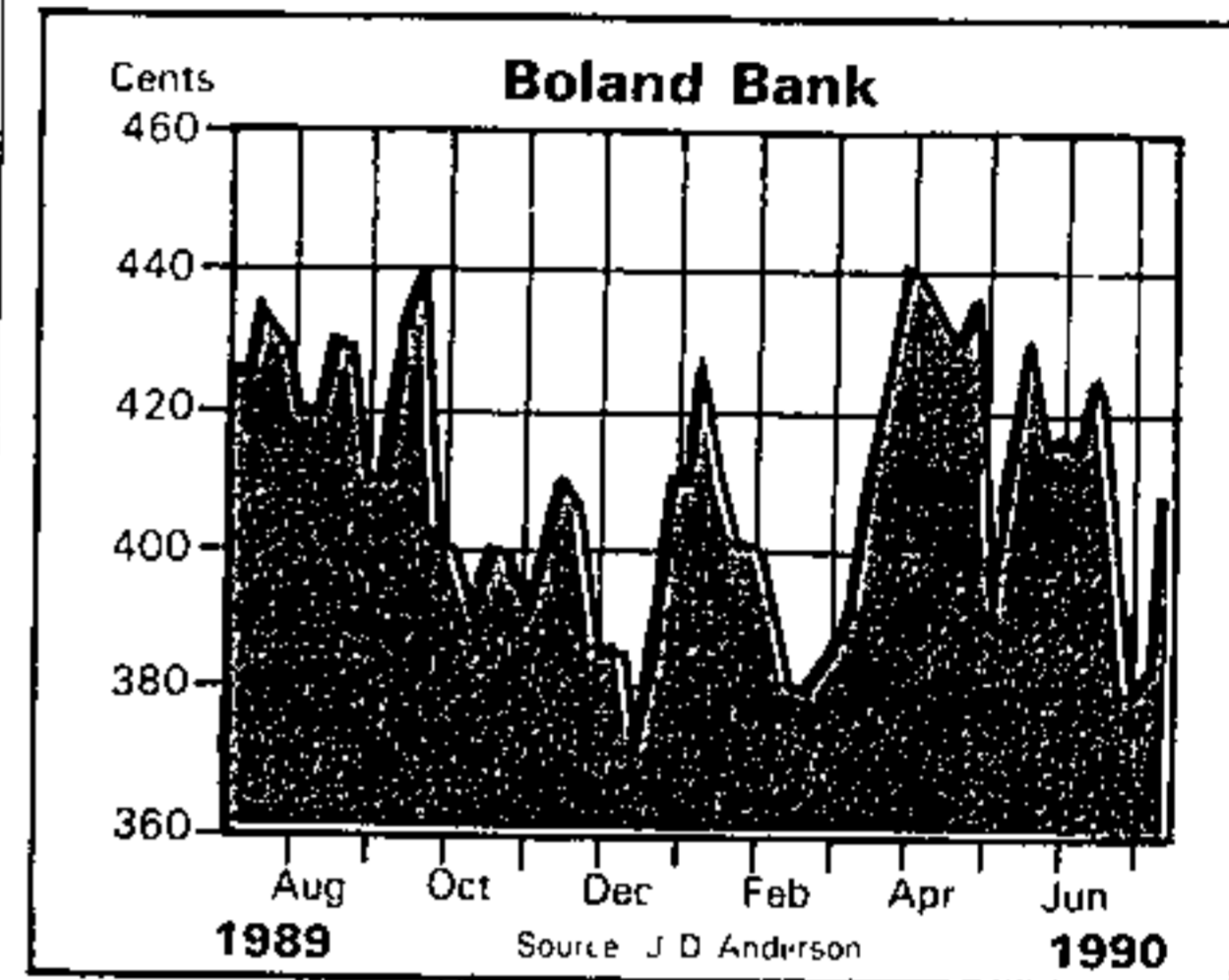
Earnings have shown no growth (let alone real growth) over the past five years and the last financial year's 110,8c EPS are scarcely more than the 110c reported for 1985.

Granted, dividends a share have increased from 37c in 1985 to the most recent year's 46c, which is unchanged on fiscal 1989. But, on a compound basis this represents a mere 4,5% annual growth — still a substantial negative in real terms. The only element in the bank's results that shows some growth for a shareholder is "capital and general reserve." This shows compound growth of 15% a year over the five-year period, indicating it has about kept pace with inflation.

Any further attempt at analysing the bank's performance is frustrated by lack of disclosure. There was a time when Boland at least showed how much was being transferred to inner reserves, but not for the past two years. Chairman Pietman Hugo's report, while it is splendidly articulate about SA's political and economic state, says virtually nothing about what Boland actually did last year. It's about time directors opened up and started disclosing divisional performances along with pre-tax revenues, tax payments, bad debt provisions, interest costs and inter-

est income.

There are, however, two encouraging points in the annual report. First, total assets increased over the year by 26,2% to reach R3,06bn. Second, total deposits jumped by



29,8% to R2,81bn.

Hugo says he and his directors "are confident that the bank group will at least main-

# Union hits out at FNB

THE First National Bank has come under attack for allegedly discriminating against their "less privileged and unsophisticated" clients living in the black townships.

The attack, made this week by the the National Black Consumer Union, came after it was revealed that the bank's Dube, Soweto, branch charges clients R2 for every withdrawal on savings ac-

## over R2 charge

58

Soweto 27/7/90

counts in cases where balances do not exceed R200.

An investigation by *Consumer Corner*, however, revealed that most

FNB branches in the Johannesburg central business district charge the minimum fee of R1 set down by the bank.

The manager of the

Dube branch, Mr LH Trim, confirmed this.

He said, however, the manager had a discretion to charge whatever amount he deemed fit.

Consumer

By SY MAKARINGE

Corner



"It's a costly situation to process transactions. We feel R2 is a reasonable amount. However, we look at pensioners in a different light, depending on how small their balances are," Trim said.

The president of the National Black Consumer Union, Mrs Nonia Rampumana, said it was unfair for the bank to charge so much when one took into account the fact that many people who used the bank's facilities in the townships were either unemployed or pensioners.

"As we all know, black pensioners earn below R200 a month. First National is not showing sympathy towards our pensioners by charging them far more than their white counterparts whose pensions are higher than those of our people."

### Answer

"Soweto also has a high rate of unemployment. To charge these people more is unfair," she said.

In its official response, FNB said the reason for the charge was to discourage high volumes of withdrawals on "book based" savings accounts because of the high administrative costs involved.

Mr Brent Chalmers, head of the bank's communications department, said the minimum charge set down by the bank was R1 a transaction.

The charge could be increased at the discretion of the branch manager.

He said this depended on the number of low-balance high-volume accounts kept at the branch. There were some branches in the Free State where the charge was R5.

# Eskom's housing subsidy programme is privatised

B / Jan 27 1990

58 123 260  
CHARLOTTE MATHEWS

ESKOM has formed a joint financing company with some major financial institutions to administer its R1bn mortgage subsidy scheme for employees.

Properties development manager Banie van Vollenhoven said in an interview that the Eskom Finance Company (EFC) had been formed from five separate corporations or syndications each holding a 20% share in the company.

These were Eskom, Nedperm, and The Standard Bank as separate entities and two syndicates.

Natal Building Society, Rand Merchant Bank and First National Bank have formed one syndicate and the United Building Society, Volkskas and Saambou have formed the other.

EFC raised funds from the capital and money markets directly and was not tied to the present average bond rate of 20,75%.

"If, for example, the cost of raising funds in the capital and money markets is on average 19%, Eskom need not subsidise its employees' bonds at 20,75%, using this structure," Van Vollenhoven explained.

The administration of EFC's bonds was put out to tender because Eskom wished to retain the professional services of a building society in dealing with its employees' bonds.

The United Building Society tendered successfully and on March 1 set up an

office inside Megawatt Park which is called the Eskom Loan Administration Bureau (ELAB).

The United received a fee based on the services it was called upon to perform.

UBS credit GM Piet Kruger said the services included not only administration but valuations and legal services.

He would not put a figure on the contribution the fee income would make to the UBS on an annual basis.

## Savings

Van Vollenhoven said the rationale behind setting up EFC was the saving Eskom would derive from reduced subsidies, the savings on duplication of services, simplification of services to employees, and a tax reduction to employees because of the lower subsidies.

He said the savings to Eskom were difficult to calculate because there were now far more loans than a year ago.

"The difference between interest rates of 20,75% and around 19,5% is the saving to us," he said.

Eskom is now transferring — with the consent of individuals — about 14 000 bonds. Officials hoped to complete the process by the end of November.



6/2 Aug 27 1990  
**Assurers**

## 'not invited'

LINDA ENSOR (58)

THE life industry was not lobbying for retirement annuities to be incorporated into the system of withholding tax on interest, Life Offices Association (LOA) chairman Dorian Wharton-Hood said in a statement yesterday.

Responding to comments by Deputy Finance Minister Org Marais on the issue, Wharton-Hood said the LOA wished to have voluntary immediate annuity business included, and not annuities emanating from pension and retirement annuity funds.

Wharton-Hood said the LOA had made strong representations to Marais to be included in the discussions.

"We are accordingly disappointed to see that he is not proposing to include the life insurers in his meetings with banks and building societies before the end of August."

# Eskom's triple-A bond rating marks historic SA first

Blom 27790

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200

ROBERT GENTLE

**ELECTRICITY** giant Eskom, widely regarded in the market as a blue-chip state corporation, has been awarded a triple-A rating by local rating agency Republic Ratings.

Seven of Eskom's gilt issues were also rated AAA. An eighth, the actively traded and liquid E-168, was rated AAA+.

This development, announced by Republic on Friday, means Eskom is the first SA company to receive such a rating. It will almost certainly serve as a benchmark for subsequent ratings.

Overseas, agencies like Moody's and Standard & Poor routinely rate both companies and debt issues. The ratings are often used by investors as a basis for investment decisions.

The Eskom rating was welcomed by the Reserve Bank and by those in corporate treasury circles as a positive development on the road to a more sophisticated financial market.

A Reserve Bank spokesman, echoing the sentiments of a spokesman from Discount House of SA, said: "We would like to see the concept of ratings gain momentum. It creates an additional measure of prudence in the market and is a good example of self-regulation."

Republic's executive director Gideon van Rhyn said a number of other important public and private sector companies had also requested ratings for their debt issues.

Eskom Finance GM Mike Davis said the ratings would provide overseas investors with an additional tool with which to judge the merits of different SA debt issues.

"Without rating agencies, the SA financial markets will never reach a level of maturity," he said.

On the fact that the rating was AAA, Davis said this came as no surprise and merely confirmed Eskom's standing in the market.

Marilyn Visser, gilt trader at stockbroking firm Simpson McKie, agreed. "It was to be expected," she said.

## Subscribers

The consensus among those canvassed for reaction was that the Eskom rating will force other companies with a good reputation in the market to get themselves and/or their commercial paper rated, so giving them the edge over non-rated companies and/or non-rated paper.

Republic's monthly ratings bulletin is released to local subscribers — mostly banks and corporates — and to a handful of key banks in Europe.

Van Rhyn said that response to Republic in the market had been very encouraging, and that more staff were to be taken on next month to handle the increased business.

## COMPANIES

# Masterbond's masterful results

MASTERBOND Trust's group MD Johann Brits says the group is confident that assets under control — which improved from R186m to R532m in the year to end-February — will reach the R1bn mark in the current financial year.

In the latest annual report Brits says Masterbond had achieved substantial growth for the sixth consecutive year with group pre-tax profits doubling to R2m.

Pre-tax profit is expect-

MANDY JEAN WOODS

ed to double again to R4m in the year to February 1991, Brits said.

The group's financial services saw funds under its administration increase by more than 200% to R496m, he said.

"The performance of the past year is particularly noteworthy in view of the slow-down in the SA economy," he said.

Much of the group's success could be attributed to

a policy of diversifying within the areas in which it is already strong — property development and financial services.

"With its strong financial services arm the company is well placed to take advantage of the high interest rates that exist in the market at present.

"Although it is expected that the economy will decline further during the coming year, the group should not be adversely affected," Brits said.

# Wassall considers its Metaclo offer options

UK-BASED Wassall plc has firmly denied SA speculation that it will be making a renewed offer to buy-out minorities in packaging group Metal Closures SA (Metaclo).

Speaking from London yesterday Wassall group CE Christopher Miller said that while there were a number of options still open to it, no definite decision had yet been taken on either making a revised bid or not.

"At the moment we are doing nothing," he said, adding that any renewed offer would not necessarily be handled the same way.

Wassall is the parent group of Metal Closures UK, which controls 77% of Metaclo.

Miller said to put a value on any potential new bid would be premature. But a market source said yesterday any new offer would have to be "substantially higher" than Metal Closures' last one of R23,50 — opposed by minority interests

represented by stockbrokers Martin & Co, Anglo American, and the Mine Employees and Mine Officials pension funds — as too low.

After the matter was taken to court, and based on advice from its legal advisers Webber Wentzel, Wassall stepped down from the bid, ostensibly to "avoid lengthy and expensive litigation".

## Options

A source at Metaclo said it was conceivable that another offer could be in the air because of the strategic importance that the SA operations had to its UK parent, and especially to Wassall.

For the past financial year Metaclo contributed more than 70% to the taxed profits of Metal Closures UK.

Miller would say only that the group was considering its options and was playing its cards close to its chest.

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# Unit trust payouts grow by the year

UNIT trusts are well known for their high level of capital appreciation in recent years. However, less well known is that they have also done extremely well in boosting the payments they make to their unit holders.

An analysis of the payments made by the general unit trusts in the 12 months ended June shows that the one from Norwich NBS was 74.3 percent higher than in the previous year. The payment from Mo-

DEREK TOMMEY (58)

Momentum was 53.3 percent higher and that from Norwich Hallmark was 47.7 percent higher.

The following table shows the payments made by the general unit trusts in the 12 months ended June, the payments made in the previous 12 months and the percentage change.

Momentum: 11,05c (7,21c) 53.3 percent.	Guardbank: 86,60c (65,51c) 32.2 percent.
Norwich Hallmark: 48,74c (33,0c) 47.7 percent.	Sanlam Index: 41,4c (32,6c) 27.0 percent.
Sygro: 8,37c (5,74c) 45.8 percent.	Sanlam: 57,9c (50,40c) 14.9 percent.
UAL: 88,65c (61,23c) 44.8 percent.	Metfund: 7,94c (7,73c) 2.7 percent.
Sage: 88,57c (64,50c) 37.3 percent.	(Metfund's figures are distorted owing to it being highly liquid when it was started in 1988 which resulted in it earning substantial interest payments. These inflated the 1988-89 payments.
Standard Mutual: 61,93c (45,61c) 35.8 percent.	
Old Mutual: 105,73c (78,41c) 34.8 percent.	

# 'ANC' bank likely for early 1991

CMT  
Tanks  
28/7/90

Political Staff

A DEVELOPMENT bank, with an initial capitalisation of R12,5 billion, could be established at the beginning of next year after Mr Nelson Mandela's tour to the United States, the ANC's international affairs director, Mr Thabo Mbeki, said yesterday.

One of the Britain's biggest merchant banks had also asked for further discussions with Mr Mandela, he said in an interview published in New Nation.

The international business community was very keen that there should be an understanding between the ANC and itself because what happened to its investment would be determined in part by what the ANC said.

"There is therefore the acceptance of the centrality of the ANC, not just in the processes today, but also in the future of South Africa," Mr Mbeki said.

Sanctions could not be imposed if there was "a kind of joint administration of the country" in the transitional period because the democratic forces would be involved.

The ANC, the government and other forces would be able to say they had arrived at a point when profound and irreversible changes had taken place that sanctions could be lifted.

# Cheap housing threats

By DON ROBERTSON

LOW-COST home builders are reeling after the Government's decision to cut housing subsidies to first-time buyers and because of a bond boycott.

The position could worsen next month when the State withdraws its support for black local authorities. (S8)

If arrear rentals as a result of the rent boycott are written off, bond payers could demand similar consideration. Sit was 291770

Denis Creighton, general manager of the SA Perm's housing division, says: "We have some specific situations where there have been bond repayment boycotts. This has often been because of dissatisfaction with the home and not necessarily a political stance."

But home builders warn that the industry could collapse.

Time Housing managing director Mike Graham says: "Most developers are either at a break-even point or are accumulating losses. They are cutting back on skilled staff and reducing branch networks."



By Derek Tommey

The Johannesburg Stock Exchange should not be seriously affected in the short term by the proposed changes in the taxing of personal savings, and should benefit in the long run, says Econometrix, an economic research organisation which analyses economic and business trends.

The Government is proposing putting a 10 percent to 15 percent withholding tax on interest paid to individuals by building societies and banks.

This will replace the present system of taxing these payments in the hands of the recipients and should result in considerable tax savings for most savers.

It is expected to lead to a slow-down in the amount of funds being invested in life insurance policies, shares and unit trusts.

Econometrix says the potential diversion of funds from equity-re-

# Withholding tax has long-term benefits

Star 30/7/90 (100) (58)

lated investments to bank or building society savings accounts as a result of this new form of tax is an unknown factor.

But it could possibly be substantial in the case of new investment.

It points out that the financial institutions are responsible for 85 percent to 90 percent of equity investment.

Moreover, most of these funds are not derived from new contractual investments, but from cash flows generated by their vast assets. These will not be affected by a withholding tax.

The diversion of savings from equity-linked investments to the

banks and building societies will help redress the imbalance in the savings structure, says Econometrix.

This imbalance has diverted savings from vital fixed investment and social projects such as housing, construction and plant and machinery.

This has been detrimental to the real economy and job creation.

By restoring the savings balance, the economy's overall growth might be enhanced and assist rather than harm the life insurance industry and the JSE in the long term.





Metal workers -  
who will lead  
them on the  
East Rand?



## Cenprop's earnings improve

Both Cenprop Fund and Capital Property Fund have reported improved earnings for the six months to June.

Cenprop's net distributable income was R17,9 million (R13,094 million in the same period last year). Capital's distributable income was R12,856 million (R11,478 million).

Cenprop says that after the recent rights issue it has declared a total interim dividend for the period of 12,36c per unit (9,61c), an increase of 29 percent.

After completion of projects currently under way, the fund will have R17 million available for investment.

Capital has declared a dividend of 13,94c (12,43c last year).

After purchases now in the pipeline, the fund will have about R12 million available for investment.

— Sapa.



# Banks to be forced to open their books

B/001 30/7/90

58

SA BANKS, some of which are notorious for disclosing scant information in their annual financial statements, are to be compelled to meet set criteria for disclosure.

An SA Institute of Chartered Accountants (SAICA) special committee is probing the issue with a view to drawing up principles for banks' accounts. These principles are to form part of the Generally Accepted Accounting Principles (GAAP), which have until now not applied to banks.

KPMG Aiken & Peat banks' expert Tim Bashall said: "I expect SA will follow the international criteria on banks' accounts. That means strong emphasis on greater disclosure, even to the extent of providing figures for interest rate mismatches."

However, it was not likely that the size of banks' hidden reserves would ever become public knowledge.

Analysts agree Bankorp is the worst culprit in the banking sector when it comes to keeping some key figures secret. While there has been a move among the banks themselves to greater disclosure, Bankorp is not expected to join the trend in the short-term by providing much more than the current "one line" in its income statement.

GRETA STEYN

Too little information on the bad debt situation and the tax paid makes analysis of Bankorp's accounts difficult, analysts say — leaving the investing public in doubt as to the true state of the group's affairs.

Ed Hern, Rudolph analyst Alan McConochie said: "Disclosure has been an issue in the banking industry as banks have to keep their depositors as well as their shareholders happy. Fuller disclosure might please investors but could worry depositors unnecessarily."

Of the building societies, analysts mentioned the Allied and Saambou as those that should provide their shareholders with more detail. Scant information provided on bad debts clouded assessment of published profits, they said.

By contrast, the NBS disclosed a 127% increase in its general debt provision — while announcing a 30% rise in profits in the last financial year. The building society group's profit performance is clearly all the more impressive against the background of such a huge jump in the provision for bad debts.

Banks and societies can "play around"

□ To Page 2

## Open books

B/001 30/7/90

with the general debt provision, depending on the profits they want to announce. The Allied announced a similar rise in profits, but kept back information on its provision for bad debts.

First National Bank (FNB) is generally regarded as the shining example in the sector. But the bank has indicated it wants to improve its level of disclosure ahead of the new GAAP for banks by disclosing the maturities of borrowings and lendings.

58

□ From Page 1

Martin & Co's Richard Jesse noted the Standard and FNB had a tradition of fuller disclosure because of their international parentage. He said the SAICA committee would do well to draw heavily on international standards. He noted that in terms of the new Deposit-Taking Institutions Act, hidden reserves would form part of secondary capital (and not primary) for calculation of capital adequacy. This was a clear move to discourage banks from keeping secret reserves, he said.

# Watch those debts . . . you could up end in jail

Dec 30/7190

(58) (2)

Creditors are generally not anxious to go to law for the recovery of money owing them because of the legal costs involved.

Any reasonable approach from a debtor in response to a demand would usually be acceptable to a creditor.

If you are in debt, don't wait for a summons. When you receive a letter of demand get in touch immediately with the creditor or his attorney to make arrangements to pay — unless there is a dispute about the amount owing.

Then stick to the arrangement. If your circumstances change approach the creditor again for a new arrangement to be made.

If you fail to pay, a court judgment could be taken against you — and once a judgment is recorded it is circulated to a wide range of creditors who will in future not be prepared to give you credit.

This applies, particularly, to banks, hire purchase companies and building societies.

If judgment is taken against you, you should ask the attorney or the creditor to agree to a part settlement and to file notice of abandonment of the judgment as soon as the debt has been paid off.

## Pay before the seventh

Before making an offer, work out carefully all income and expenditure, including any irregular expenditure which may crop up during the year.

Pay on or before the seventh of every month and if you have a bank or building society account, arrange for a regular stop order. This will avoid judgment being taken if you forget to make a payment.

If you pay in instalments you will have also to pay interest and 10 percent collection commission on each instalment up to a maximum of R100 plus all other costs charged by the attorney.

It is therefore better to settle the debt directly with the creditor when you receive a letter of a demand so as to avoid these additional costs.

If the attorney or creditor refuses to accept the instalment proposed, he will, after judgment has been granted, issue a warrant of execution for the attachment of assets.

If movable assets are insufficient to satisfy the debt, your house could be sold.

To avoid this, you could try to raise a long-term loan from a bank or building society by way of a re-advance on your bond or a second bond.

If your income is not sufficient to meet all your debts, even when given an opportunity to pay in instalments, you may have to sell some of your assets.

However, it is better for you to sell your assets at relative leisure rather than have them sold in a forced sale in execution where the proceeds may still be insufficient to cover your debts.

If it is necessary to sell your house a good estate agent could possibly get a price sufficient to settle all your creditors and still leave you with money to put down as a deposit on a more modest home.

If you have no assets whatever you may be in a happier position. No one can shoot you for debt.

In this situation you will have to leave yourself to the mercy of the court.

With the economy moving deeper into recession, a sharp upturn in the number of debt summonses, liquidations and sequestrations is likely. Michael McCloughlin, an attorney, provides guidelines on what to do if you fall into debt.

If your necessary household expenditure, excluding luxuries such as TV and video instalments, exceed your income the court will normally not make an order, but may postpone the matter for three to six months and then review your financial position.

Otherwise, it could order you to make a nominal offer on the debt subject to review after a time.

Alternatively, if you can show you have insufficient money left over to meet the debt after payment of necessary monthly expenses, you could make a nominal offer to pay off R10 or R20 a month.

If you do not pay up in terms of the offer, which will be made an order of court, a warrant for your arrest may be issued to bring you before the court to explain why you have not paid.

If your excuse is reasonable the court could make a new order. For example, it may grant the creditor a suspended committal warrant or an emoluments attachment order, suspended subject to your paying in terms of the court order.

If you still fail to pay, the committal warrant or emoluments attachment order may be put into effect.

Under the emoluments attachment order your employer will be required to deduct the monthly instalment ordered from your earnings and pay this to the creditor's attorney until the debt has been settled.

An employer may not fire you if such an order is granted against you.

If a committal warrant is put into effect you may be sent to jail for a certain time.

The bright side of this is that if you serve a jail sentence in terms of a committal warrant, the debt is expunged and the creditor is deemed to have received satisfaction.

In practice, the higher the debt the longer the period to be served in jail.

## Apply for sequestration

Finally, you could either apply for the granting of an administration order (if your debts do not exceed R10 000) or apply for the sequestration of your estate.

You may also, of course, be forcibly sequestrated at the instance of a creditor.

If an administration order is granted, an administrator will be appointed to control the receipt and transmission of payments pro-rata to the monthly instalment ordered by the court.

If you apply for your estate to be sequestrated, you must show there are assets to be realised which can bring some benefit to creditors.

The court could then order that your estate be

wound up and creditors paid a dividend after realisation of the assets

After that, creditors may not proceed further against you for any balance outstanding. The trustee of your insolvent estate may, however, require you to pay amounts not needed for your immediate needs from future income in settlement of creditors' claims.

## May not be attached

In practice, this is rarely, if ever done. So a new estate can be built up which may not be attached by any previous creditor.

After sequestration, however, no credit can be incurred without the trustee's written consent. Ten years after sequestration you will automatically be rehabilitated. But a court order may be sought for earlier rehabilitation.

It is often mistakenly thought that if assets are held in a spouse's name, they are protected from creditors where the parties are married out of community of property, under the accrual system, or by antenuptial contract.

In fact, the solvent spouse's assets fall into the insolvent estate, except where those assets can be proved to have been bought with the solvent spouse's own money.



Sta. 30/7/90 (58)

## Strauss foresees Johannesburg as sub-continent's financial hub

EAST LONDON — Johannesburg will probably become the financial hub of the sub-continent and South African banks are already expanding into neighbouring states, says Standard Bank Investment Corporation group managing director Dr Conrad Strauss.

Dr Strauss told an SA Institute of International Affairs meeting the Development Bank of Southern Africa could become a regional development bank.

It could serve not only South Africa, but a new Southern African Economic Community.

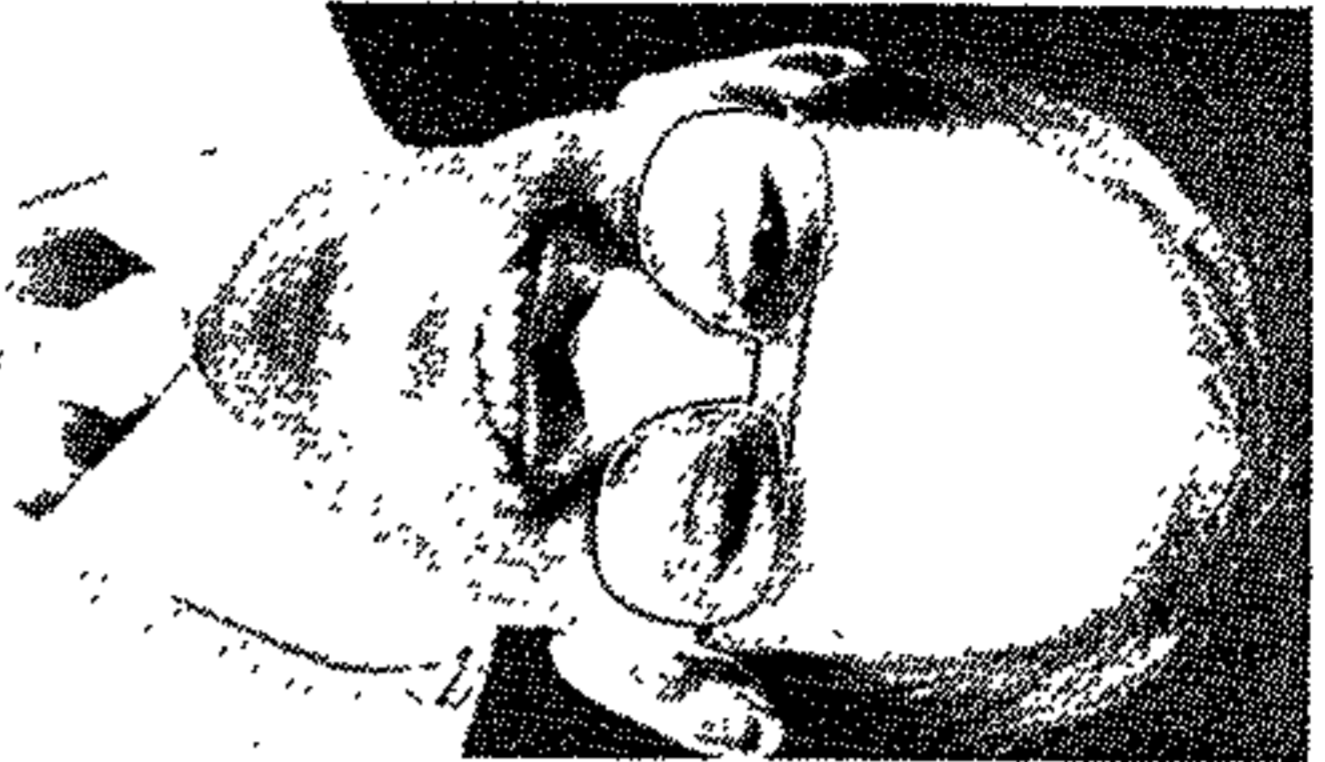
"There are sufficient dynamics and a strong infrastructure in South Africa to act as a catalyst for the revival of the region as a whole.

Like its neighbours, South Africa had a high rate of population growth, rapid urbanisation, great demands for housing, education and social services, and it responded to them in an African manner.

"Many South African products are appropriate for African conditions and our business methods work in Africa.

"Exports into the rest of the continent are one of the fastest growing elements of South Africa's external trade."

"Whether we like it or not, South Africa and its neighbours are structurally linked to an international economy that is not only increasingly competitive, but also market orientated." — Sapa.



J G (Sas) Sassenberg has been appointed divisional manager, research and diagnostic services, for the Groman Consulting Group.



Peter Reijnders has been appointed divisional manager, project management services, for the Groman Consulting Group.

# Repossessed homes more than double NBS

Offe 7/2/85 30/6/90

By AUDREY D'ANGELO  
Business Editor

HOME owners are struggling to pay off mortgages at today's high interest rates — and the value of properties repossessed by the Natal Building Society (NBS) more than doubled to R34,4m in the year to March 31, chairman Gordon Chapman says in the annual report.

The NBS has more than doubled its provision for losses on mortgage loans and properties in possession, to R30,7m from R13,5m.

But Chapman is confident that, if the inflation rate can be reduced to single figures, "it could unleash a pent up demand for home ownership and also encourage personal savings to flow into interest bearing investments".

## Financial pressure

Chapman says it seems unlikely that interest rates will fall below their present levels "for some months".

Meanwhile, he continues: "There is no doubt that the decision of the authorities to pursue a policy of real interest rates has placed mortgagors under considerable financial pressure.

"This has been reflected in a growing incidence of arrear instalments and properties in possession."

He re-assures shareholders: "Although the situation gives rise to some concern, it should be noted that adequate provision has been made to meet all identified potential losses, and the provision for losses on mortgage loans and properties in possession has been increased from R15,5m to R30,7m."

Pointing out that inflation has "undesirable effects on deposit-taking institutions" and distorts the manner in which savings are invested, he welcomes the prospect of its coming down as a result of the authorities' monetary policy.

He also points out that if the rate of the proposed withholding tax on interest is low enough it will allow building societies to recover lost ground in the personal savings market "thus providing the funding for the extension of home ownership in a new SA".

He says the raising of the tax exempt proportion of interest income, in the last Budget, from R1 000 to R2 000 will be "of marginal assistance to the deposit taking industry".

But the announcement that a

withholding tax on interest at a low rate is to be introduced in March, 1991, is of greater significance.

"During the past decade the combination of high marginal tax rates and inflation has virtually destroyed the incentive for individuals to save in interest-bearing investments.

"Providing the rate of withholding tax is low enough, and it is indeed a final tax, there is the possibility that retail deposit rates after tax will exceed the inflation rate."

Chapman says he is optimistic about the future of SA following changes brought about since F W de Klerk became State President.

## Future growth

"I believe the alternative of endemic violence and possible revolt will be discarded in view of its unacceptability to the majority of South Africans."

He expects trading conditions to become more difficult in this financial year. "However, the inherent financial strength of the group coupled with the momentum developed during the past year should result in earnings growing in real terms once again."



# Bullish undertone is not unanimous

FURTHER easing on Friday in the rates for Treasury bills (TBs) and 90-day liquid bankers acceptances (BAs) reflect the persistent bullish undertone in the money market.

The TB rate shed a further eight points to 17,75% from 17,83% in a four-times over-subscribed tender for R100m bills on offer; the BA rate dropped to 18% from last Monday's 18,10%. Both these assets are now priced below their re-discount rates at the Reserve Bank.

Traditionally when these two key rates fall below the Bank's re-discount rates they signal expectations of an imminent drop in Bank rate. There is, however, no consensus in the market about an early reduction in Bank rate. If there were unanimity in the belief that the Governor was contemplating cutting the re-discount rates in the near future, other market rates would have eased in line with the TB and BA rates. *Monday 20/7/90*

The rate for three-months CDs (negotiable certificates of deposit) would have shed a few points and so would have the rate on non-liquid BAs. But these remain unchanged, as is the rate for six-months CDs. Only the 12-month CDs have been priced marginally lower; they shed 10



## IN THE MONEY MARKETS

Harold  
Fridjhon

points to a double of 18,50/40%, although one bank has been issuing at 18,80% noting that its offer is good for R10m.

The shortage — the market's debt to the Reserve Bank — has remained persistently high throughout the month, creeping up to R3,7bn last Friday and is expected to reach about R4,2bn by tomorrow.

This is hardly surprising as the banknote issue, influenced by the school holidays, has remained above the R8bn mark for most of the month.

Volatile rates in the bond market also reflect a bullishness inspired by the gold price, favourable money supply and CPI figures and any other convenient indicator. Volatility should quicken this week with August options maturing on Thursday.

# Bankorp 'attrition'

Own Correspondent

JOHANNESBURG. — Bankorp management is to evaluate every single post in the Sanlam-controlled banking group with a view to slashing staff numbers — even if it means retrenching, spokesman Etienne van Loggerenberg said at the weekend.

He dismissed rumours that retrenchments were already taking place, but noted that there was a widespread misconception that Bankorp had undertaken not to ask staff to leave.

"Although we would prefer rationalising through natural attrition, we will probably have to find other ways as well. We have accepted that if staff numbers are to be substantially cut, we might not be able to avoid retrenchments. Bankorp is working on a policy in this regard, and a number of options are being considered."

He declined to elaborate or comment on a former Bankorp employee's claims that staff benefits such as company cars and

## Every single post' under evaluation

special allowances were being taken away as part of a cost-cutting exercise.

"The process of cutting staff numbers is a sensitive issue and we are handling it with great empathy."

"As far as possible, we will assist redundant staff to find new positions outside Bankorp," Van Loggerenberg said.

The changes in the Bankorp structure — such as the merging of TrustBank's corporate business with Senbank — has meant an upheaval as staff are moved to and from

divisions. Van Loggerenberg said the first step in the re-organisation of Bankorp was this movement of staff between divisions and their adjustment to new working environments. With that almost completed, the evaluation of every position in the bank was about to begin, he said.

Meanwhile, the change in structure means corporate customers of TrustBank now become customers of Senbank, which will handle all corporate business. The practicalities and reasons behind the change were explained to companies in a recent letter from their bankers.

Referring to the merger between the TrustBank corporate division and Senbank, the letter said: "We will take care to ensure that the merger does not result in a dulling of the sharp edge of the particular approach and expertise of, respectively, our merchant bankers and our corporate bankers. To that end, we will retain in the one organisation the two focus areas of merchant banking and corporate banking, which will complement each other and be managed as a single entity."



Dirk Jacobs (above) has been appointed chairman of Tedelex. Neels Kilian (below) has been appointed to the board of Tedelex as a non-executive director.



## SAICA probe for set criteria

# Spotlight now on banks' disclosure

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CMI-714B 30/7/90

By GRETA STEYN

JOHANNESBURG. — SA banks, some of which are notorious for disclosing scant information in their annual financial statements, are to be compelled to meet set criteria for disclosure.

An SA Institute of Chartered Accountants (SAICA) special committee is probing the issue with a view to drawing up principles for banks' accounts. These principles are to form part of the Generally Accepted Accounting Principles (GAAP), which have until now not applied to banks.

KPMG Aiken & Peat banks' expert Tim Bashall said: "I expect SA will follow the international criteria on banks' accounts. That means strong emphasis on greater disclosure."

However, it was not likely that the size of banks' hidden reserves would ever become public knowledge.

Analysts agree Bankorp is the worst culprit in the banking sector when it comes to keeping some key figures secret.

Too little information on the bad debt situation and the tax paid makes analysis of Bankorp's accounts difficult, analysts say — leaving the investing public in doubt as to the true state of the group's affairs.

Ed Hern, Rudolph analyst Alan McConnochie said: "Disclosure has been an issue in the banking industry as banks have to keep their depositors as well as their shareholders happy. Fuller disclosure might please investors but could worry depositors unnecessarily."

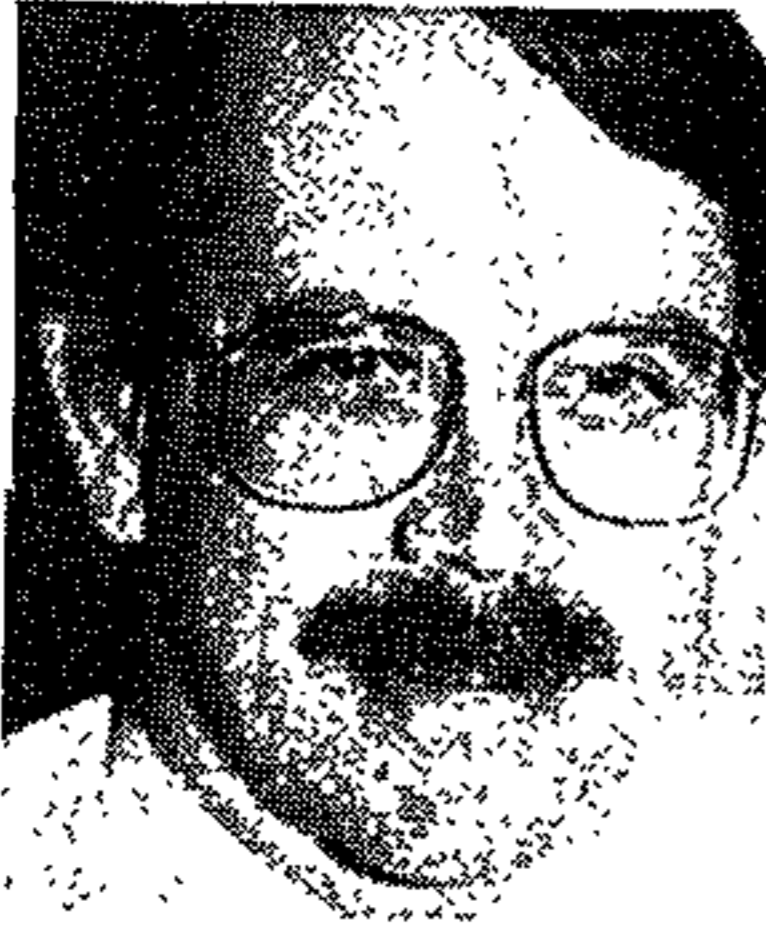
Of the building societies, analysts mentioned the Allied and Saambou as those that should provide their shareholders with more detail. Scant information provided on bad debts clouded assessment of published profits, they said.

By contrast, the NBS disclosed a 127% increase in its general debt provision — while announcing a 30% rise in profits in the last financial year.

Banks and societies can "play around" with the general debt provision, depending on the profits they want to announce. The Allied announced a similar rise in profits, but kept back information on its provision for bad debts.

First National Bank (FNB) is generally regarded as the shining example in the sector. But the bank has indicated it wants to improve its level of disclosure ahead of the new GAAP for banks by disclosing the maturities of borrowings and lendings. It is also thinking of providing more information on tax paid.

Martin & Co's Richard Jesse noted the Standard and FNB had a tradition of fuller disclosure because of their international parentage.



Andre Steyn (above) has been appointed Administrative Director of SFW in Stellenbosch. Theo Brune (below) now holds the post of Director of Human Resources.



PRETORIA. — Saambou would like to see the operations of insurance companies and of certain State institutions that impinge on the terrain of banks and building societies also brought under full control of the Act on Deposit Taking Institutions, the group's chairman, Hendrik Sloet, told the annual meeting at the weekend.

The Act, aimed at replacing the Banks Act and the Act on Building Societies in their entirety, was welcomed by all, he said, although it did not fulfil its expected all-embracing purpose of a fairer competitive environment with other financial institutions besides banks and building societies under its control.

"It succeeds in that it brings about equal competition between banks and building societies and promotes the rationalisation process in this financial environment."

But, he added, it was Saambou's view that the

fairest and most economically productive mobilisation and application of savings would only be achieved when all financial institutions were subject to one and the same rules.

Sloet said the Reserve Bank's anti-inflation policy should have a favourable effect on saving habits, which would play an important part in supplementing the country's investment capacity.

"In view of the fluctu-

ating gold price and deliberate reduction of the inflation rate, the level of interest rates should not turn before late in the year, although the recessionary climate and political instability do not exclude an earlier drop."

He said the longer term prospect for South Africa was one of enormous opportunities, but cautioned that social needs would place great demands on the country's resources. — Sapa

# Call for full control under new deposits Act

CMA 7/12/88 30/7/90



Group Areas Act may  
go, says Org Marais

Cap Times 31/7/90 (58)

DURBAN. — The government is likely to repeal the Group Areas Act early next year, Deputy Minister of Finance Dr Org Marais said yesterday.

Speaking at the 26th annual conference of the National African Federated Chamber of Commerce, Dr Marais said there were no specific restrictions barring the Land Bank from making land available to black people. One of the long-term solutions to South Africa's problems was greater black participation in the economy.

He said the role of the police and the courts needed to be redefined.

Socio-economic problems had resulted in political upheavals and unemployment was a major contributor. He said 900 jobs a day would have to be created to solve the black unemployment situation.

— Sapa

## Rand slips to 4,80 to pound

Nov 31/790

Finance Staff

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The rand is fast approaching the R5 mark against the British pound, after slipping to a record low of 4,80 to the pound yesterday.

However, the rand held steady against most other major currencies and reached a four-months high of 2,60 to the US dollar.

Dealers believe the R5 level against the pound could be breached before the end of the year as sterling continues to benefit from plans to make it part of the European Monetary System.

In New York yesterday sterling rose by one US cent to \$1,8465, following a more than two cents rise on Friday.



# Taxis make R1,8-bn, not a cent for me - Receiver

Own Correspondent

DURBAN — The Receiver of Revenue has appointed a team of experts to investigate the black minibus taxi industry, as it believes the taxi operators are collecting revenue of about R1,8 billion without paying income tax.

Some estimates claim that the tax loss is about R500 million a year.

The Southern African Black Taxi Association president, James Ngcoya, said in Durban today he was aware of the move to tax the minibus industry and said that his association had asked the Receiver for an extension of time to educate members on tax matters.

He said that it was not true, however, that minibus taxis made a lot of money.

"These vehicles are so expensive and by the time the owner makes a profit his vehicle is worn out. Also, the conception that single owners have fleets of minibuses is not true.

"We are currently educating

our members so that we can put a number of aspects straight and will prove that the vast majority of our members earn so little that their income is below the taxable fringe and that by the end of the day their income will be below the taxable amount," said Mr Ngcoya.

Estimates of the taxable revenue generated by the minibus taxi industry vary widely, but transport consultants put the figure at a minimum of R1,8 billion. About half the 100 000-odd taxi operators are members of Sabta.

Estimates of nett income vary widely and was put by one transport consultant at about R3 000 a month after expenses.

According to Sabta's official journal, Sithuta Isizwe, there were two options open to the taxman.

He could negotiate with Sabta to try to reach a compromise or he could decide to take action against taxi operators. In that case, Sabta would not be prepared to assist the taxman.

# Business wisdom dictates a look<sup>(58)</sup> at bond<sup>6/12/04 31/7/90</sup> market

Business Scene  
HAROLD FRIDJHON

THE conventional wisdom governing most equity investment — investment not punting — has been: "don't look at the dividend yield, look at the capital growth".

What if there is little or no capital growth? "Be patient," the fundi's say. "Over time there's always capital growth. Equities grow with the economy." Maybe. But what of the carrying cost, calculated on current worth?

And meanwhile you're earning 2% or 3% or 4% on your capital with inflation at 13% or 14%. That doesn't make good business sense. But many private investors sweat it out for two major reasons: a real one, namely fear of the taxman's pruning shears; the other not quite so real. If we sell our Barlows, Libertys, Rembrandts now will we be able to get them back later?

Few, very few, investors with reasonable portfolios look at bonds, gilts and semi-gilts. And how many investment advisers balance portfolios with RSA, Eskom or other stock such as those of the post office or Spoornet?

Perhaps investors and their advisers look askance at the casino environment of the so-called capital/bond market, ignoring the real investment possibilities that exist there for investors, not just the punters.

At present the Eskom 168 11% 2008 is giving a yield to

redemption of 15,95% and the RSA 12% 2006 a yield to redemption of 16,35%. But who, other than an assurer or a trust wants to hold stocks to redemption? They should invest in bonds now when the equities market is in a bear trend, and when the "flat" yield (the real interest return) on that Eskom stock is about 15,5% and on the RSA 15,75%.

Now that is a worthwhile yield. Maybe not as appealing as the 17,5% plus that is obtainable in the money market. But for how long?

Investors abroad move from equities to bonds to equities in rhythm with economic cycles. But not here. Probably they have vestigial memories of the times when stocks/bonds were not freely tradeable.

But they are today, and not only in deals for millions of rands, particularly the Eskoms because the electricity utility is a market-maker in its stocks.

And when interest rates really start to fall and the equity market hopefully comes to life again, politics permitting, you can sell your bonds at a profit and return to nurse those mares you have always clung to. Maybe they'll cost a little more, but in the meanwhile your cashflow will have benefited by a lot more you will have earned in interest.

# Saambou's broader base 'encouraging'

<sup>8/10/90</sup>  
<sup>31/7/90</sup>  
<sup>(58)</sup>  
SUCCESSFUL restructuring and planning at Saambou had ensured the group could look forward to the next year with confidence, chairman Hendrik Sloet said in the building society's annual report.

It was especially encouraging to see Saambou had spread its revenue base across different operations.

Earnings of R25,2m were

NEIL YORKE SMITH

generated by the building society (R13,7m), property development (R2,2m), insurance (R6,4m) and banking (R2,7m).

In his review, MD Christie Kuun said the need to restructure resulted from "the blurring of traditional boundaries between banks and building societies" and

fierce competition in the financial sector.

A major part of the restructuring was centred around management.

Sloet said new management structures had been designed to reduce operational conflict and overlap within the group and to allow more economical and co-ordinated management.

An increased focus on asset and liability management and a more sophisticated approach to managing interest margins in the banking and building society operations should also reap benefits, he said.

Saambou produced a 37% increase in taxed profits, which reached R25,2m, for the year to end-March. However, this did not reflect in the bottom line because of a R6,7m extraordinary loss on a capital market transaction.



## Insurance Bills aim to split firms

LESLEY LAMBERT

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CAPE TOWN — Composite insurance companies, which offer both life and short-term insurance services, will have to split their operations into separate companies if a proposal in the new draft Bill on life assurance is enacted.

According to a clause in the recently circulated long-term assurance draft Bill, composite insurance companies, other than those offering re-insurance services, will have to hive off their short-term operations to authorised short-term insurance companies within six months of the bill's enactment.

The new legislation is expected to be passed during the 1991 session of Parliament.

The Registrar of Financial Institutions, Piet Badenhorst, said yesterday that new legislation on the short-term insurance industry — which had yet to be drafted — would contain a similar proposal.

He confirmed that composite companies would have the option of splitting their operations into two separate companies under a holding company.

The proposal was recommended by the Melamet Commission as a more effective means of control. 6/24/31/790