FINANCE - GENERAL
1995

JANUARY - MAY.

N.B.

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Banking reaches out to the bundu

(58) Star 5/1/95

BY JOHN VILJOEN

A six-month pilot project in three dusty South African villages could provide the key to a quiet banking revolution for hundreds of rural communities.

Residents of Kraaipan, 65km from Mmabatho in the arid North West province, had more than just the rain to celebrate recently — South Africa's first village bank opened for business.

Scene

It was a scene which Ahmad Jazayeri, project controller with the International Fund for Agricultural Development (Ifas), hopes will soon be repeated in hundreds of rural settlements.

Two more village banks will open in the province before the end of the month, just five months after Jazayeri introduced the concept to South African bankers.

Until a few days ago, the people of Kraaipan had to make the expensive journey to Mmabatho if they wanted to use the bank.

The aim of village banks is to provide rural communities with financial services such as savings and deposit facilities, transmission facilities, short-term overdrafts and insurance.

Village banks may also prove the most efficient way of paying pensions and other state allowances.

Relationships

"A fundamental asset in a village environment is the network of relationships, and the knowledge people have of each other This is priceless information for bankers," Jazayeri said.

The inhabitants must provide a building for their bank. In Kraaipan, the community decided that its post office, built two years ago but not yet put into use, was ideal for the purpose.

The community must also provide all labour and staff and pay their salaries through the bank's business. It is managed by a liaison committee elected by the villagers.

Training is strictly on the job. "We don't believe in classrooms," Jazayeri said.

Village banks are linked to a mother institution which provides initial sponsorship — in Kraaipan's case this is Agribank, formerly the Agricultural Bank of Bophuthatswana.

Bank users are able to buy shares and are given voting rights and earn a proportion of the profits in return. The maximum shareholding allowed is kept at five percent.

"It is the first grassroots organisation to start out with equity," he said.

The Kraaipan community has rallied around the new financial institution.

Deposits

Many Kraaipan residents opted to buy shares at R10 each, while others made savings deposits — the minimum is R20.

Jazayeri believes the three pilot communities will be able to run their banks without outside help within three to six months. The project will then be evaluated to decide whether it should extend to other provinces.

"South Africa is the first place this project is being implemented. The country is benefiting from the lessons learnt elsewhere. We think this will succeed and that South Africa will be the model."

He believes village banks have an important contribution to make to the Reconstruction and Development Programme by spreading banking and financial discipline concepts among rural people.

Not charity

"To some communities having a village bank is more important than a clinic or a road — it makes them self-sufficient and enables them to generate the money for other needs."

The banks were not to be seen as a charity project, he stressed, and would provide the mother bank with a new potential market.

In addition to the float, money deposited with the village bank but not needed for withdrawals or salaries, would be managed and invested by the mother institution.

"We don't want the banks to make a loss," Jazayeri said.

French bank approves SA loans

(58) BD 5/1/95

LINDA ENSOR

LONDON — The French development bank, Caisse Francaise de Devellopment (CFD), has approved its first concessional loans worth a total of Ff122,5m to two SA institutions.

This brings the total loans granted last year by the bank and its private sector lending subsidiary, Proparco, last year to SA organisations to about Ff230m.

A Ff100m for the Development Bank of Southern Africa was approved by the bank's board of directors late last month. The funds would be used, inter alia, to finance water, electrification and urban development projects.

In addition a Ff22,5m loan has been granted to the SA Sugar Association to finance its credit scheme for small, black sugar cane growers.

The long term loans have been extended at concessional interest rates of about 3,5% per annum and negotiations still have to take place with the Development Bank and the Sugar Association over their terms. It is understood the projects would be implemented shortly.

Proparco has loaned the Industrial Development Corporation about Ff60m for the promotion of small and medium enterprises and approved the funding for five other projects at a board meeting in December.

Loan sharks feed off the despairing

Star 10/1/95

58

Cash the bait

The untimely death of bizarre loan shark Lucifer Spokie van Zyl has once again thrust the often dicey multimillion-rand money-lending industry into the spotlight. JUNE BEARZI reports.

During 1994 unscrupulous money-lenders were the scourge of thousands of consumers buckling under debt burdens.

This category of wheeler-dealer headed Star Line's most complained of businesses last year, and calls are already pouring in this year from consumers who say they have fallen prey to these operators.

Star Line investigations found that many of these loan company bosses made huge sums by luring consumers with promises of instant cash loans repayable at low interest rates. But in most instances these companies took "administration fees and deposits" and then failed to come up with the cash.

In all cases handled by Star Line last year complainants did not get their loans and were not able to recoup their deposits as they were told these had been swallowed up by "expenses and fees".

The loss of these downpayments was, in several cases, the last straw for consumers who were struggling to keep their heads above water. They lost everything — furniture, cars and even their homes.

The most notorius of these money-lenders was smooth-talking, self-confessed Satanist Lucifer Spokie van Zyl. He committed suicide in his Hillbrow flat last month. Van Zyl, who sported dozens of tattoos of demonic symbols and wore black nail varnish, left dozens of his fee-paying clients with no apparent avenue to seek redress.

Star Line has established that over the last year Van Zyl assumed the name Jack Dunn to run a loan company called The Firm from Kruis Street in the Johannesburg city centre.

Three years ago Star Line ran a number of exposes on Van Zyl, who at the time was operating loan companies Novio Financial Services and Reficul Industries.

As a result of this, an official investigation was launched into his activities and his businesses were closed down.

Like many of his ilk in the dicey money-lending industry, he used the personal columns of various newspapers to entice those beset with debts and financial hardship to do business with him.

One of Van Zyl's loan-sharking victims was Lebokanyo Semuki of Soweto. In October last year she read an advert in the Sowetan which promised "housing loans granted within three days".

"I was told that if I paid a R500 deposit I would get a housing loan for R45 000. The people at the office explained that I would have to deal with an L S van Zyl, and if my application was not successful I would get a refund."

Semuki came to Star Line when all she got from the loan company were endless excuses.

A new twist to his loan-sharking activities over the last few months was an offer to assist aspirant businessmen to get liquor licences for fees of up to R10 000.

One such client was Peter Panayides of Johannesburg, who told Star Line he had responded to a newspaper advert in which an offer was made by The Firm to assist the public in making applications for liquor licences.

"When I demanded action or my money back Van Zyl told me he could help me only if I paid him another R5 000."

The ads promised applicants "an answer within 30 minutes", but a month later and R5 000 out of pocket he was still waiting.

"After I applied for assistance in getting a liquor licence Van Zyl got back to me and asked for a downpayment. I paid him R5 000 and got nothing in return. When I demanded action or my money back Van Zyl told me he could help me only if I paid him another R5 000."

Now Panayides believes he will have to write off the money as he has no one to reclaim it from.

Shortly before Van Zyl's death he told Star Line that he was merely "a broker" for The Firm which he described as "the agent".

Subsequent to his death all attempts to get a response from his wife Leonie, who helped him in the business, have failed. At this stage it is not clear what prospects there are for clients of her late husband to retrieve their cash.

Van Zyl died in December, but according to friends he had "a practice suicide session" a number of weeks earlier in which he shot himself through the cheek with a dartgun.

Horrified acquaintances said he took great delight in shocking them by sticking a straw through the hole in his cheek and sipping a soft drink through it.

Van Zyl remained outlandish right until the end. He committed suicide by climbing into a coffin in his Hillbrow flat and shot himself through the chest.

STAR LINE

June Bearzi

Do you feel you have had a raw deal or need help to beat the cheats?
Then STAR LINE, The Star's hard-hitting consumer service headed by JUNE BEARZI, can help. Send your letters to Star Line, P O Box 1014, Johannesburg, 2000 or telephone all inquiries to (011) 838-2383.

Holiday scheme probed

The Harmful Business Practices Committee has launched an official investigation into Sun Telemarketing Promotions, Gideon Pitout, Gee and Dee Marketing and Glenton Mitchell.

This was announced in the Government Gazette on Friday.

The investigation follows a recent Star Line article in which it was alleged that members of the public were being ripped off in cut-price holiday offers.

It was claimed that Pitout and Mitchell were involved in a scheme which ran a telesales drive in which members of the public were led to believe an enrolment fee of R295 would secure holidays for them at prime resorts around the country.

However, several participants in the scheme said their money had not bought them the promised getaways.

Any person may, within 21 days, make a written representation regarding the investigation to The Secretary, Business Practices Committee, Private Bag X84, Pretoria, 0001, or may telephone J M van der Merwe at (012) 310-9579.

TOMORROW

Let 1995 be your year for learning how to get what you want by saying it, forgetting the pain and suffering of preparing for an important speech or interview.

A dose of lending realism needed

(58) Star 11/1/95

CAPITAL is available and more than a few foreign countries and international agencies are eager to fund entrepreneurial activity in the new South Africa.

BY ROSS HERBERT

Lenders are finding, after hard experience, that putting the unemployed masses to work in their own businesses requires a lot more than making funds available.

Banks in particular are eyeing the large informal sector as a potentially profitable market for business loans.

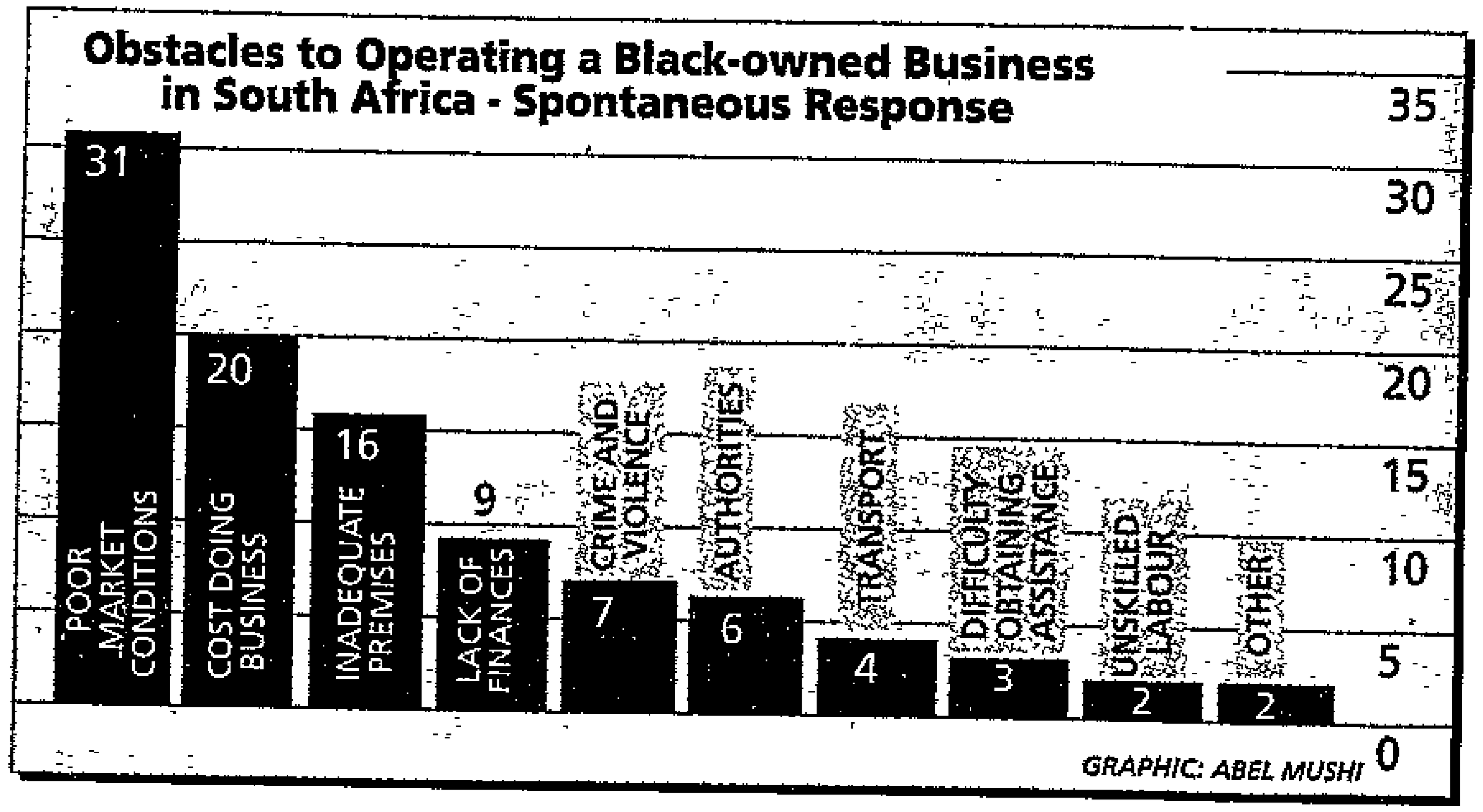
The Small Business Development Corporation estimates 75 percent of all businesses, or nearly 2,5 million, are in the informal sector.

However, lending to such businesses, on terms profitable for the lender and economically viable for the borrower, is no easy matter.

The International Finance Corporation, the World Bank agency that lends in the private sector, recently completed a study of the companies it had financed in Africa and found very few able to deliver returns in excess of 10 percent.

IFC has injected $2 billion in 300 sub-Saharan companies and found the results "disap pointing".

What lessons have been learned? Standard Bank, which has been conducting a pilot micro-lending programme to entrepreneurs in the Soweto and Katlehong areas since March 1994, has found successful lending requires significant changes in traditional credit-approval procedures.



In effect, says Roy Polkinghorne, who directs the bank's micro-sector lending programme, banks need to emulate informal-sector lenders. They need to:

- Cultivate quality loan officers who speak the same language and preferably come from the area in which borrowers operate.
- Minimise all time-costs to borrowers and lenders by developing faster approvals, applications and repayment procedures. "It is no use providing money for refreshments at a football game one week after the event," he said.
- Bring the bank to the business, not the reverse, so the time entrepreneurs must be away from work is minimal. "It is no use expecting the informal sector borrower to have to travel all the way from Soweto into the central business district of Johannesburg to obtain a small amount of money."
- Realise that micro-lending requires loan officers to do more — play mentor and coach, as well as be a repayment pest.
- Learn to evaluate character, motivation and the clarity of business thinking, which are usually the only assets informal-sector borrowers have.

Judging character and thinking is, at best, a rough art. "Not everyone can be an entrepreneur," said Roland Charles, manager of micro-enterprise development for the Independent Development Trust.

Character

"I would say you are looking at only 10 to 12 percent of people who have entrepreneurial talent," he said.

To improve on the art of lending, the Cape Town-based Trident Institute has developed a programme that combines micro-lending with an educational regimen that improves business skills and weeds out non-serious borrowers.

Before potential borrowers get any cash, they must complete a basic business course that teaches them how to sell, create a business plan, and manage money and inventory.

Instruction

Given the poor educational opportunities available to many who find themselves in the informal sector, instruction in how to operate a calculator and set prices can be crucial.

After the training course, borrowers must attend a short seminar on banking skills and put up a R60 deposit. The majority of people who consider borrowing under the Trident regimen drop out before actually borrowing.

Tony Davenport, who designed the programme over seven years, says that is a healthy sign that the training programme is accomplishing what traditional loan officer do.

It acts as a self-selection mechanism, leaving only serious borrowers at the end who have a clear idea of how to build a business with a small loan.

"Micro lending into the metro areas to the lower part of the informal sector is normally a disaster," Davenport said. "You lend the money and that's the last you see of it."

Bad debts

Davenport, however, claims the programme's bad debt represents only 10 percent of its net loans outstanding, and 80 percent of those who complete the programme become economically active.

One key is stair-step lending, in which borrowers start with a R200 loan. They become eligible for successively larger loans as they demonstrate a good record of repayment.

Standard Bank has adopted many similar techniques. Standard requires micro-borrowers to attend a one-day training seminar and pay a 20 percent security deposit up front.

It also gradually increases loan values as borrowers prove themselves.

According to Polkinghorne, such steps and careful development of lending officers have given Standard a default rate of less than two percent.

P.T.O. →

That success comes at a cost. One of the most crucial points, Polkinghorne said, is for people to understand there is significantly more work involved processing and administering informal-sector loans than large, safe corporate ones, which translates into high interest rates.

Expensive

"For that reason, this will always be very, very expensive lending from the bank's point of view", he said.

"What has become very clear to the bank is that consistently lending very small sums of money for very short periods is unlikely to ever be viable".

Because it would have to charge excessive rates to recoup its costs, Standard does not make informal-sector loans for less than R2 500. Presently loans under R6 000 are exempt from the Usury Act, which forbids lending at more than 26 percent interest.

The Ministry of Trade and Industry announced its intention to repeal this exemption. If the change goes into effect, Polkinghorne said micro-lending would no longer be "economically viable" for Standard.

Potential

The most effective thing potential entrepreneurs can do?

Network to help refine business ideas and test the consumer preferences of peers, friends and neighbours.

Too many in the informal sector simply mimic, resulting in a glut of people selling identical vegetables and handicrafts in the same locations.

Perm considers more Sunday banking

(58) Star 12/1/95

The Perm, which piloted Sunday banking in Johannesburg, is considering extending the service to other parts of SA.

"There was an overwhelming response from our clients when we decided to open on Sundays in Johannesburg," says Andre Niemandt, Perm's general manager (greater Johannesburg region). "A decision will be taken to open on Sunday in other regions once all the major role players have been consulted."

Johannesburg branches which open on Sundays are Fourways, Grosvenor Crossing, Cresta, Melville, Illovo, Eastgate and Southgate.

There are plans to open more in the next few months, says Niemandt.

"By opening branches at busy shopping centres on Sundays, we found that we provided convenience for our clients who could not attend to their finances during normal business hours."

The Fourways and Cresta branches also operate as home loans advisory centres.

"Most clients' immediate needs can be met at these branches and we are looking forward to offering this service countrywide," says Niemandt.

Old Mutual moving to industrials

CT 12/1/95 (58)

From CHARLOTTE MATHEWS

JOHANNESBURG. — Old Mutual believes current prices on the JSE will be sustained over the next two years, but that commodity prices may peak in 1995, says senior portfolio manager Jeremy Bolton.

The group has changed the investment philosophy for its unit trust portfolios and has switched from mining to industrial shares.

"We do not expect commodity prices to collapse with world economic growth remaining strong, but we have probably seen most of the excitement," Bolton said yesterday.

"Commodity shares have generally discounted the higher commodity prices and we believe industrial blue chips offer better value at present."

Old Mutual forecast inflation by the end of 1995 would be similar to its present levels, although it would rise in mid-year by comparison with the low levels of mid-1994.

The top four shares in the flagship Old Mutual Investors' Fund, which had assets worth R4,99bn at the end of December, nearly a fifth of the total assets of SA's unit trust industry, were Richemont, De Beers, Anglo American and Rembrandt.

Over the 12 months to December, Richemont's share price appreciated by 5%, De Beers declined by 9%, while Anglo American's rose by 8% and Rembrandt's dropped by 12%. Nevertheless the fund managed a return above the overall share index's 24,2% in the same period.

At the end of December, the exposure of the Investors' Fund to gold was 2% and to mining in total was 34%.

Financial and industrial shares made up 58% of the portfolio, of which 50% was in industrials.

Northwest probes loan by Agribank

BD 13/1/95 MARK ASHURST (58)

THE Northwest government announced yesterday that it was investigating an irregular loan of R15,5m by the Northwest parastatal Agribank to Jamaican businessman Norman Escoffery.

The loan was granted during the tenure of dismissed provincial agriculture minister Rocky Malebane-Metsing.

Agribank, which is closely linked to the ministry, finances agricultural development in the province.

The Northwest government said in a statement that the loan had been made available to Escoffery "despite legal opinion given to senior bank officials against the granting of this loan".

Acting premier Johannes Tselapedi, who succeeded Malebane-Metsing as agriculture minister in November, said he had spoken to Malebane-Metsing about the loan and "had no reason to doubt him, because he is my friend".

An investigation into the loan was launched after some departmental staff had "started to sing", said Tselapedi. "The channels normally followed in processing applications of loans were not followed and were thus irregular."

The investigation, reported in yesterday's edition of Finansies en Tegniek, was made public just 48 hours after Malebane-Metsing announced his readiness to take up an ambassadorial posting.

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Loan

(58) BD 13/1/95 ☐ From Page 1

"I wouldn't know whether Rocky was involved," Tselapedi said yesterday, but he admitted the timing of the investigation was sensitive. "If we comment too much on this issue, people will say that it is a fight (against Rocky)".

Malebane-Metsing said on Tuesday that President Nelson Mandela had offered him an ambassadorial posting to Europe. But the controversy over Allan Boesak's appointment as UN ambassador had alerted him to the risk that political opponents of an ambassador-designate could use the appointment to wage political battles.

Escoffery's company, Liberty Foods, used the loan to purchase North Hills Farm in Gauteng province, which provides foodstuffs to the Woolworths retail chain. Tselapedi could not say whether it was normal practice for Agribank to support developments outside the province.

Malebane-Metsing said yesterday he had been informed of the government's intention to make a statement on the issue, but would not comment as he had not seen the story in Finansies en Tegniek.

Mandela's office has not yet confirmed Malebane-Metsing's claim that he had been offered an ambassadorship.

Life insurers face R1bn in AIDS claims

CT(BT)15/1/95 (58)

By JEREMY WOODS

THE life insurance industry is bracing itself for AIDS claims of over R1-billion as the epidemic which has hit hard in Zimbabwe is expected to repeat itself in South Africa.

The Zimbabwean life industry has paid out more than R400-million in AIDS-related claims since 1990.

Some 30% of adult Zimbabweans are estimated to be HIV-positive.

Life insurance analysts believe the epidemic has already taken hold in South Africa. Estimates suggest that in some areas as many as one in five people are HIV-positive.

Peter Doyle, senior general manager at Metropolitan Life, says: "There is now sufficient, well-documented data to prove that an HIV epidemic is established in South Africa.

"Sufficient numbers of people are now infected with the HIV virus to sustain a local epidemic. Interventions and changes in sexual behaviour will only be able to affect the eventual size of that epidemic."

Old Mutual corporate actuary Graham Prentice says: "There is no reason at all to suspect that we won't have the same AIDS epidemic as Zimbabwe. The evidence is that the AIDS epidemic in South Africa is about four years behind the epidemic in Zimbabwe.

"Nearly 10% of women attending antenatal clinics in Kwazulu-Natal in 1993 were HIV-infected and it is fairly safe to assume that those figues have doubled by now."

In 1992, the KwaZulu-Natal figure was 4,7% and a year earlier it was 2,87%, while in 1990 the figure was 1,8%.

Figures for the Free State and Transvaal show less than 1% of pregnant women were HIV-positive in 1990. By 1993 this had jumped to more than 4%.

"The spread of the epidemic tends to double every year in the early years. Unless social interventions can change behaviour or an HIV vaccine is found, the numbers of HIV-infected people in South Africa will probably be measured in millions by the year 2 000," says Mr Prentice.

Much of South Africa's epidemic has arrived via Zimbabwe and Mozambique.

"If there is any upside to the AIDS epidemic in South Africa, it is that we have had several years to prepare for it," says Mr Doyle.

"In anticipation of this the major life insurers have made provisions of an estimated R1-billion-plus to pay for future AIDS-related claims and many have embarked on extensive educational campaigns to combat the disease."

Mr Doyle believes most company managements, which already employ HIV-infected workers, will have to cope with AIDS-sick employees within a few years.

Mr Doyle says: "Another issue that does not seem to receive adequate attention is that two-thirds of those who will be infected by the year 2000 are now under the age of 20, and many are under 15.

"The HIV epidemic in South Africa has reached the stage where we cannot continue just to monitor its spread and to plan future intervention efforts.

"We need to do something now and fast, otherwise the projections might turn out to be accurate.

"To us this is the biggest burden of modelling — to see that the epidemic is continuing as we predicted."

FIRST NATIONAL BANK

More real growth in prospect

(58) FM 13/1/95

Activities: *Banking and related financial services.*
Control: *Anglo/De Beers (26,1%). Southern Life (24,8%).*
Chairman: *B E Hersov MD: B J Swart*
Capital structure: *348,4m ords. Market capitalisation R8 623m.*
Share market: *Price: 2 475c. Yields· 2,2% on dividend; 6,9% on earnings. p e ratio, 14,6. cover, 3,1. 12-month high, 2 500c; low, 1 560c Trading volume last quarter, 5,4m shares.*

Year to Sept 30	'91	'92	'93	'94
Total assets (Rbn)	36,6	41,3	53,6	61,8
Advances (Rbn)	29,1	33,2	40,7	48,3
Deposits (Rbn)	32,2	35,1	47,4	54,8
Operating profit (Rm) .	909	1 106	1 250	1 447
Bad debt prov (Rm) .	263	347	344	351
Attrib profit (Rm)	385	479	688	766
Return on assets (%)*	1,05	1,16	1,16	1,20
Return on equity (%)*	15,6	14,6	14,8	14,5
Earnings (c)*	105,8	122,2	143,2	169,7
Dividends (c) . .	35	40	47	54,6
Tangible NAV (c) ...	678	838	963	1 167

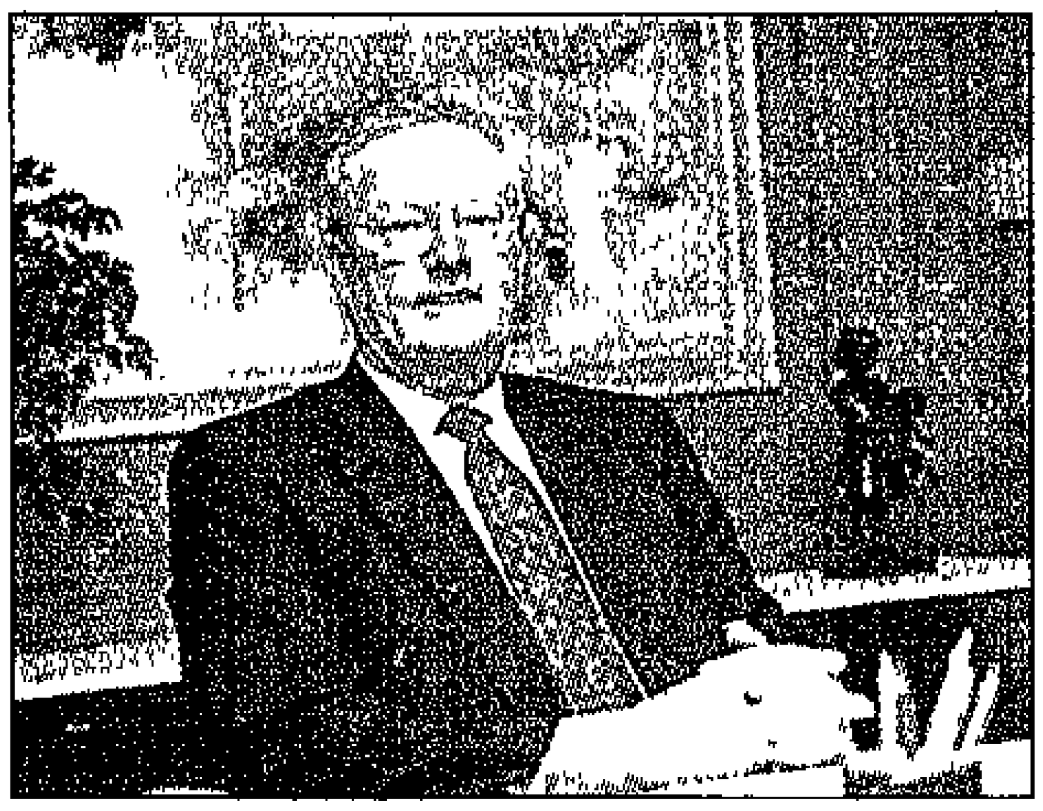
* Excludes deferred tax adjustment

The annual report, and in particular MD Barry Swart's review, devotes considerable attention to new developments, technological as well as operational, which FNB has either already implemented or which will be introduced in the near future.

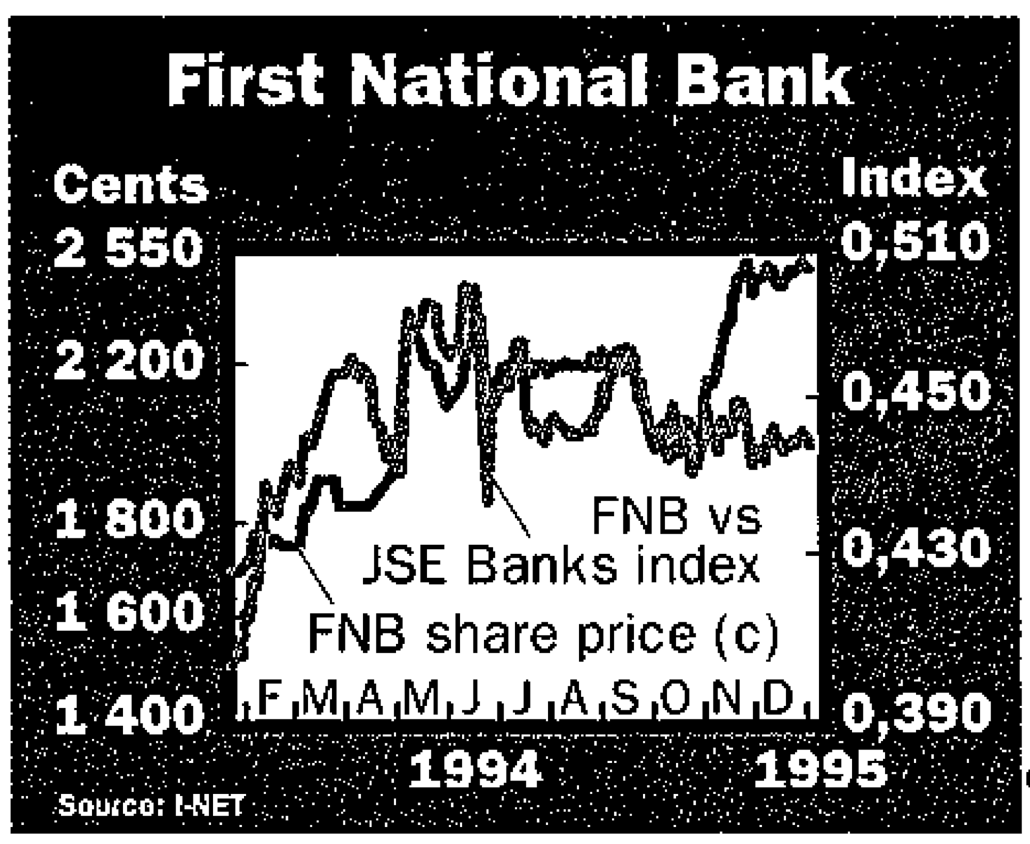
The sheer volume of all this leaves little room for doubt that the group is serious in its commitment, through enhanced customer service, of meeting the challenges of an increasingly competitive banking environment.

Unfortunately, however, the one point missing from the report is probably the one most important to shareholders — management's view of how FNB is likely to fare in the more open environment that has developed since the lifting of sanctions. Even the section headed "Prospects for the year ahead" in chairman Basil Hersov's annual statement gets side-tracked into a discourse on FirstDerivatives, a joint venture partnership between FirstCorp Merchant Bank and First National Bank which focuses on customised derivative products for a range of financial markets.

Important though this may be in its own right, it doesn't really answer the question of where group earnings might head this year and contrasts quite sharply with the situation a year ago when Hersov, with few caveats, forecast "real growth" for the year just completed.



FNB's Swart ... *claims best profitability ratios*



The omission was probably unintentional, but could also in some measure be Freudian to the extent that the banking industry is one of many sectors of the SA economy where the cosy isolationism of the sanctions era is being replaced by the harsh reality of international competition.

Hersov is a bit more forthcoming in this regard. In his view, the wholesale sector of the banking market is most likely to be affected; in particular the profitability of dealing with major corporates. However, the impact on FNB is not expected to be significant as, Hersov adds, this area of the business has traditionally been serviced at very competitive rates and fee structures.

He could also have mentioned that the group's concentration on individual business in the expansion of its asset base in recent years will offer further protection against whatever may happen on the corporate front. For the second year running, advances to individuals accounted for 54% of the growth in gross lendings, the bulk coming from the increase in the home loan portfolio, which rose by R2,5bn (28%) to R11,4bn. Individual business now represents 46% of gross advances, up from 45% in 1993 and 42% in 1992.

Another similarity between 1994 and 1993 is that, with the continued decline in interest rates for much of the year, FNB maintained its policy of shortening both its deposit and lending books. As regards advances, by September 30 1994, loans maturing within one year had increased to almost 62% of gross lendings from 48% a year earlier. The pattern in the case of deposits was less marked, but the combined total of call deposits and those repayable within one month nevertheless increased to 61,6% of the total from 60,4%.

This policy has been of material benefit to FNB in offsetting the negative effects which falling interest rates have traditionally had on banking profits. In this connection, a further feature common to both years is that, despite the unfavourable trend of interest rates, the group improved its interest rate "trading margin" in each period — in 1994, the ratio of net interest receipts (after doubtful debt provisions) to gross interest income increased to 31,2% from 29,8%, while in 1992 this ratio was only 25,5%.

The improvement last year was assisted by the fact that (unlike 1993) advances grew more strongly than deposits — 18,7% against 15,6%. At the same time, however, the slowdown in the rate of improvement in this "trading margin" under a more favourable lending/deposit mix suggests that the potential for improving overall interest rate management, which has been one of the mainstays of the group's earnings growth, may have peaked.

Fortunately, in the context of the outlook for 1995, the importance of this aspect has diminished with the uptick in rates — this should remove the downward pressure on banking margins that has affected the industry since rates peaked in 1991, allowing a continued improvement in profits derived from natural market forces.

Another plus factor for FNB is its strong balance sheet. Though its risk-weighted capital adequacy ratio declined from 10% a year ago to 9,1% at September 30 1994, this is still 1,1 percentage points above the required minimum. This by itself offers adequate scope to expand activities, before taking into account the potential enhancement of secondary capital that could be achieved through the revaluation of property and the investment in Southern Life — the latter alone at year-end had a market value of R1,6bn against a total carrying value of all associates of under R400m.

On balance, therefore, it seems that Hersov's 1993 forecast of real growth in

FNB'S DIVISIONS

Net Earnings/Return on Assets

	1993 Rm	1993 ROA %	1994 Rm	1994 ROA %
FNB	522,6	1,14	549,4	1,05
FirstCorp	52,4	1,62	60,2	1,61
FNB Namibia	32,2	2,60	37,3	2,29
Henry Ansbacher...	5,4	0,23	29,5	0,75
FNB Botswana.....	6,8	2,35	17,3	2,32
FirstTrust	10,5	8,33	14,6	10,62
First Bowring	—	—	12,4	5,99

P.T.O

earnings should still be valid for 1995, especially as any improvement in the economy will tend to underpin growth in advances. However, given that FNB is already operating at peak profitability (it claims to have the highest returns on total assets and equity among SA's banking majors), it might be prudent to anticipate some slowdown in earnings growth from the 17% average achieved over the past four years.

FNB has been one of the major beneficiaries of the general rerating within the JSE's banking sector over the past year. Whereas a year ago it was rated at a 36% discount to sector leader SBIC based on dividend yield relatives, now the gap has narrowed to only 14%. Based on earnings, it is an even smaller 7%.

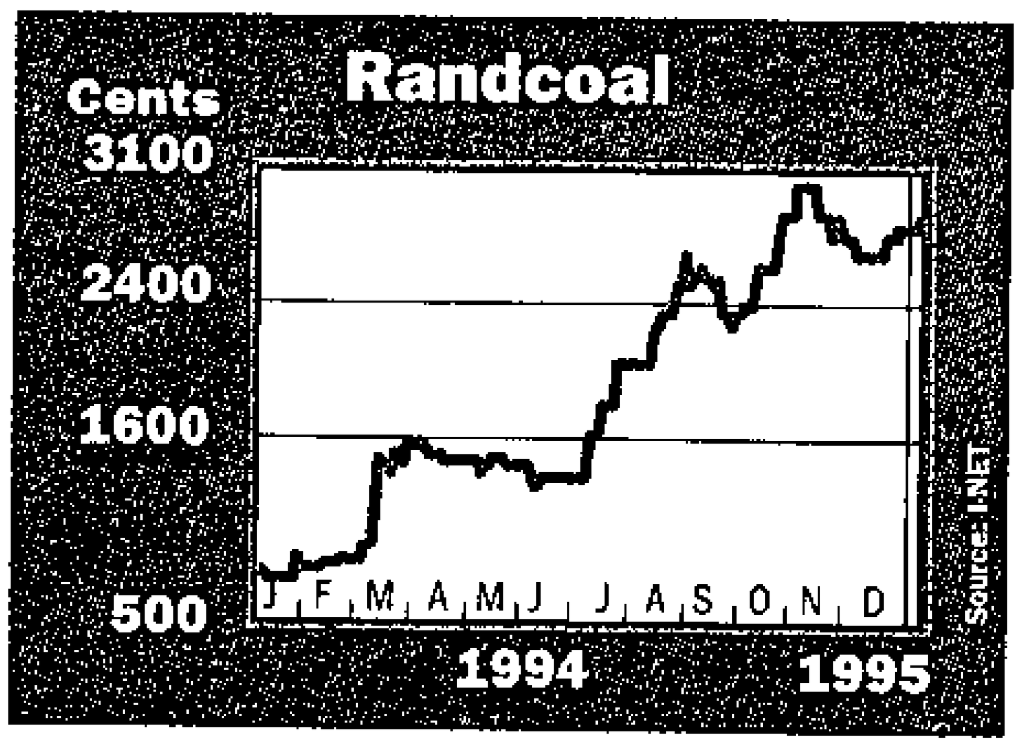
Few would argue that the rerating is not justified. But despite the five-way share split which has made FNB much more affordable, its move out of the bargain basement obviously reduces its attractions in terms of new investment. *Brian Thompson*

RANDCOAL

Large synergies coming

Activities: *Mines and markets coal to Eskom as well as to other domestic and export markets.*
Control: *Rand Mines (before the merger).*
Chairman: *J C Hall. MD: A B Cook.*
Capital structure: *128,9m ords. Market capitalisation: R3,6bn.*
Share market: *Price: 2 800c. Yields. 1,8% on dividend; 3,4% on earnings; p:e ratio, 29,2; cover, 1,9. 12-month high, 3 000c; low, 825c. Trading volume last quarter, 3,7m shares.*

Year to Sept 30	'91	'92	'93	'94
Coal sales (Mt)	23,9	29,3	29,1	30,3
Turnover (Rm)	1 244	1 620	1 649	1 656
Operating profit (Rm)	252	306	230	291
Earnings (c)	185	168	87	96
Dividends (c)	60	60	45	50



Reporting for the last time before it changes its name and persona to the newly constructed amalgamation with Trans-Natal, Randcoal turned in sparkling results.

This 100-year-old company (it was originally Witbank Collieries) was the subject of a major takeover last year engineered by Gencor. The new company, to be called Ingwe, will be the largest steam coal exporter in the world. The restructuring was achieved in the face of stiff competition, principally from JCI, whose managers expressed their dismay publicly when the deal was announced.

Randcoal's performance was a good deal better than many expected, especially in the light of poor coal prices (the global market changed too late to affect the results). Frankel Pollak coal analyst Rob Croll says he is particularly happy with the result, achieved in the face of a minuscule rise in turnover (up less than 0,5%) and a small increase in sales of 4% to 30,3 Mt.

The improvement came at operating level, where profit per ton rose 21% to 960c. That reflects significantly better cost control coupled with a good rise in productivity, up 19% to 284 t per employee. Not even a whacking increase of 78% in the tax bill (to R16,7m) could dampen the end result — an improvement of 10,3% in EPS and a 5c higher dividend of 50c. Considering this was achieved with little help from the market, it is a good indicator of the potential in the expanded company.

Three additional features deserve comment. First, Randcoal carries the debacle of the Majuba colliery, developed as it subsequently transpired with inadequate coal reserves for the attendant, captive, Eskom-owned power station. Nevertheless, Majuba continues to make profits for Randcoal because the Eskom contract provides for an 18,5% return on the capital invested. Randcoal's original geological error was compounded by Eskom which reviewed all the underlying raw data and agreed with the conclusions.

Second, the magnitude of this mistake aside (for which Eskom users will have to pay for years into the future), there are plans for Majuba power station to accommodate six generating sets. Three will come into operation at the rate of one a year from June 1996. Bids to supply coal for the remainder are being discussed informally and the merger with Trans-Natal now makes it possible, through added reserves available from Matla, for the enlarged company to make a competitive offer.

Randcoal's John Hall ... *shrinking costs at head office*

Lastly, substantial synergies will soon become evident. For a start, the head offices of the two companies employed 350 before the merger; this is expected to drop to 190. Of the top 10 management positions, seven have gone to Trans-Natal men — indicative of the management strengths in the Gencor company. Not least will be the many cost savings and operational improvements expected to derive from the export thrust.

Whatever may be said about this being a merger, it was really a takeover by Trans-Natal (which will become the holding pyramid). Randcoal will receive Trans-Natal's operating assets and change its name to Ingwe. The visionary approach of the Trans-Natal team will make itself felt on the combined company, probably to the benefit, unusually, of shareholders and managers alike. *David Gleason*

RM PROPS/BARPROP

Unusual asset mix

RMP PROPERTIES
Activities: *Reprocessing of gold dumps, land development and sales, holding company of Barprop.*
Chairman: *J C Hall. MD: C G Steyn.*
Capital structure: *15,6m ords. Market capitalisation: R399m.*
Share market: *Price. 2 300c Yields: 5,2% on dividend; 7,3% on earnings; p:e ratio, 13,6, cover, 1,4. 12-month high, 2 400c; low, 1 200c. Trading volume last quarter, 474 487 shares.*

Year to Sept 30	'91	'92	'93	'94
ST debt (Rm)	1,3	—	—	—
LT debt (Rm)	6,0	3,9	—	1,3
Debt:equity ratio	(0,30)	(0,19)	(0,18)	(0,16)
Shareholders' interest	0,62	0,70	0,84	0,84
Return on cap (%)	8,2	10,9	8,1	14,7
Turnover (Rm)	181	189	227	259
Pre-int profit (Rm)	19,9	18,6	40,5	75,0
Earnings (c)	151	106	139	169
Dividends (c)	120	85	100	120
Tangible NAV (c)	1 208	949	1 172	1 205

BARPROP
Activities: *Industrial and commercial property investment.*
Control: *RMP Properties (77,8%).*
Chairman: *C G Steyn. MD: E P M Moses.*
Capital structure: *77,3m ords. Market capitalisation: R143m*
Share market: *Price: 185c Yields. 7,3% on dividend; 8,8% on earnings; p:e ratio, 11,4; cover, 1,2 12-month high, 245c; low, 150c Trading volume last quarter, 137 461 shares.*

Year to Sept 30	'91	'92	'93	'94
ST debt (Rm)	—	—	—	—
LT debt (Rm)	—	—	—	—
Debt:equity ratio	(0,21)	(0,16)	(0,21)	(0,17)
Shareholders' interest	0,90	0,90	0,90	0,90
Return on cap (%)	12,5	13,5	13,4	14,9
Turnover (Rm)	48,9	53,6	56,2	63,4
Pre-int profit (Rm)	43,0	47,2	49,7	56,2
Earnings (c)	14,2	14,7	15,6	16,2
Dividends (c)	11,53	12,23	12,95	13,52
Tangible NAV (c)	129	121	148	167

RMP Properties has developed into an interesting hybrid. Activities follow a pleasingly logical sequence: from land clearing/gold recovery to township development/land sales and, with the acquisition of Barprop midway through the 1993 financial year, property investment.

This process was taken further last year

Banks seeking R10bn account face grilling (58)

BD 18/1/95

SAMANTHA SHARPE

BANKS tendering for the R10bn Gauteng government bank account would face a tough public grilling about their attitudes to the reconstruction and development programme, provincial economic affairs minister Jabu Moleketi said yesterday.

The tender award would be announced before the end of the month.

Several big financial institutions have made recent announcements about the extent of their RDP commitments, some of which are said to run into billions of rands.

Moloketi said the banks had provided sufficient information about pricing and their capacity to service the massive account, but they had failed to come up with clear RDP strategies.

The four banks tendering for the account — First National Bank, Absa, Nedbank and Standard — would face a 10-man panel early next week which would interview them on their RDP approach. The panel would consist of four representatives from the ANC, two from the NP, one each from the DP and Inkatha and two members of Moleketi's strategic management team.

The public review would enable the private sector to state its commitment to the RDP and ensure that the bank appointed became an agent of change in the region. The tenders would be judged according to their RDP strategies (weighted 50%), pricing competitiveness (20%) and service capacity (30%), he said.

The panel would review the banks' RDP endorsement in the workplace, encouragement of race and gender equality, lending and investment to non-government organisations and community groups, job creation and environmental awareness.

Contest for Gauteng account

RDP issues to dominate bank choice

Star 18/1/95 (58)

BY JO-ANNE COLLINGE

FOUR banking giants vie for lucrative account. It is promised the selection will be a 'transparent' process

The contest between four banking giants to win the Gauteng government's R10 billion exchequer and paymaster accounts will be decided mainly on the candidates' support for the RDP.

MEC for Finance Jabu Moleketi explained yesterday that in a rating system with three main criteria, 50 percent of points would be allocated to RDP-related factors.

The remaining points would be awarded for institutions' accounting expertise, with cost considerations the final factor.

The crucial RDP component of the banks' applications will be examined at an all-day public hearing to be held in the Johannesburg City Hall on Monday.

A multiparty, 10-member committee will hear submissions from Absa, Nedcor, First National Bank and Standard Bank.

Moleketi added that it was vital that the process of selecting the bank be completely transparent. After all, it was taxpayers' money being banked.

"We are not intending to embarrass any of the banks, but we think it is important for them to be given an opportunity to substantiate the statements they have made in their written submissions with regard to the RDP. We want to be able to test the credibility of their statements."

The committee's task would be to examine the extent to which the banks supported the RDP, covering matters such as democracy in the workplace, development of human resources, and transparency.

Questions would be asked about internal corporate commitment to RDP objectives, steps taken to eliminate race and gender inequalities, and social benefits for workers.

The banks' lending policies for less affluent sections of the community would be scrutinised, and banks will be rated in terms of their contribution to job creation, environmental protection, accommodation of cultural diversity, and consumer rights.

The Gauteng government is breaking radically with the past, when State banking accounts were automatically handled by the Reserve Bank.

Moleketi has no qualms about turning to commercial banks. He believes this would address the region's economic disparities, while sticking with the Reserve Bank would not.

"Through finance policies you can ensure that financial institutions become agents of change."

Boland sets sights on Saflife takeover?

58

CT 19/1/95

From CHARLOTTE MATHEWS

JOHANNESBURG. — Rumours that Boland Bank could be looking to expand its capital base by acquiring a life assurance arm are now focusing on Saflife as a possible target.

Saflife shares have moved up sharply in the past two weeks on unusual volumes, and are currently at 475c from 340c at the beginning of the month — a substantial advance on the year's low of 75c last February.

Crendell, which owns 24,18% of Saflife's shares and 4,03% of HCI, has also moved up sharply on good volumes and is now at 100c — 40c above the level at which it opened 1995, and four times its low of 25c last March.

Based on the value of the interest in Saflife alone, Crendell shares are worth 102c each with Saflife at 475c.

Although a Boland Bank spokesman refused to comment yesterday on suggestions that it was negotiating to buy Saflife and that it would be eager to acquire a life insurance licence, Saflife chairman Larry Nestadt denied the two companies were holding talks.

No one had approached the company to propose a buy-out and it was not looking for suitors, he said.

However, if the right deal came up at the right price it would be seriously considered.

He said there were quite a few rumours circulating about the company and it was possible some were in anticipation of its year-end results.

"It could be that the market is taking another look at Saflife since we have projected better earnings for the year."

In the meantime, Saflife was sitting on "quite a bit of cash" and considering several ventures, Nestadt said. It had been approached by a number of companies.

Last September, a management-led consortium bought options to take control of the company from short-term insurer IGI, now in curatorship.

Figures from Saflife for the six months to last September showed a return to profitability, with a R5,18m surplus from a loss of R25,95m in the same period in 1993.

Since releasing the interim figures, Saflife has signed a deal with an international investment group, Trans-Zambesi Industries, to take 10% of Saflife.

In November the life assurer bought a share in the All-share Index Fund.

Strauss to head rural services probe

INGRID SALGADO

A COMMISSION to investigate the provision of financial services to rural areas had been appointed in a bid to ensure such services were accessible to the majority, Land Affairs Minister Derek Hanekom said yesterday. (58) BD 20/1/95

Standard Bank Investment Corp chairman Conrad Strauss would chair the commission, which hoped to finish its work within a year.

Hanekom said rural financial services were integral to ensuring adequate finance for land acquisition, the productive use of land and rural development.

The present institutional framework was "inadequate".

Strauss said last night the commission's main brief was to examine rural people's access to savings, credit and money transfers. It would also examine aspects of insurance but this was not likely to be a major area of investigation.

The commission would also clarify the financial needs of the rural community; examine the institutional infrastructure required to satisfy their needs; and propose amendments to legislation which would

☐ To Page 2

Strauss

☐ From Page 1

enhance rural financial services provision.

It would also investigate the overlapping of services among present government institutions at national, provincial and local levels.

Other commission members include the Finance Department's Deon Brand, Premier's Peter Wrighton, Helena Dolny of the Wits Business School, Adv Steven Goldblatt, the Land Bank's Fanie Hugo, Bonile Jack of the National African Farmers' Union, the Agriculture Department's Deon Joubert, the Reserve Bank's Mike Lamont, Perm Bank's Totsie Memela, National Sorghum Breweries' Daphne Motsepe, the SA Agricultural Union's Jack Raath, the Development Bank's Nick Vink, and private consultant Kgotoki Nhlapo.

SANTAM (58) FM 20/1/95

Defining the business

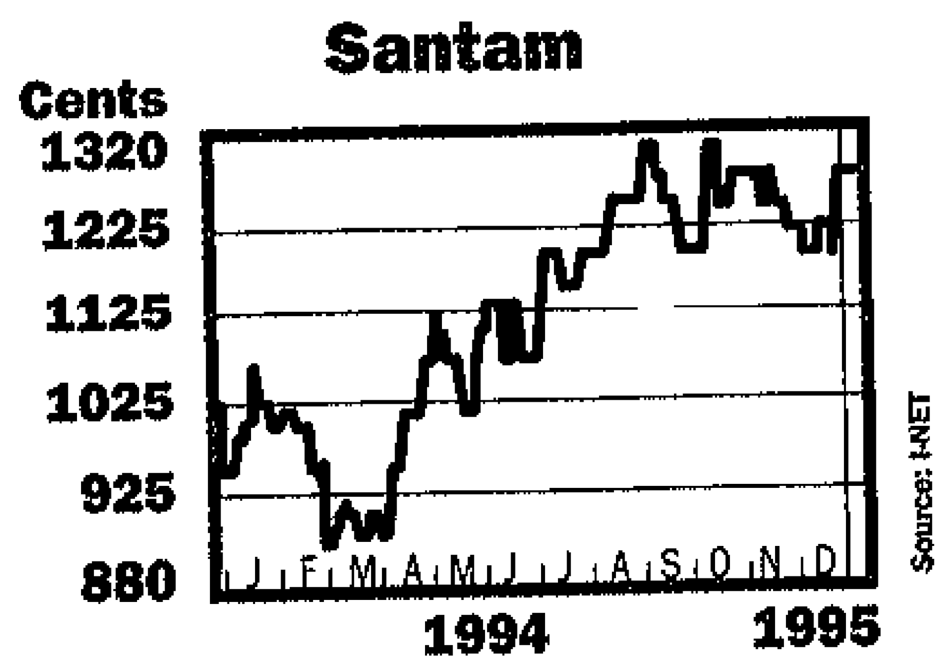
Activities: *Short-term insurance.*
Control: *Sanlam (65%)*
Chairman: *M H Daling. MD: J J Geldenhuys.*
Capital structure: *72,5m ords. Market capitalisation: R924m*
Share market: *Price: 1 275c. Yields: 4,5% on dividend, 8,8% on earnings, p:e ratio, 11,4, cover, 1,9. 12-month high, 1 300c; low, 925c. Trading volume last quarter, 1,1m shares.*

Year to Sept 30	**'91**	**'92**	**'93**	**'94**
Total assets (Rm)	932	1 171	1 373	1 686
Solvency ratio (%)	43,1	54,7	62,8	71,8
Net premium inc (Rm)	933	1 036	1 141	1 354
Underwriting prof (Rm)	12,4	51,6	61,3	12,3
Invest income (Rm)	76,5	90,9	106,2	112,7
Pre-tax profit (Rm)	n/a	113,7	151,1	102,7
Net Earnings (Rm)	50,9	79,4	109,2	80,9
ROE (%)	12,6	14,0	15,2	8,3
Earnings (c)	71	110	151	112
Dividends (c)	33	42	50	58
Tangible NAV (c)	565	787	992	1 342

Setbacks in the short-term insurance industry are invariably accompanied by squawks about competition and uneconomic rates. Whatever the merits of all this, it does not explain why, if the industry is so much of a dog, there are so many players, each scrabbling for a piece of the action — which is where the competition and uneconomic rates originate.

It is mainly during periods such as now, when underwriting profits are under pressure, that answers become apparent. A central issue is the number of misconceptions about the industry, perhaps the most important of which is the premise that the main business of a short-term insurer is insurance. It isn't.

From the standpoint of shareholders, their main business is the investment of funds accumulated from the profits earned on insurance. Each of the JSE-listed short-term insurers, Santam included, have accumulated large investment portfolios, the income from which substantially exceeds their underwriting results. A good starting point is to consider these companies primarily as investment companies and to evaluate them on this basis.



Even when Santam's underwriting profit peaked at R61,3m in 1993, this represented only 37% of total profit before tax and transfers to reserves. The rest came from investments, and the important point is that investment income brought to account through the income statement does not include the capital growth of the investment portfolio except to the extent that changes in the value of investments affect profits derived from the sale of investments.

To get a true picture of overall performance, it is necessary to take into account the capital growth element to establish a composite profitability ratio that encompasses underwriting results, investment income and capital growth.

The easiest way to do this is to add dividends back to tangible net worth and to calculate a ratio based on annual change in NAV. Compared with the traditional return on equity calculation, which has not exceeded 15,2% in the past four years, the composite return for 1994 was 41%, while the high and low since 1991 were 58% in 1991 and 32% in 1993 respectively — heaven forbid that the rest of us should have to endure such hardship and deprivation.

Santam's peak year as measured by the composite return was one when underwriting profit was relatively small — R12,4m against R51,6m in 1992 and R61,3m in 1993. Its worst year, with a composite return of only 32%, was 1993 when underwriting results were relatively buoyant, underlining the extent to which overall performance depends on investment, rather than underwriting, results.

1994's underwriting profit, at R12,3m, was almost exactly the same as that earned in 1991. However, EPS of 112c were 58% higher than in 1991 — again illustrating how investment income (this time excluding capital profits) influences the bottom line.

Another point that relates to the capital growth of Santam's investment portfolio is the effect this has had on the solvency ratio. Though always well above statutory requirements, Santam has traditionally been considered one of the Cinderellas of the JSE's insurance sector in this regard, but in recent years it has come to light with a doubling of the solvency margin (which measures shareholders' funds in relation to net premium income) from 34,9% in 1990 to 71,8% in the latest year.

This is unquestionably one of the reasons why new chairman Marinus Daling is able to report that, over the past four years, Santam has provided shareholders with an average annual return of 60,8% in the form of a rising share price plus dividends — clearly, investors' perceptions about the company are improving.

As regards dividends, the 1994 distribution was unaffected by the slump in underwriting results, and the R42m cost of the 58c total, up from 50c in 1993, did not even fully absorb the company's own dividend receipts of R47,8m — this was beneficial in that Santam was not liable for STC and, furthermore, has built up a useful credit since the introduction of this additional tax, which will help keep its overall tax rate down.

The share is undervalued relative to the rest of the sector and should have better upward potential than most of its competitors.

But the 4,5% dividend yield is, under current conditions, attractive for those requiring above-average income, especially as dividend growth should keep pace with inflation even if underwriting profits deteriorate further.

Brian Thompson

Banks' township lending to get R50m insurance

(58) ST(BT) 22/1/95

By SVEN LUNSCHE

THE government will set aside at least R50-million in its 1995/6 Budget to insure banks against bond boycotts once they start their lending programme in black townships, Housing Minister Sankie Nkondo said on Friday.

Mrs Nkondo also indicated that housing's percentage of the overall Budget would improve significantly over the next few years from its current level of one percent (R1,3-billion).

"During this week's Cabinet meeting it was decided to reprioritise government spending. Housing and education will be two of the major beneficiaries," she says.

Sources in the Department of Housing said that while no figures had been agreed upon there was a tacit understanding that over a five-year period housing would receive 5% of the total Budget, in line with international norms.

Former Housing Minister Joe Slovo set a target of building 1,5-million new homes before the end of the decade. "With a static Budget there is no way we can achieve this target," the source said.

Mrs Nkondo, still on a steep learning curve in her new portfolio, says that the government will rely on all the major players in the industry to finance the housing programme.

One of the most significant achievements of her predecessor was convincing banks to return to the townships after they had withdrawn from black areas in the wake of the bond boycotts of the mid-1980s.

In terms of the Mortgage Indemnity Scheme, passed by Cabinet last month, banks will this year put up R2-billion to provide about 50 000 loans to black households earning between R1 500 and R3 500 a month.

In return the government agreed to cover the banks against losses arising from political instability or rent boycotts.

"We still have to finalise the financial details but we will provide at least R50-million in 1995/6 to cater for potential losses by the banks," Mrs Nkondo says.

She is confident that a concerted campaign by the government, backed by the civics, will reduce the scale of non-payment for services in the townships.

A further obstacle to the resumption of bank financing is the finalisation of a builders' warranty scheme, which will protect homeowners from shoddy workmanship.

"We are close to concluding the details of the scheme," Mrs Nkondo says.

Apart from the budgetary allocations, housing will also receive significant funds from the reconstruction and development programme, she says, both in the current and in the 1995/6 financial year.

Northwest gives support to 'micro bank' for hawkers

THEO RAWANA

NORTHWEST province had become the first regional authority to sponsor a "Micro Business Bank" — a concept launched last year to finance hawkers, provincial finance minister Martin Kuskus said in Klerksdorp at the weekend.

Speaking at the launch of the fourth African Council for Hawkers and Informal Business (Achib) "bank", Kuskus said inaccessibility of finance was one of the most serious problems facing the informal sector.

"I say with due respect that the efforts of commercial banks to finance small business activities probably have very little impact on the financing requirements of the informal sector, if any.

"This reluctance is a worldwide phenomenon ... costs related to these small loans are high and there is a big risk element involved."

Kuskus said the Northwest government's involvement with Achib was in line with the reconstruction and development programme.

Achib president Lawrence Mavundla said other provinces needed to follow the example set by Northwest because developing small businesses would be an alternative to "perpetually sponsoring" unemployed communities.

Meanwhile, Achib has threatened to organise demonstrations against a plan by Grinaker to develop the Jack Mincer Park in the Johannesburg CBD into a shopping complex.

Mavundla said a Grinaker representative warned on Friday that hawkers trading in the park should vacate the area by today because the company had been given the green light by the new Transitional Local Council to develop the area.

Achib had requested the provincial government to "step in and see to it that we are not pushed around by big business". No comment could be obtained from Grinaker yesterday.

Metlife pledges RDP support

PREDICTING premium and earnings growth well in excess of inflation for Metlife in 1995, chairman Nthato Motlana has pledge his company's full support for the government's RDP.

Writing in the company's 1994 annual report released yesterday Motlana said the plight of the poor, the homeless and the uemployed had to be addressed. "The RDP alone, however, cannot be the economic panacea, because the successful implementation of the RDP and the resources needed for that purpose, in themselves require a fast growing economy.

(58)

Metlife, he said, fully supported the RDP as formulated in the latest White Paper and "we are looking forward to contributing to its successful implementation through our normal business activities".

CT 24/1/95

Motlana said South Africa's ecnomic recovery was slower than expected despite higher agricultural production and stronger growth in the major industrial countries of the world. "With a fast growing population, inadequate employment generation and increasing persnal tax rates, there is little prospect that the trend which saw a 1% decline in real disposable income per capita in 1993, will be meaningfully reversed during 1994 or 1995. Pressure from spending means that there is little income left for saving."

Motlana said either an improvement in the very low savings rate or substantial further capital inflows would be required to maintain the present economic upswing.

Namibian unit trusts grow

SAMANTHA SHARPE

OLD Mutual Unit Trust Namibian Growth Fund increased its assets to N$8,8m in the three months to December compared with N$7,2m three months previously, while sister fund Namibian Income Fund's portfolio rose R200 000 to R7,1m. 58

There were no quarterly figures available for the unit trusts, which were launched in July last year.

Portfolio manager Alwyn van der Merwe said the Growth Fund increased its stake in equities to 83% at the December quarter-end from 71% previously.

Old Mutual Income Fund kept its funds invested at the short end of the money market in expectation of further interest rate increases, he said.

"Call money was switched to negotiable certificates of deposit with maturities of three to 12 months to improve running yields." BD 24/1/95

Banks bare souls in bid to woo Gauteng

BD 24/11/95 (58)

SAMANTHA SHARPE

SA's four major banks — First National, Absa, Standard and Nedbank — were compelled yesterday to detail their affirmative action strategies and investment expenditure in an effort to woo the Gauteng legislature for its R10bn account.

The legislature asked the banks to appear at a public hearing to explain their reconstruction and development programme (RDP) strategies as part of the tendering process for the account. It said the winning tender would be announced before the end of the month.

A slick presentation by Standard Bank showed that 40% of its staff members were black while 64% of the total were women. Supervisors were 25,5% black, junior management 8,2%, middle management 3,9% and senior management 1,9%.

Grilled about black representation at board level, Standard Bank MD Mike Vosloo said the bank had seven black directors, with further representation at a regional board level.

FNB said that on the managerial front, which included all staff from department head up, the ratio of black to white employees was 17 to 83, while the ratio of male to female workers was 58 to 42. All recruitment areas had been advised to recruit a minimum of 50% black staff.

Nedbank said 60% of its staff were women; 20% of its managers were from disadvantaged groups and women. "We are arguably the bank with the highest-ranking woman executive and the only bank with a black group executive director."

The bank said it had established a reconstruction and affairs division in November. This included a dedicated RDP unit with a R41m budget. But the other banks cautioned that the RDP should be an integral part of their organisations without a separate department to "co-ordinate the cheque writing and handouts".

Absa said it intended to enlarge the pool of promotable candidates from disadvantaged communities rather than enter the poaching merry-go-round. Blacks constituted 48,3% of appointments made by the bank in September.

The bank said its level of black clerical staff in September stood at 20%, supervisory staff at 4,9%, managerial staff at 1,3% and specialist staff at 7,5%.

During the past year two new black members were appointed to each of Absa's eight regional boards, while a "long-serving" black regional director was appointed to the group board.

● Picture: Page 3

R400m boost for Mutual properties

(58) CT 26/1/95

By MAGGIE ROWLEY
Property Editor

OLD Mutual Properties is injecting a further R400m into its national property portfolio, with more than half of this amount going to industrial developments.

Old Mutual Properties' chief Ian Watt said industrial property was continuing to lead the recovery in the property sector and, with rentals on the move, it still provided the greatest potential growth area.

Much of the increased demand at all major centres, he said, was coming from industrialists' needing to upgrade premises to compete in the global market.

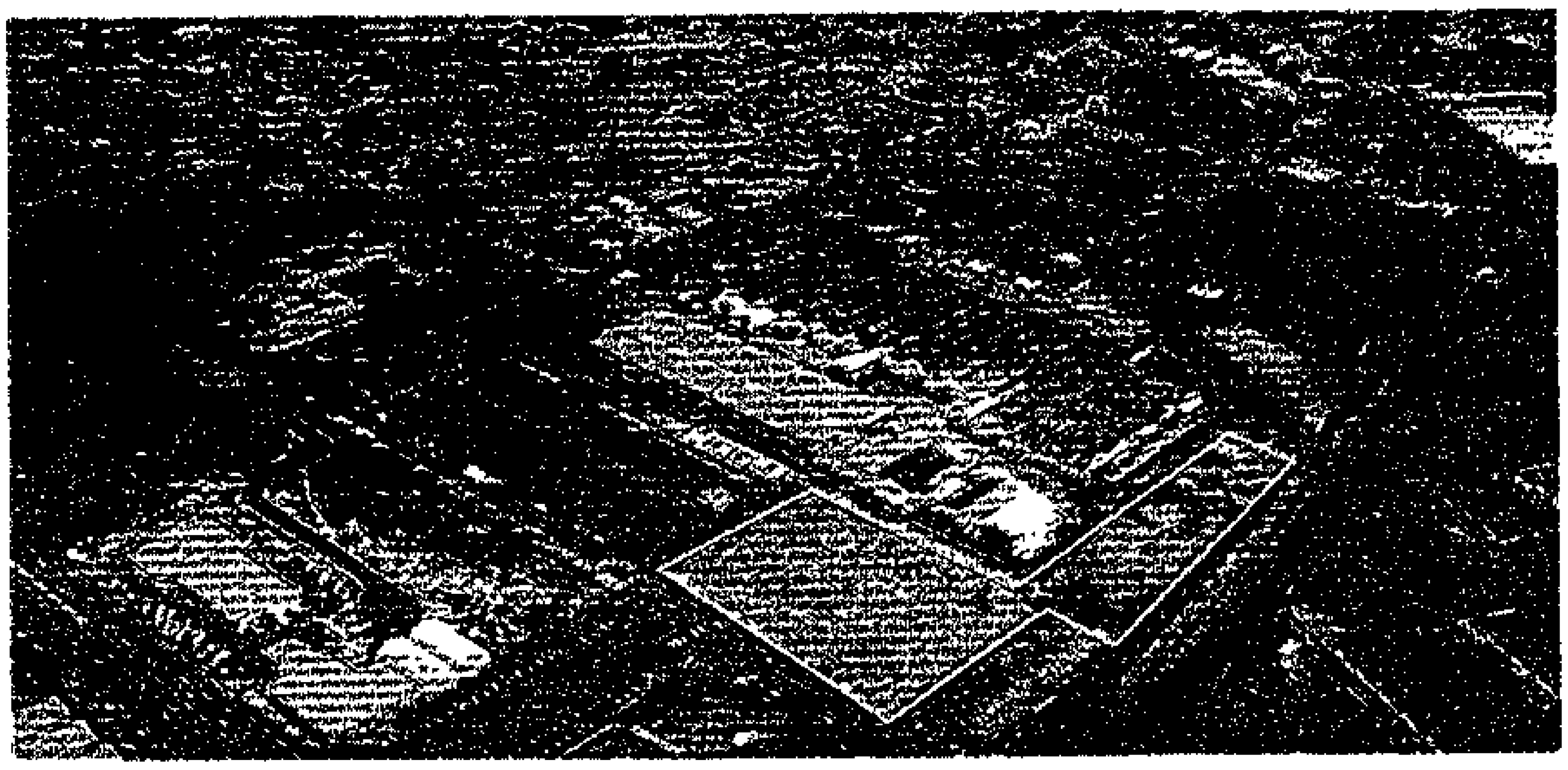
Due to the recessionary years when industrialists tended to make do with what they had, much of the existing industrial property stock became obsolete and the need for modern, cost efficient and competitive manufacturing and warehousing premises was spurring new development.

Old Mutual has vast national holdings of strategically-placed land which account for about 5% of their total portfolio and which was stockpiled in recent years to meet the anticipated recovery.

Indicative of their bullish outlook for this sector, a number of developments are also being undertaken on a spec basis.

Watt said construction was underway on industrial projects in all three major CBD areas. In the Western Cape, where Old Mutual concentrated its industrial property development over the past 18 months, three new projects are being developed at a cost of more than R40m.

These include the construction of three warehouses totalling 11 500m² at the company's Central Park development in Elsies River and a further two warehouse complexes in Epping — one of 15 800m² in Fitmaurice Avenue and another with 5 000m² in Bofors Circle.



EXPANSION ... An aerial view of Old Mutual Central Park in Elsies River, one of three new industrial developments in the Western Cape.

Old Mutual also has land for industrial development in Milnerton and Bellville.

However, the greatest demand was now coming from the Guateng area which was receiving the bulk of new investment with a R85m injection into three industrial parks, which will boost Old Mutual's industrial property portfolio in the region to around R1,2bn.

These are in Denver and Selby in Johannesburg and Roseville in Pretoria.

While most of the take up was being fuelled by existing entrants, who were expanding or upgrading, there was also some demand from foreigners opening local operations such as the Pepsi Cola operation by New Age Beverages which had taken space in Germiston and Federal Mogul for which they were developing the Denver site.

"However, we do not foresee a flood of demand from this sector," he said.

INSURANCE (58) FM 27/1/95

Cadaverous commissions

Pretoria firm Noordvaal Brokers and associate Botco Investment Co have been put in curatorship. The Financial Services Board, which applied for the curatorship, says Noordvaal has not paid over to an insurer funeral cover premiums for about 30 000 insured people. The premiums were retained by Noordvaal, which settled claims itself. Botco's role was to invest part of the monthly premiums. The board says it is illegal, in terms of the Insurance Act, for a broker to underwrite risks.

The board also alleges the commission Noordvaal retained on business passed to insurers had reached 50% of the premium — far more than the legal maximum commission for life business. Industry practice is for a registered insurer underwriting the business to take the entire premium, then remit the correct commission to the broker which introduced the business.

The board says Noordvaal has a potential liability to its investors of R13m and the curator's first task will be to see the cover is underwritten by a registered insurer.

The board alleges that Noordvaal not only acted as an insurer but failed in some cases to see that premiums were invested for the benefit of policyholders. The board cited one "insured" who has been making monthly payments for over two years but until now none of his investment funds have been passed to Botco. Anyone who wants to inspect the full investment agreement is required to pay an inspection fee of R50.

As with the furore over medical benefit funds (see page 43), the issue is one of regulation. Some medical benefit funds are not obliged to report to any regulator. That will change after the questionnaire issued by the Registrar of Medical Schemes has been analysed. Insurance brokers are not yet regulated and Noordvaal's mistake was to engage in an activity — direct insurance — which is rigidly regulated.

The matter comes back to court on February 28 when proprietor Hendrik Botes will ask for the curatorship to be lifted. He claims the details of his "Noordvaal Investment and Family Protector" scheme were given in a registered letter to the board dated June 1 1993. "We didn't hear anything until early this month when an inspector came here and said we were retaining too much commission." ■

Rivalry between banks 'to grow'

BD 30/1/95 (58)

SAMANTHA SHARPE

COMPETITION among local banks for municipal business would be heightened by the pending local government elections, banking industry leaders say.

Standard Bank has decided to launch a public finance division aimed at identifying aggressively reconstruction and development programme projects suitable for project finance on a commercially viable and sustainable basis.

Standard Bank MD Mike Vosloo said the division would apply the bank's network and knowledge to lend support in the area of bulk infrastructure including water provision, sewerage, electrification, telecommunications and roads.

"This public finance division will work in partnership with the private sector and government at all levels, but will ensure that significant progress is recorded in meeting the targets for the delivery of public goods and services," he said.

Nedbank Investment Bank executive GM Willy Ross said that once the local elections were over banks would have to be on their toes if they wanted to start funding local government infrastructural projects.

He said Nedbank's corporate division would put up the financial muscle for local government infrastructure projects, with Nedbank Investment Bank helping to structure the financing.

Amalgamated Banks of SA (Absa) GM Johan Kotzee said the bank had a public sector unit, which identified and co-ordinated possible public sector projects.

The central team applied a multidisciplinary approach to these types of deals, with team members coordinating involvement from corporate finance, the treasury and other relevant divisions.

Kotzee said the local and metropolitan elections were a key factor behind the banks gearing up for infrastructural project finance, with the former municipalities offering "fairly attractive business".

First National Bank senior GM Viv Bartlett said a public finance team had been in place for some time, a move which had propelled the bank's share of municipal business to just under 30% from close to 16% two years ago.

Bartlett said the bank had already put out R1bn in terms of these deals and had committed an additional R1bn to further projects.

Deposit insurance talks advance

SAMANTHA SHARPE

PLANS for a deposit insurance scheme aimed at protecting small investors from the threat of bank failure have moved up a gear. The task force appointed to tackle the possibility of implementing such a scheme will meet on Wednesday, Reserve Bank deputy registrar of banks Carel Oosthuizen said at the weekend. (58)

He said it was vital that the task force, which consisted of representatives from the Reserve Bank, commercial banks, SA Institute of Chartered Accountants and academics, be more representative of disadvantaged communities. BD 30/1/95

Community Bank CE Cas Coovadia and members of the SA National Civic Organisation had been asked to attend the meeting.

But the call for a scheme designed to protect the unwary investor with neither the skills nor expertise to judge the risk of a particular bank has sparked mixed reactions from the market.

Opponents have warned that a deposit insurance scheme could lead to distortions of the banking system and ultimately harm those it was designed to protect.

They said a guarantee to banks that they would not have to take responsibility for failure could become a key factor behind a fall in lending and deposit standards, with directors no longer liable for their actions. Smaller banks would be caught up in the pursuit of profits, secure in the knowledge that their backs were covered should they collapse, while depositors would be attracted to banks offering the highest returns regardless of risks.

Supporters of the scheme said it was essential for the local banking market, with the expectations of new investors and their demand on government to provide investor protection running high.

Gauteng account to Standard Bank

GRETA STEYN

THE Gauteng legislature is expected to announce today that Standard Bank has been awarded the province's R10bn bank account after public submissions by the big four banks last week.

Gauteng premier Tokyo Sexwale and the finance and economic affairs minister Jabu Moleketi are scheduled to address a news conference today to announce the name of the bank that will handle the provincial government's funds.

Banking sources said last night they had been informed Standard Bank had convinced the province that it had the banking capacity and the social credentials needed.

Expectations had been that the account would go to Nedbank, whose involvement in the low-cost housing market through the Perm placed it in a favourable position.

Standard gave a slick presentation at public hearings called by the Gauteng legislature last week as part of the tendering process. The bank said 40% of its staff members were black, while 64% of the total were women. Almost 4% of middle management and 1,9% of senior management were black. (58)

The four major banks — including Absa and First National Bank — will get a chance to square up again for the Northwest's R7,5bn account tomorrow, and an announcement is expected a week later.

Merchant bank pulls it off — again

CT 1|2|95 (58)

Deputy Business Editor

FOR the 17th consecutive year, Rand Merchant Bank has reported earnings growth in excess of 20% with attributable profits up 25% at R33,5m for the six months to end December against R26,8m for the corresponding period the previous year.

MD Paul Harris said all divisions within the bank, a wholly-owned subsidiary of Momentum Life, had reported profits for the period with net interest income of R44,1m being sufficient to cover operating expenditure of R43m, allowing investment and other income to pass straight onto the bottom line.

Taxation was down R1,9m at R10,6m during the corresponding period in 1993 resulting from the realisation of a capital surplus on strategic investments and other non-taxable income.

Capital and reserves increased 17,5% to R443,7m which does not include unrealised profits on the investment portfolio, which have increased substantially from the R60,5m level as at June 30 last year, he said.

RMB's risk-weighted capital/asset, he said, was well in excess of the current Banks Act requirement of 8%.

Harris said a notable development over the review period had been the improved access to foreign credit lines following the normalisation of political relations between South Africa and the rest of the world. This has opened up other sources of finance for their South African clients and would, he said, become a major feature of the local market in the years ahead.

The corporate finance division performed exceptionally well, structuring deals on behalf of Randgold, Randcoal, Sentrachem, and M-Net/Multichoice. Furthermore, the corporate finance pipeline looks very promising.

The trading division also performed very well.

He said RMB had maintained the high quality of its advances book and aims to maintain a conservative general provision for bad and doubtful debts. The amount of R12,4m in the income statement increased the provisions for bad and doubtful debts to R55,2m.

The bank was continuing to invest substantial amounts in technology to improve its trading performances and efficiencies and was currently engaged in a major rewrite of its entire systems.

Harris said they were gearing up for the entry of foreign competitors into the market but believed "there will be enough business for everyone".

"Corporate restructuring, privatisation and empowerment will open new avenues of opportunity for merchant banks. We do, however, find ourselves at a disadvantage with regard to foreign competitors in several respects. Foreign exchange regulations prevent SA merchant banks from participating in or promoting certain markets."

The declaration of a dividend by RMB has been postponed, "as this is more tax effective for the group", he said.

He said the board was confident RMB was well positioned to meet the challenges of the future and should achieve real growth for the full financial year.

Standard Bank wins Gauteng's R10bn account

SAMANTHA SHARPE

STANDARD Bank scooped the coveted R10bn Gauteng bank account, despite Nedcor walking off with top honours in the reconstruction and development programme (RDP) category, the Gauteng regional government said yesterday.

The bank would take over the province's account from April 1. (58)

The four tendering banks were rated according to their pricing, which had a 20% weighting in the tender, technical capacity (30%) and RDP strategies (50%).

Provincial finance and economic affairs minister Jabu Moleketi said Nedcor had surpassed Absa, Firstcorp and Standard in the RDP rating. But it would have been difficult to justify awarding it the tender given its pricing strategy.

The criteria used to decide which bank won the RDP category centred on endorsement of RDP philosophy, internal corporate commitment to the RDP and lending and investment activities. It stretched to the banks' other business practices, including labour relations and support of small and medium-size business enterprises.

Gauteng premier Tokyo Sexwale said all the banks had qualified, but it was clear Standard "understand what is required of them as a bank — they see themselves, correctly, as having to become agents of change". Standard's pricing was also very competitive. It had the capacity, technical ability and experience in the public sector, geographic spread in terms of branches and "showed good faith in its willingness to invest in the RDP with us".

Standard Bank MD Mike Vosloo said the bank was delighted to have won the contract and would continue its aggressive tendering strategy for other provincial accounts. He declined to elaborate on the banks' pricing for the account, but said it would ensure a healthy profit margin.

Nedcor divisional director Derek Muller said the bank was disappointed at failing to win the tender. "But we look forward to working with the Gauteng government in other ways in the future." BD 1/2/95

● Picture: Page 3
● Comment: Page 8

Liberty Life business attains record level

Star 2/2/95

58

■ BY CHARLOTTE MATHEWS

Liberty Life's sales and marketing efforts in the life insurance and pension markets have paid off as record levels of new business were written in the 1994 financial year, MD Alan Romanis said yesterday.

Total new business rose by a third to R3,4 billion, which reflects 45 percent growth in total individual business to R2,4 billion and 11 percent growth in group new business to R1 billion.

Annualised recurring premi ums, including both individual and group business, were 23 percent better at R919,3 million, while total single premium business climbed 37 percent to R2,5 billion.

Liberty Life's new business figures follow a statement from the Sun Life group of the UK that its total new annual premium business had grown by 22 percent to £129,8 million, although total new single premium business had dropped by 16 percent to £1,9 billion.

Sun Life is 50 percent-held by TransAtlantic Holdings, in which Liberty Life has an effective 57,6 percent interest.

Sun Life said yesterday 1994 was a difficult year for the industry for new business and it had consolidated the gains made in 1993.

Measured by new regular premiums, plus one-tenth of new single premiums, Sun Life's new business was £318,2 million — 3,5 percent below 1993's.

Sun Life MD John Reeve said because business had more than doubled over the three years to 1993, which was well beyond the performance of the market as a whole, results were satisfactory.

Low-income lending group launched by IDTFC

58 CT 2/2/95

Own Correspondent

JOHANNESBURG. — The Industrial Development Trust Finance Corporation (IDTFC) has launched a low-income retail sector lending institution, with a capital base of R150m.

Called Alternative Finance (Altfin), it would give low-income borrowers access to unsecured credit, MD Frans Pretorious said yesterday.

Altfin was born out of the restructuring of the IDTFC and marked a shift from its role as a wholesale financial institution.

It has 33 000 customers with a debtors' book of R80m.

Altfin will be based in Auckland Park, operating initially from offices in Benoni, Braamfontein, Durban, East London, Eastern Transvaal and Rosslyn.

Help for low-income borrowers

BY THABO LESHILO

The Independent Development Trust Finance Corporation (IDTFC) has launched a low-income retail sector lending institution, with a capital base of R150 million.

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(58) Star 2/2/95

Banks grilled in Northwest

SAMANTHA SHARPE

MMABATHO — The battleground for the provincial governments' bank accounts moved to the Northwest yesterday, where the four major banks were called to clarify their tenders for the R7,5bn account.

Standard Bank, which was awarded the Gauteng government's R10bn account this week, was put in the hot seat because it had been the former Bophuthatswana government's only banker. The bank also came under fire for the labour unrest in its branches in the region last year. (58)

Nedcor's presentation featured well on the reconstruction and development programme (RDP) front. But the bank was grilled about its limited presence in the province. It had only 11 representative offices and no flagship in Mmabatho.

Northwest finance minister Martin Kuscus said it would be difficult for Nedcor to get a flagship branch up and running in the eight weeks left before the implementation deadline. But Nedcor countered that it could bring banking to the large rural "unbanked" community through "smart card" technology. BD 2/2/95

Absa had more than 70 representative offices in the region, but that might not make up for its image problem. The Northwest panel noted that Volkskas had "a poor marketing image".

First National Bank, which appeared to enjoy a fairly neutral image, had about 20 offices in the province. The bank said despite having been restricted in its ability to implement affirmative action goals in the region "due to factors beyond our control", it had made "significant strides" since the election. It was active in the province through its agricultural lending, and was involved in capacity building initiatives with Agribank and Agricor.

Kuscus said the chosen bank would have to have the technical capacity and the right RDP strategy. A "level playing field" had been created, which was a marked departure from the past when one bank was allowed to monopolise banking in Bophuthatswana. The winning tender would be announced on Tuesday.

Sanlam tests its strengths

BRUCE CAMERON ARG 4/2/95 (58)
Business Editor

IN the face of tough competition, Sanlam, the country's second biggest life assurance house, is undergoing a major revision of its business strategies for the future.

After years of being driven by "market share" and operating much like a public service, the name of the game is profit for policyholders (who in Sanlam's case are effectively the shareholders).

And, in line with many international companies, its senior executives are now being rewarded on the basis of the performance they achieve.

Managing-director Desmond Smith, who heads a comparatively young and hard-driving management team, says market share alone is no longer an accurate guide to the success of a mutual assurance company because of the proliferation of the type of business and the wide array of products in which assurance companies are now involved.

There is also a growing percentage of off-balance-sheet business done by assurance companies, which includes managing assets on behalf of independent pension funds and unit trust companies.

The assurance company has come a long way since the days when it virtually sold only life assurance.

Like others it is now involved in the health industry, unit trusts, a wide array of investment vehicles through the life assurance section and retirement funds.

Because of this, says Mr Smith, it is difficult to assess market share, which can vary from one division to another and even from product to product.

The answer, he said, was to change the focus or measure of success.

That measure had to be value added to the funds of its most important stakeholders — its policyholders and, in the case of a proprietary life office, its shareholders.

In Sanlam's case R20,8 billion was added to the value of policyholders' funds during 1994.

Of this amount R1,1 billion has been used to increase Sanlam's accumulated surplus by 52 percent to R3,2 billion.

The surplus is the assurance the company itself has that it can meet its obligations to policyholders and cover the high initial costs of new business without limiting growth.

Mr Smith said the R1,1 billion "is akin to profit for the year retained by the company to further improve the security of policyholders".

And value added for policyholders is essentially the good performance of the assets managed by the company, i.e. what the policyholders can expect in return for the money they invest.

The performance includes the interest and dividends earned as well as capital growth.

If the performance is good, the argument is, the clients are sure to follow.

Mr Smith says Sanlam is reassessing its position, products and services as part of its changing approach.

Mr Smith said any organisation worth its salt should reassess its position on a continuing basis "in the dynamic changing environment in which we find ourselves".

Banking showdown

(58)

CP 5/2/95

By JEFFERSON LENGANE

STANDARD Bank South Africa (SBSA), winners of the tender to handle Gauteng's R10 billion RDP account, is headed for a showdown with the Banking, Insurance, Finance and Assurance Workers Union (Bifawu) which has vowed to frustrate the bank's efforts to open a branch for the Gauteng government and to help establish the provincial treasury.

Bifawu made the threat in the wake of the announcement by Gauteng Premier Tokyo Sexwale at a recent press briefing that his government would be banking with SBSA from April 1.

Bifawu handed a memorandum to the MEC for Economics and Finance on January 23, demanding that the province suspend its decision on the tender for the account.

Despite the Bifawu memorandum Sexwale announced this week that SBSA's tender had been successful. He said: "It is clear that they (SBSA) understand what is required of them as a bank. They see themselves, correctly, as having to become agents of change. We feel that Standard Bank is prepared to make available its technology and expertise to ensure that we develop an effective and efficient administration – to ensure that what we do, we do well."

Although Nedcor was ahead of its rivals on its RDP rating, the committee felt "it would be difficult to justify awarding them the tender given the extent of the price discrepancy".

FNB and ABSA were ranked lowest. Bifawu has expressed disappointment at Sexwale's decision.

"We are highly disappointed by the decision when we as a union asked the MEC for Economics and Finance to afford us an opportunity to inform the legislature about the appalling industrial relations of the banks.

"Though the matter has been finalised we still ask the Gauteng government to afford Bifawu an opportunity to make its position known to it, as initially requested.

"It is ironic that the Gauteng government did not appear interested in the working conditions of the workers in these banks although the majority of these workers voted them into power," said publicity secretary Chris Motlhamme.

Bifawu has threatened to mobilise its members at SBSA to frustrate efforts by SBSA to establish an RDP branch and the treasury.

TOKYO SEXWALE

■ On Wednesday the four banks were called on to submit their credentials to handle the North-West RDP account in Mmabatho.

In this round, SBSA appears as the underdog – given its history of labour disputes in the region. Late last year the SA Commercial Catering and Allied Workers Union alleged the bank was behind

"We will call on our members – and they are ready – to embark on go-slows to frustrate administrative procedures if the Gauteng government fails to consult with us," said Motlhamme.

the non-recognition by Stanbo and called on the North West Government to consider withdrawing its account with SBSA.

First National Bank appears poised to win the account. The announcement is due to be made on Tuesday.

NEWS FEATURE *Metlife looks forward to a future that might be all white*

The Metropolitan Life mystery

(58) sowetan 6/2/95

■ NO CLOUT *Is black ownership synonymous with affirmative action?*

By Mzimkulu Malunga

AFTER PRESENTING IMPRESSIVE financial results to investment analysts in Johannesburg last week, Metropolitan Life's managing director, Mr Marius Smith, concluded: "We at Metlife will be looking forward to the future."

For a company that is ranked the seventh-largest insurance outfit in the country and is black-controlled, the slogan: "Looking forward to the future" seems appropriate.

However, a closer look at how the company is run raises a question: Is black ownership synonymous with affirmative action?

Effectively promoted

Towards the end of last year Metlife made a number of changes to its top management structure. Out of the adjustments 10 people were effectively promoted, but there was not a single black.

The company's top management structure that directs the day-to-day running of the business is composed of 24 people and only one of them is black.

Ironically, over half of Metlife's board members are black and its chairman is one of South Africa's leading black businessmen, Dr Nthato Motlana.

The company's management says the latest restructuring does not deviate from an affirmative action process announced in December 1993.

Generally, there is a shortage of highly qualified blacks in the insurance industry.

For instance, currently there are no black actuaries. The Actuarial Society is hoping that the April exams could produce the first batch of black actuaries.

Top management

On more than one occasion Smith was asked to say specifically whether the shortage of black skills was one of the factors hindering the company to promote them to the top management, but he chose to stick to his initial response, which goes:

"We remain committed to our targets that 40 percent of all new senior appointments up to 1996 must be black and thereafter increase to 50 percent.

"Affirmative action is not only the integration of the blacks into general (top structure) and top management positions.

"It also relates to other levels in the organisation and creating opportunities for previously disadvantaged people which include women, coloureds and Asians. A woman was promoted into the general management in the restructuring," he said.

Some of the pronouncement quoted above contributed to win Metlife a Scroll award for the best affirmative action policy in the insurance industry.

Direct black shareholding in Metlife materialised in August 1993 when a consortium of business people led by Motlana acquired a 10 percent stake in the life assurer.

Early last year the consortium increased its stake to 30 percent — a development which made them the biggest shareholders in Metlife.

Writing in the latest issue of *African Business* magazine Tim Cumming, a consultant at the stockbroking firm Simpson McKie, says over 90 percent of Metlife's new business is sourced from the black community.

Metlife itself is always proud to mention that over 75 percent of its policyholders are black.

Black-dominated board

The restructuring saga at Metlife is not short of further ironies. For instance, all the latest promotions have been approved by the company's black-dominated board.

Also, three of the nine black directors are members of the human resources committee and on them is the chairman of the committee.

When blacks acquired a stake in Metlife the development raised aspirations of black managers with the outfit.

However, it was not to be so.

Some even go to an extent of suggesting that the advent of blacks on Metlife staff intensified the arrogance of white managers in the company.

While outside the company was exploiting its newly acquired black image at every available opportunity and talking positively about affirmative action, no systems were put in place to accompany the sweet talk, the managers argue.

Smith himself agrees that the direct black shareholding helped change the image of Metlife.

Metlife board member Mr Enos Mabuza.

Board member Mr Don Mkhwanazi.

Board member Mr Dikgang Moseneke.

There is no certainty that the good financial performance recorded by Metlife in the past two years is linked to changes in the shareholding structure of the entity.

But it is interesting to note that, when blacks got involved with the company, Metlife's share price was trading at just under R20. Since August 1993, its share price has appreciated dramatically, threatening to reach the R40 mark.

Although at the close of trade on Friday it had fallen to R34, it had been trading at R37 for most of the month.

This outstanding performance has even stimulated investment analysts to re-rate the company.

Obviously, Metlife's shareholders are smiling all the way to the bank.

But some of those who make the company tick, several of whom are long-serving employees of Metlife, are not impressed with the way things are going, particularly the latest restructuring.

"For a company that had its first black branch manager in 1972, you would expect more progress to have been made in the advancement of blacks," says a black manager who does not want to be named for fear of victimisation.

The executive director of the Black Management Forum, Mr Bheki Sibiya, challenged the powers-that-be at Metlife to come up with concrete steps to aimed at advancing blacks to senior positions in the company.

"We view the situation at Metlife with great concern," he says, adding that, if the black owners of Metlife do not come up with detailed programmes on how they intend advancing blacks in Metlife, "the black economic empowerment they are speaking about means to empower the few and impoverish the many".

The National Black Business Caucus' executive director, Dr Danisa Baloyi, says:

"This shows that appointing blacks to boards does not necessarily mean they are influential in how the company is run, particularly if they are non-executive directors."

Baloyi says she finds it odd that not much appears to have changed at Metlife's top structure because, when the black consortium first became involved in the company, the management made firm commitments to affirmative action.

Like many traditionally white companies, Metlife appears to have succeeded in appointing more black supervisors and junior to middle managers.

The company says 65 percent of its supervisory managers and 33 percent of the middle managers are black.

But when it comes to senior and top management, the situation changes. Here, the statistics supplied by the company read 17 and four percent respectively.

> **"Some even go to an extent of suggesting that the advent of blacks on staff intensified the arrogance of white managers. While the company was exploiting its acquired black image and talking positively about affirmative action, no systems were put in place to accompany the sweet talk"**

Saccawu queries account decision

RENEE GRAWITZKY

THE SA Commercial, Catering and Allied Workers' Union (Saccawu) has questioned the criteria used by the Gauteng legislature in granting Standard Bank the region's account in light of the bank's alleged history of failing to commit itself to granting basic worker rights to Saccawu members.

Assistant general secretary Herbert Mkhize said last week that for years Standard Bank had used the recognition agreement with Federation of SA Labour Unions finance affiliate Sasbo to prevent Saccawu from organising.

A conciliation board meeting was held between Standard Bank and Saccawu last month to discuss the union's demand for recognition.

Standard Bank human resources GM John Verster said in response that "current information has revealed that union representativeness throughout the group's one bargaining unit is around 2%, which is not considered to be sufficient for granting recognition". He said Standard Bank had always promoted freedom of association and the bank had also been unionised for more than 70 years. (58)

The parties agreed to extend the life of the conciliation board for a further 30 days. BD 6/2/95

This was decided on the basis that there was room for further discussion.

Verster said the corporation was looking for substantive information on the union's representativeness to motivate its case for recognition.

Citibank will have full operation in SA by July

(58) BD 8/2/95

CITIBANK, the largest US banking group, said yesterday it would have fully fledged investment and commercial banking operations in SA by July, eight years after sanctions pressure prompted the group's withdrawal from the country.

Terry Davidson, Citibank's SA representative, said confidence in regional economic revival, niche opportunities in the local market, and SA companies' growing offshore ambitions had spurred Citibank's decision to reinvest.

"We can bring a great deal to this market because of the breadth of our international base," he said.

Davidson said Citibank was the international bank with the widest network in Africa with offices in 14 countries as well as 95 offices around the world.

Citibank joined several international banks and investment houses already in SA in setting up a representative office last year. The group had moved its eastern and southern African head office to Johannesburg from Nairobi.

Citibank was waiting for the Reserve Bank to update its requirements for foreign banks before deciding whether to set up a branch or subsidiary, or both.

Davidson said whatever regulatory framework emerged, Citibank would set up "a broad-based boutique operation" offering specialist treasury, corporate finance and commercial banking services.

"It makes a lot of sense to put a franchise in SA and integrate it with our eastern and southern African operations," Davidson said.

Davidson said booming trade, confirmed by latest customs and excise figures, between SA and its neighbours offered attractive banking opportunities.

SA exports to the rest of Africa surged 26% to R6,63bn in the first 10 months of 1994 from R5,27bn in 1993. Imports jumped 39% to R1,92bn from R1,38bn over the same period.

Davidson said the Citibank franchise would be relatively small for the first few years, but prospects for expansion were good if economic growth accelerated above 5% a year in SA and trade continued to grow.

Davidson was cautiously optimistic on economic prospects in the region as a whole. "Africa is undergoing very fundamental changes even if they are slow and in difficult stages," he said. — AP-DJ.

COMPANIES

FNB gets $10m export credit line

BD 9|2|95

(58) NICOLA JENVEY

FIRST National Bank said yesterday that the Bank of Boston would supply it with a $10m export credit funding line.

The guarantees would be underwritten by the Export-Import Bank of the US (Eximbank).

FNB group treasury and international division GM John Moses said this was the first agreement for export finance between the banking group and a US bank. The move would facilitate export credit funding for imports of new capital equipment at "very competitive rates".

While financing would be available for 85% of the value of imported capital equipment, FNB could finance the outstanding 15% under normal commercial terms.

Moses said the minimum transaction value was $100 000, while large deals could be accommodated under alternative Eximbank financing structures.

Sanctions and SA's risk rating allocated by offshore lenders meant very little medium- to long-term offshore funding had been available in recent years.

"These export credit schemes are therefore one of the few methods currently available to attract medium- to long-term offshore finance. They are especially attractive to foreign-held companies that are restricted in terms of the amount of funding they can borrow locally in rands," Moses said.

As SA was historically a manufacturing equipment importer, such facilities could assist in deferring equipment payments. Imports of US goods that would have qualified for such funding amounted to about R4bn in 1993 — more than half the value of total US imports for the year.

Council tender could set bad standards

WM(BM)10-16/2/95 (58)

The way the Gauteng council bank contract was won could distort the economy, reports Jacques Magliolo

ECONOMISTS have voiced concern that the way the Gauteng council awarded the tender for its R10-billion banking contract may have far-reaching adverse economic consequences.

Many economists agree the Standard Bank's ability to outbid its competitors for the contract set a precedent. Gauteng's attempt at developing transparency could see all future national and regional contracts placed on tender with the main criterion being reconstruction and development programme aims.

Sanlam economist Pieter Calitz says: "It is possible, if all contracts are subjected to such weighting, there could be a multiplier effect on central government's RDP drive." This suggests that, while the RDP may boost the present upswing, a combination of all regional tenders could boost it too far too fast.

Graham Boyd, economist at stockbrokers Simpson McKie, says: "It is imperative for South Africa to have a protracted upswing. These RDP criteria may influence the way in which businessmen carry out their activities."

He adds: "Businessmen who previously thought that they had no chance in being granted government contracts, could now change the focus of their business to try and obtain such contracts."

Brick by brick: Gauteng premier Tokyo Sexwale at a brick laying ceremony at an RDP housing project

PHOTO: HENNER FRANKENFELD

Why would a change in business focus create a problem? Calitz explains: "Our economic cycle consists of three phases. An upswing starts with an increase in exports, followed by general economic growth which leads into an investment phase."

The last phase ends with the economy overheating as companies borrow from banks to expand operations. This results in inflationary pressures and forces the Reserve Bank to push interest rates up.

National preoccupation with the RDP means that significant funds are placed into sectors of the economy which would normally only grow during the last phase.

"Growth in gross domestic fixed investment (GDFI) usually takes place during the investment phase of the economy. Another way of translating significant growth in GDFI, is to say that we will have a boom-bust scenario," says Calitz.

At this week's Southern Life conference, economist Sandra Gordon said: "Following an increase of about 4,5 percent in 1994, a surge in GDFI is expected during 1995, with an increase of up to nine percent anticipated. This will be predominantly driven by RDP-related expenditure."

Another Cape Town-based economist says: "If we have an investment phase-led economic upswing it means that manipulation of the economic upswing causes intense and high growth, but is usually short-lived."

Old Mutual economist Terence Moll disagrees: "The criteria will have a negligible influence on the overall economy." He reasons that companies will most likely simply reclassify what they are already doing and call it "RDP strategy".

"We need a more sustainable economic growth," he says, adding that he believes, if small businesses did get tenders, they would most likely be "labour intensive, which would slow down the economic cycle."

However, economic signs that interest rates are to increase are already in place. Gordon says: "Interest rates are likely to rise by two percentage points before June this year."

There would be little gain if low cost housing was finally provided, but buyers were suddenly faced with climbing interest rates and were unable to pay bonds.

INSURANCE FM 10/2/95

Talking mergers

(58)

Allianz and Aegis insurance executives were deep in merger talks in Germany last week. But both companies deny anything will happen immediately .

On Monday, Aegis CEO Brian Seach said from London that, though various possibilities had been explored, "there's no deal in the offing. I don't discount that something could result in the future."

Allianz MD in SA Alfred Gossner issued a staff statement with a reassurance that no jobs were at stake and that any arrangement agreed by Allianz would see their company in the driving seat. Gossner declined further comment to the *FM*.

Rumours of a merger prompted speculation in insurance circles on which other companies are now in the marriage market. The names most frequently mentioned were StanGen and AI Insurance.

AI, local associate of American Investment Group (AIG) of New York, is run by Paolo Cavalieri, son of a former MD of StanGen who is still an executive with Generali, the Trieste-based insurance giant which owns StanGen.

StanGen's Ron Carter is relinquishing his position — as consultant CE — without a permanent successor being named. His predecessor, Roberto Grandi, was promoted to a senior Generali post in Brussels. Carter says that, in any negotiations, Generali would be a buyer, not a seller of SA assets.

Neither Gossner nor Seach have concealed their interest in growth by merger or acquisition.

In the *FM*'s 1994 league of short-term insurers, Allianz was in 15th position with assets of R125m and gross premium income of R191m.

At the time, Gossner said the minimum "critical mass" required of an SA insurer to compete generally in the local market was gross premium income of R300m-R400m. Aegis, ninth in the league, already had gross premium income of R565m.

By that time, Seach had explored some merger possibilities.

Now, with Rand Merchant Bank as major shareholder, he has extended the Aegis influence to include investments in Afgen and Compass Insurance.

Taking those three insurers together, and allowing for double counting in the Aegis-Compass gross premium income (the deal included Aegis putting some personal lines business the way of Compass), figures due for release soon will probably show Aegis sharing in more than R800m of gross premium income.

At that level it can compete head-on with market leaders Mutual & Federal, SA Eagle, Santam, Guardian National and Commercial Union.

Seach says he has always been wary of tactics that could be adopted by international insurers such as Generali, AGF of France and Allianz on their inevitable return in force to Africa.

Though most international majors had maintained only a token presence in SA his expectation was they would return as hawks. That would explain his determination not to let Aegis be seen as a tasty morsel.

AI's Cavalieri would not be drawn on the possibilities offered by StanGen's current interregnum, saying only "there could be a lack of synergy but we are always alert to opportunities and we are looking at some of them."

Though AI is a small office, in conjunction with AIG it underwrites some of the mega industrial risks in SA and is currently profitable.

The perpetual talk of mergers locally was dampened briefly while the market absorbed the premium income which flowed from the collapse of IGI in 1993.

It's building up again with two differences: all insurers seem agreed that even the big generalists will have to divide their operations into specific and separate business units.

And none of those in personal lines of business can ignore the telesales-type of marketing pioneered by Auto & General, even if this means upsetting some of their traditional distributors, the brokers. ■

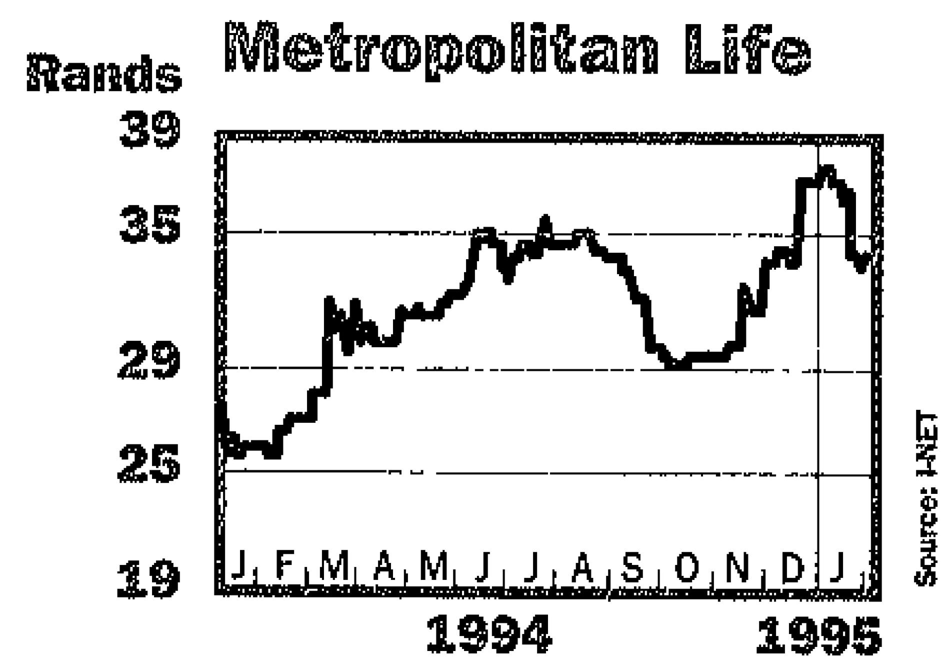
(58)

METROPOLITAN LIFE FM 10/2/95

Optimistic pricing

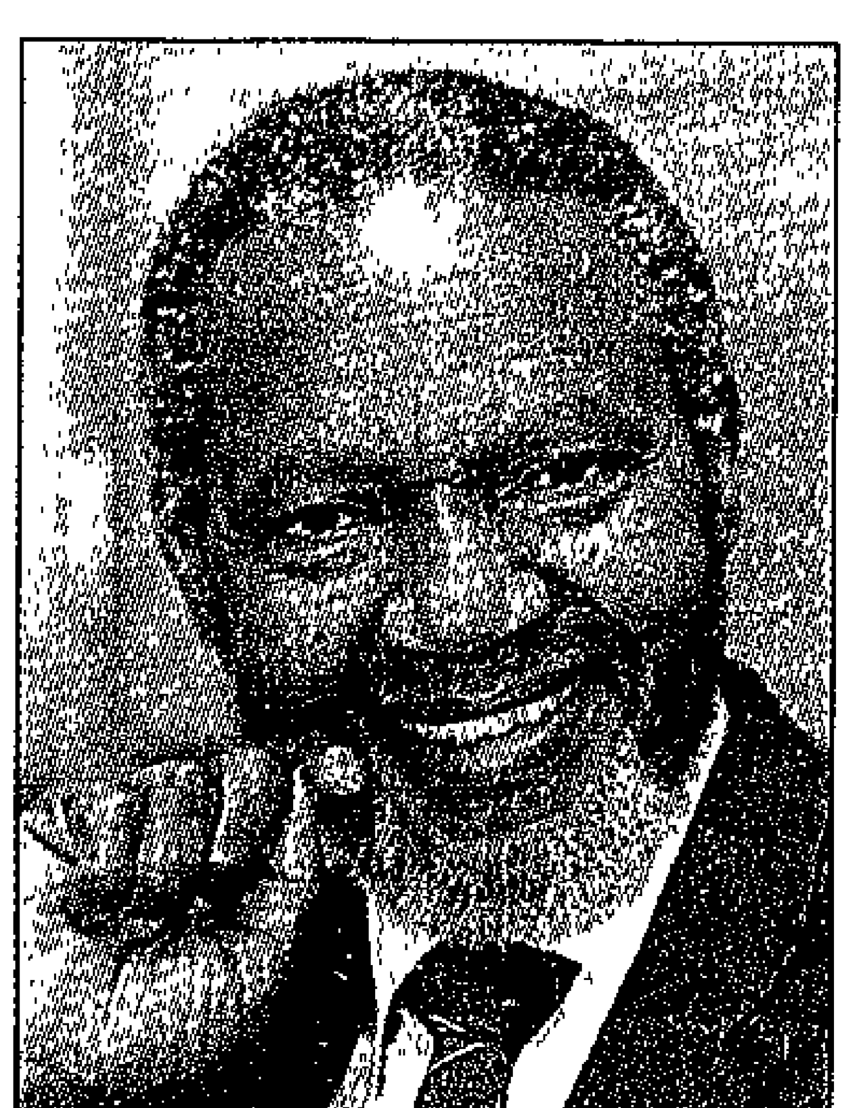
Activities: *Life assurance.*
Control: *New Africa Investments 30%. Corporate Africa holds ultimate control.*
Chairman: *N H Motlana. MD: M L Smith.*
Capital structure: *67,8m ords Market capitalisation R2,31bn.*
Share market: *Price: R34. Yields: 2,4% on dividend; 3,8% on earnings; p:e ratio, 26,6; cover, 1,5. 12-month high, R37,50; low, R25,75. Trading volume last quarter, 1,5m shares.*

Year to Sept 30	'91	'92	'93	'94
Total assets (Rbn)	4,12	4,81	5,73	7,38
Insurance fund (Rbn)	3,66	4,29	5,14	6,72
Premium income (Rm)	703	816	1 001	1 221
Invest income (Rm)	317	357	395	452
Operating exp (Rm)	111	133	152	179
Earnings (c)	70	86	105	128
Dividends (c)	45	55	67	83
Tangible NAV (c)	426	458	496	551



Financial 1994 saw Metropolitan Life (Metlife) consolidate its position as one of the top life offices specialising in the black market. With parent New Africa Investments increasing its stake in Metlife from 10% to 30% during the year, the assurer also became one of the more substantial companies on the JSE to have primarily black shareholder control.

So far — and backed by 22% growth in EPS and a 24% increase in its dividend payout — Metlife has provided one of the most prominent examples of black economic empowerment. It forms the nucleus of an interesting group which includes the *Sowetan* newspaper and a 7% stake in cellular phone network MTN, all under the banner of Nthato Motlana's New Africa Investments (Nail) which holds 30%.



Metlife's Motlana . . . *earnings growth could exceed inflation*

At the time of listing, 78% of the shares of Nail were held by black groups or individuals, including Motlana's Corporate Africa (51%), pension and provident funds influenced by trade unions affiliated to Nactu (about 15%) and Sefalana Employee Benefits Organisation (about 5%).

But that raises a problem when trying to evaluate the share's high rating. Metlife's sound performance over the past two years undoubtedly warrants a position near the top of the insurance sector. However, relative to competitors like Southern Life and Fedsure, Metlife is looking fully, if not overpriced. Its p:e ratio of 26,6 is not far off Liberty Life's 29.

It seems an element of political correctness has crept into the share price. Should overseas funds enter the JSE in earnest, shares like Metlife could be seen as attractive and be pushed higher. But until that happens, favourable sentiment towards corporate affirmative action may have driven the price a little too high.

Operationally, though, Metlife put in a strong performance and is looking towards a year when the premium growth of 22% which fuelled last year's results should be maintained. MD Marius Smith says in terms of recurring premium income — from which Metlife obtains more than 90% of its business — the assurer is the fifth largest in the industry.

"The rationale for Metlife's emphasis on recurring premiums is the stability and consistent premium growth it offers. Though more costly to administer than large single premiums, it allows close, long-term relationships with our clients, gives us a keener understanding of the market and allows us to serve the client's needs better," Smith says.

Last year's strong growth in recurring premiums — individual was up by 22% to R816m, group by 20% to R342m — saw operating expense increase by more than 17%. However, as a percentage of premium costs, declined from 15,2% in the previous year to 14,6%, a downward trend Smith says has been intact since 1988.

Apart from favourable growth in premiums, total income of R1,67bn also benefited from a sharp reduction in taxes from R33m to R20m, as Metlife wrote back R17m in accumulated overprovisions relating to previous years

Investment income of R452m, 15% up on the previous period, was not a bad performance, particularly as Metlife continues to take a sceptical view on equity prices. Smith says the investment team still believes the prices of shares on the JSE cannot be sustained over the longer term.

Consequently, Metlife's investment portfolio limits exposure to equities to about 45%, low by industry standards, with about 15% in property and the remainder in bonds and cash Smith says as bonds offer better relative values than equities, the exposure will be maintained, though the average term has recently been lengthened

Prospects for this year seem encouraging, mainly because a greater degree of stability has returned to Metlife's target markets since last year's elections. Motlana says in addition that increased absorption of people from these markets into government employment, coupled with Metlife's products and services, should see premium and earnings growth exceed the rate of inflation in 1995.

With projections that inflation could be contained to 11% this year, his forecast appears conservative.

The same, however, cannot be said of the share price, which must be near its peak. It's unlikely the share will be downrated, particularly if the equity market continues to decline and defensive stocks — among which life assurers are often popular — find more favour among investors. But on fundamentals R34 is hard to justify, even with the likelihood of another good year for Metlife.

Shaun Harris

(58) FM 10/2/95

SA EAGLE

Profits mugged

Results from the short-term insurance industry seem set to decline further, almost exclusively from SA's escalating crime rate. That's the clear message from SA Eagle, the first listed insurer to report this year, and the bad news is contained in its massive R135m underwriting loss.

TAILSPIN

Year to December 31	1993	1994
Gross premiums (Rbn) . . .	1,02	1,31
Underwriting loss (Rm) . . .	(4,87)	(134,7)
Attributable (Rm)	57,1	35,6
Earnings (c)	469	293
Dividends (c)	200	200

Results from the other listed groups will probably not be as severe. SA Eagle, because it derives 58% of total premiums from its motor account and makes limited use of reinsurance, tends to have a more volatile underwriting cycle than competitors. But most other groups will probably also show underwriting losses.

MD Peter Martin says the second half of the financial year was particularly bad. "We were starting to show an improvement in the second quarter, but from the third quarter the trend went the other way." Underwriting losses grew from R4,9m a year ago to R43m at the interim, more than trebling over the second half.

Adding to SA Eagle's woes was a 31% increase in fire claims — Martin says a number were arson-related but that it's hard to produce enough evidence to repudiate claims — and a difficult experience on the household account, largely crime-related.

The motor book, though, bore the brunt of SA's descent into organised crime, accounting for 79% of the underwriting loss. Stolen vehicles alone cost SA Eagle more than R180m.

Professional gangs are largely negating the efficiency of security devices. Martin says thieves can electronically capture the frequency of immobilisers, allowing them to disarm the system at will. He has had personal experience of the aptitude of crime syndicates. In October, his car was stolen in a residential complex. A month later, his son's car was stolen.

Stolen vehicles are being moved rapidly out of the country. SA Eagle has traced some of its and other companies' insured vehicles to Cyprus but Martin says it's difficult to get the vehicles returned.

The only action the company can take is to raise premiums. These have already been lifted 15% across the board in January. Martin says unless crime abates, further increases of 15% could follow in May. Motor premiums increased on average by 20%-25% last year.

Higher premiums rather than increased volumes were largely responsible for SA Eagle's 29% growth in premium income. In present conditions, Martin says he is not enthusiastic about chasing new business.

Still, SA Eagle is putting a brave face on its grim underwriting result. The dividend has been maintained at R2 on cover down from 2,3 to 1,5 times. Martin says the directors' decision to maintain the dividend was based on the inherent financial strength of the company. Though SA Eagle's solvency margin has declined from 117,2% to 100,4%, it remains way above the 15% required by the Insurance Act.

So far, the share price has remained largely insulated from the underwriting performance. For the past two years it has traded roughly between R50 and R53, though it spiked at R58 until just after the year-end, something which must surely make the JSE authorities a little suspicious.

But the share moves on thin volumes, with most of the equity held by UK parent Eagle Star Insurance and Anglo American. About the best investors can do is try to anticipate the bottom of the underwriting cycle for recovery potential — though that's an extremely difficult call with no end in sight to SA's crime wave.

Shaun Harris

FNB, US bank in $10-m export credits deal

(58)

ARG 10/2/95

US-based Bank of Boston will provide First National Bank with a $10 million (R35,5 million) line of export credit funding, FNB said.

The guarantess will be underwritten by the Export-Import Bank of the US (Eximbank).

FNB group treasury and international division head John Moses said the credit line would facilitate export credit funding for extended periods for imports of new capital equipment from the US

The rates would be competitive, as Eximbank had lowered its South African risk exposure fee by about 30 percent.

Mr Moses said this helped to reduce costs and made such finance more attractive to local importers of US goods.

The financing will be available for 85 percent of the value of the capital equipment imported, but FNB could in certain cases finance the outstanding 15 percent under normal commercial terms. — Sapa

Call for Bank to be independent

(58)

BD 10/2/95

ADRIAN HADLAND

CAPE TOWN — Transnet proposals to constitutionally guarantee the independence of the Reserve Bank and other financial institutions smacked of prejudice, parliamentary finance committee chairman Gill Marcus said yesterday.

Addressing a Constitutional Assembly committee, Transnet deputy treasury manager Hercu Bloem said it was vital Reserve Bank power to determine monetary policy was both entrenched and kept separate from government's application of fiscal policies. "If the Reserve Bank is allowed to act independently, it can, through the use of monetary policy, ensure financial price stability over the longer term even if this policy is unpopular over the short term."

An independent Reserve Bank could act as government's "financial conscience" using the instruments at its disposal to remind government of the need for fiscal discipline while protecting the economy, he said.

The inclusion of a constitutional provision guaranteeing the Bank's independence would also be good for investor confidence, he said. It would show SA's currency was being managed prudently and that its value would be determined by economic factors and market forces alone.

But Marcus said the addition of a new clause in the constitution entrenching the independence of the Bank and other financial institutions, would serve only to "constitutionalise prejudice". "The gist of Bloem's submission was that if we don't have these things in the constitution, we are going to have this rampant government running away with things."

Bloem responded that the Bank would not only balance poor fiscal policy, but assist in good policy implementation. Transnet supported the current practice of placing political appointees in some positions on the Bank's executive management.

This, together with regular consultations between the Finance Minister and the Bank's governor would help to keep monetary and fiscal policy in step, he said.

Transnet submitted that the independence of the financial system, and the responsibilities of financial market controlling bodies such as the Financial Services Board, should also be protected by the constitution.

"Any provision in the constitution that guarantees the independence of financial institutions will guarantee an effective financial system in which foreign investors can believe," Bloem said.

Pressed by DP MP Ken Andrew to elucidate, Bloem agreed this was intended to guarantee the private ownership of financial institutions.

Liberty payouts at record level

(58) STAR 10/2/95

■ BY JOHN SPIRA

Blue-chip assurer Liberty Life continues to power ahead, with dividend increases once again lifting distributions to record levels.

The group has announced significant improvements across the board. Thus:

■ Liberty Life's final dividend is 108c for the total 1994 payment of 204c — 24,4 percent up on the 1993 figure — to yield 2,3 percent at the ruling share price.

The average yield for the JSE's insurance sector is 2,6 percent.

Going back to 1980, Liberty Life's normal dividends (excluding special dividends) have grown at a compound rate of 23 percent a year.

In the past 10 years the company's normal dividends have grown at a compound rate of 24 percent a year.

The annual targeted increase has been 20 percent a year.

■ Parent company Liberty Holdings' final dividend is 296c for a total of 560c for the year — also 24,4 percent up on the 1993 distribution. The yield is 2,4 percent.

In the 10 years to 1994, Libhold's normal dividends have grown at a compound rate of 27 percent a year.

Group chairman Donald Gordon says: "I am extremely confident of our continuing ability to generate superior returns for both our policyholders and shareholders over an extended period of time. Our record for well over three decades speaks for itself."

Liberty Life recently announced new business production for 1994 of R3,43 billion — a 33 percent increase over the previous year's figure.

The final dividends will be in the form of capitalisation share awards with cash dividend alternatives.

ABSA and FNB land the North-West account

(58)

CP 12/2/95

By JEFFERSON LENGANE

THE North West Province is to put mechanisms in place to monitor the industrial relations, human relations and human resource development programmes of FNB and ABSA.

This announcement was made at the official appointment of FNB and ABSA as joint bankers of the North–West budget, estimated at R7,5 billion, in Mmabatho on Friday.

With effect from April 1 FNB will handle the Paymaster-general account and related banking accounts. The Revenue account and related accounts will be handled by ABSA.

"What we hope will emerge as a result of this appointment is to recognise sharply that the bank's public spheres – its customers, its suppliers, the community it serves, the natural environment around it, its personnel and its future, can be combined with its private aims successfully and profitably," said Gabriel Mokgoko, chairman of the North-West Tender Board.

The Province's MEC for Finance and Provincial Expenditure, Martin Kuscus, was emphatic that the banks should deliver on the impressive promises made in the tenders that qualified them for the appointments.

"Proper and strong monitoring mechanisms will be in place. We will be watching you. We have your commitments on record and on tape. You have pledged billions of rands (to the RDP) even above the National Budget. We will be watching you – I am very serious," he said.

The banks are expected to play a pivotal role as instruments of change to redress the depressing socio-economic profile of the Province's inhabitants.

Kuscus said there was a need for careful management of financial resources and control in the provincial government.

"Changing the provincial system of government and especially financial management implies changing the total policy framework," he said.

Qualifying the appointments when answering questions from the media, Kuscus said, "FNB in particular have long been in the forefront of affirmative action, challenging the apartheid government. Although it may seem a joke, they were the first bank to appoint 'coloured' tellers."

With regard to ABSA, he said that because of its Afrikaaner background, it reflected the diversity of the Province, and in the spirit of reconciliation called for by President Mandela, this would go a long a way.

Reports reached City Press that FNB had been awarded the KwaZulu/Natal Account.

Commerzbank to open SA branch

BD 13/2/95

BEATRIX PAYNE

GERMAN banking group Commerzbank would open a branch in Johannesburg in May and planned to concentrate on wholesale and commercial banking and corporate finance, assistant representative for southern Africa Thomas Roznovsky said at the weekend. (58)

The bank set up a representative office in Johannesburg last year

First National Bank (FNB) group treasurer Peter Carroll said a number of large foreign banks were in line to set up operations in SA. Other market sources named the Bank of Tokyo and Netherlands-based Internationale Nederlanden Bank (ING) as being among the most likely candidates.

Roznovsky said Commerzbank had a number of large German industrial companies on its books and was also planning to target a number of internationally active groups based in SA. He would not disclose how much the bank intended to invest in its SA operation.

Commerzbank, through its global exposure, would be able to offer new business

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Commerzbank

(58) BD 13/2/95

□ From Page 1

and expertise to local companies.

FNB's group treasury and international division GM John Moses said a "steady stream" of international banks had expressed interest in setting up operations in SA. However, their entry into the country "might be some way off".

He said most foreign banks were likely to establish corporate finance and merchant banking operations in SA.

It was difficult for banks to migrate their retail operations to new countries. The SA banking industry was well established and there were "huge" barriers to entry in terms of electronic banking.

Carroll said a flood of foreign banking operations could lead to a "feeding frenzy". Local banks would need to improve their operating technologies in order to compete. Foreign banks, which were likely to view SA banks as "small fry", could afford to absorb operating losses if the environment became highly competitive.

US banking group CitiBank, which announced last week that it would have SA operations in place by July, had proved itself extremely agile in competitive markets and able to develop niche markets.

BD 13/2/95 (58)

Sanlam policy funds grow R20bn

EDWARD WEST

CAPE TOWN — Sanlam added more than R20bn to the value of policy owners' funds in the year to end-September 1994, chairman Marinus Daling said in the annual report, with asset growth up 31% to more than R100bn.

The amount by which the value of the assets exceeded that of liabilities after taking increased bonuses into account rose R1,1bn or 52% over the year.

Assets exceeded policy liabilities by R3,2bn.

Policy owners' funds increased 28% to R86,46bn. The funds include the actuarial value of policy liabilities.

Policy owners' funds are accumulated — along with the expected future investment income and premiums on existing policies — to provide for policy benefit payments, future administrative costs, sale remuneration and taxation in terms of the policies.

By year-end Sanlam had paid out benefits totalling R11,85bn, received premium income of R13,62bn and produced investment income of R5,9bn. Total assets grew to R101,38bn. Administrative expenditure grew 12% to R822m.

Battle of banks moves to north

BD 13/2/95

ROBYN CHALMERS (58)

THE battle among SA's four major banks for provincial government accounts moves to the Northern Transvaal this week following the award of the Northwest's R7,5bn bank account to First National Bank (FNB) and Absa on Friday.

The banks submitted their tenders for the Northern Transvaal provincial government's bank account last week, and are expected to bid for the Eastern Transvaal account this week.

The Northwest provincial government's bank account is the second largest after Gauteng, worth more than R10bn, which was awarded to Standard Bank recently.

Absa has been appointed to handle the exchequer account for the province and the paymaster-general account has been placed with FNB. The banks were selected according to a list of criteria, including their ability to implement the RDP and provide a range of financial services.

FNB MD Barry Swart said the bank was geared to become a major change agent for the province and was looking to forge a partnership with the Northwest government to uplift and enrich the region.

Absa group communications GM Alec Hogg said it was in the interests of the government to appoint two bankers as it would enhance the province's funding options as well as stimulate competition.

Absa announced last week that it would be establishing more provincial head offices with effect from April 1.

Absa executive director Nallie Bosman said the restructuring would result in future growth for the bank. "If we don't restructure, we will miss out on new opportunities for expansion and development."

Reserve Bank (58) changes sought

ADRIAN HADLAND

CAPE TOWN — The SACP called yesterday for the democratisation of the SA Reserve Bank, saying its board of governors should be made more representative and its policy-making more transparent and accountable. BD 15/2/95

In a submission to a Constitutional Assembly committee, SACP representative Jeremy Cronin said the Bank's operations were overly influenced by the private financial sector and were shrouded by a bureaucratic black hole that made the institution inaccessible and mysterious to most citizens and interest groups.

On the question of whether the Bank's independence should be enshrined in the constitution, Cronin said his party supported the insulation of the Bank from partisan interference but argued that this should be balanced to ensure it was accountable to the "broad, democratically mandated goals of government". The Bank, at present, could not be deemed independent.

The composition of its board and the backgrounds of its members had resulted in an adherence to "dogmatic monetarist ideology" and a bias towards the interests of the white-dominated private financial sector. "Insulating the Reserve Bank from partisan interference cannot mean simply insulating it from narrow party political manipulation, while other powerful interest groups go unnoticed."

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Reserve bank (58) BD 15/2/95

☐ From Page 1

He called for groups such as trade unions, consumer bodies and the National Economic Development and Labour Council to have more of a say in the formulation of Bank policy.

The proliferation of credit instruments made it difficult for any central bank to measure money supply accurately, while the Bank had failed to investigate the role of monopoly prices on inflation.

"We need to render the Reserve Bank more understood, transparent and answerable to Parliament as well as to other negotiating forums," Cronin said.

"The constitution must not prevent these interactions from happening."

ANC MP Billy Nair agreed that the independence of the Bank was a "myth". With decision-making in the hands of three or four people, arguably under the sway of powerful interests, it could manipulate at its whim the mechanisms at its disposal.

The enhancement of reconstruction and development should be made one of the Bank's key principles, he said.

Committee chairman Rob Davies (ANC) said changes to the Reserve Bank's role and board composition were likely to be undertaken in new legislation.

The deadline for submissions to the committee, which was considering whether reference to public enterprises or financial institutions should be included in the constition, had been extended to February 22. He called on interested parties to make representations to the committee.

Standard Bank in major restructuring

(58) BD 15/2/95

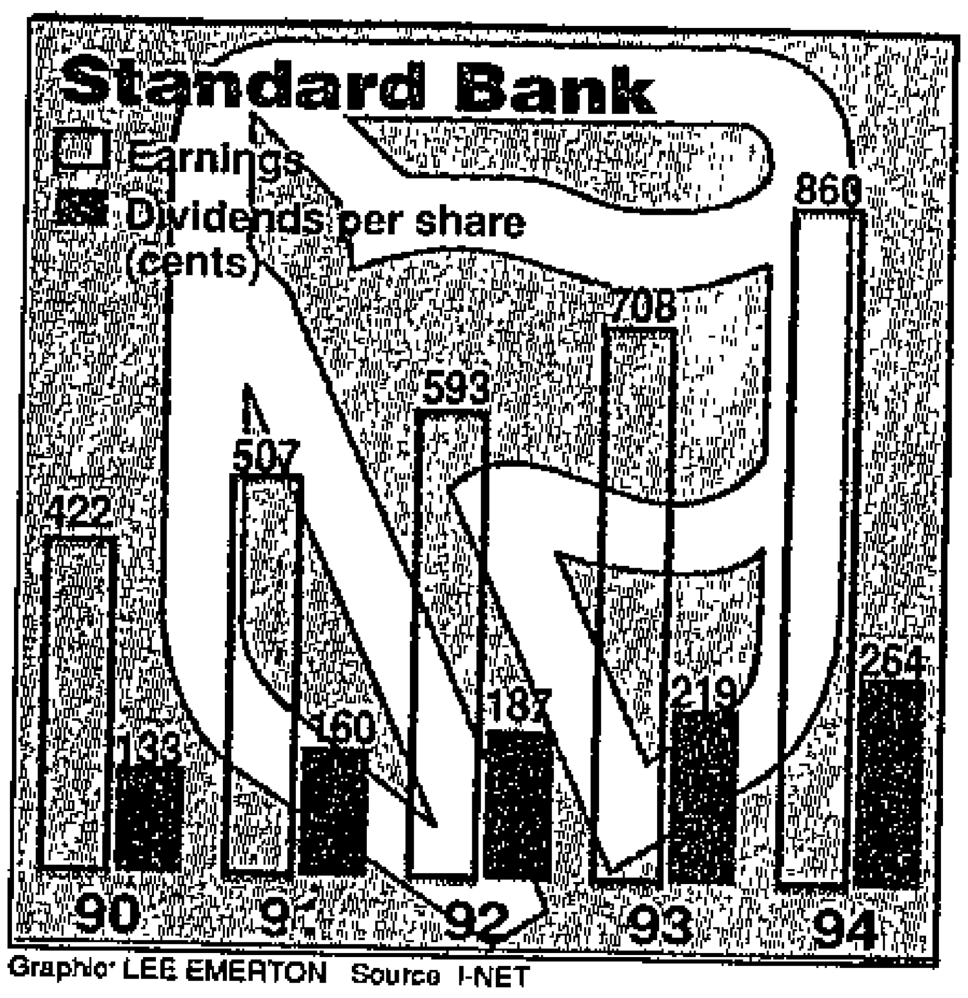
ROBYN CHALMERS

STANDARD Bank Investment Corporation, in a major restructuring exercise, would consolidate all its SA banking operations into Standard Bank of SA (SBSA), with distinct wholesale and retail businesses, the group said yesterday.

The group also announced better than expected results for the year to December, with attributable earnings rising more than a fifth to R1,027bn (R843m).

CE Eddie Theron said the change was in recognition of the growing complexity of banking and financial services worldwide, in which a distinction between wholesale and retail market demands had become evident.

"There is also a need to respond more rapidly to the dynamics of the market by eliminating organisational overlaps and closely aligning the appropriate human, capital and support services with each market segment."



Graphic: LEE EMERTON Source: I-NET

Commenting on the merging of Standard Merchant Bank with other operations of SBSA into a new entity, Standard Corporate & Merchant Bank, Theron said corpor-

□ To Page 2

Standard

□ From Page 1

ate and institutional customers demanded an integrated approach covering a range of wholesale services.

Theron said the overseas operations of the organisation would not be affected, and the restructuring was to be initiated immediately. He doubted the move would affect the bank's results for the current year, but benefits should be seen in the medium to long term.

The group's results showed net taxed income increased 20,7% to R1,037bn, while earnings rose to 860c (708c) a share. A final cash dividend of 191c (157c) was declared, bringing the total dividend to 264c (219c).

Theron said all areas of operation produced improved results and strong growth in the group's international activities was recorded. Domestic operations experienced improved demand for credit, especially in the second half of the year, and lower levels of bad debt.

The group's balance sheet remained strong, with advances and other accounts jumping to R69,2bn (R55,9bn) as healthy growth took place, particularly in the latter half of the year. Total assets increased to R84,4bn (R69,4bn).

Theron said overall asset growth was relatively well spread, with mortgage advances continuing their strong performances. Asset increases were generally associated with lower margin and lower risk products.

Standard Bank's capital base, enhanced by the issue of debentures in the current year, remained at 12,9% of risk assets and provided a strong base from which further asset growth could be accommodated.

Theron said the strong capital base, wider international representation and enhanced systems capabilities should provide a platform for continued growth. The group was budgeting for a real increase in earnings this financial year.

Strong asset base helps Stanbic to 21% growth

(58)

Star 15/2/95

BY JOHN SPIRA

Standard Bank Investment Corp's (Stanbic) strong asset base helped the group to a commendable 20,7 percent growth to R1,037 billion in taxed income in the year to December 1994.

Earnings rose by 21,5 percent to 860c a share and a final dividend of 191c (157c) has been declared, raising the total for the year to 264c (219c) to yield 2,4 percent at the ruling price.

All areas of operation produced improved results and "strong growth" in international activities was achieved.

Domestic operations experienced improved demand for credit and lower levels of bad debt.

Customer advances grew by 23,8 percent as a result of increased economic activity.

Group managing director Eddie Theron stresses the strength of Stanbic's capital base, enhanced by the issue of debentures.

Eddie Theron ... budgeting for a real increase in earnings.

At 12,9 percent of risk assets, he notes that it provides a solid base from which further asset growth can be accommodated.

"Our surplus capital provides capacity to extend credit up to an additional R42,6 billion without requiring more capital.

"Indeed, our wider international representation and enhanced systems capabilities should provide a platform for continued growth. Stanbic is budgeting for a real increase in earnings in 1995."

At end-December, group total assets were R84,4 billion (R69,4 billion), of which R69,2 billion (R55,9 billion) comprised advances and other accounts.

As much as 5 percent of Stanbic's assets are accounted for by its European banking operations.

Theron says the return on these assets "still has a long way to go".

Although cost increases have been contained at a level below operating income increases, as a percentage of total income they were higher in 1994 than in 1993.

Theron explains that the ratio, at 65,9 percent, will reduce in the years ahead, since new investments in 1994 had impacted negatively and temporarily on operating expenses.

Other comments include:

- Although the total number of employees had risen from 31 740 in 1993 to 32 750 in 1994, taxed profit per employee had risen strongly.
- Between December 1993 and September 1994, Stanbic's market share in terms of total assets had risen from 22,1 to 22,9 percent.

In terms of mortgage advances it had grown from 17,5 to 18 percent, in savings deposits from 22,7 to 23,1 percent and in cheque deposits from 27 to 28,9 percent.

- Stanbic is to consolidate all its SA banking operations into the Standard Bank of SA, which will be divided into two distinct "wholesale" and "retail" businesses.

Assurance (68) industry faces competition

BD 15/2/95

CAPE TOWN — Increased competition from banks and other financial institutions is one of the major threats facing the long-term assurance industry in SA, a new study said.

Other problems included continuing economic uncertainty, AIDS and increased regulation through precribed investment and financial disclosure, the latest Delphi study by Andersen Consulting and the Insurance Institute of SA said. It is conducted every four years.

"Over the past decade, the importance of the SA long-term assurance industry, in the context of the country's economic activity, has grown exponentially," the survey said.

Figures released by the Life Office's Association indicated that the industry's total income in 1993 was R55bn off an asset base of R278bn, compared with R6,5bn and R23,4bn respectively in 1983.

Wally Strickland, head of Andersen's insurance industry practice, said the healthy cash flows of the large insurance companies had "not unnaturally" attracted the attention of government as a possible source of funds for the reconstruction and development programme.

At the same time, however, the industry faced growing competition for consumers' savings from other operators in the financial services field such as banks and building societies, the report said.

While details of pending new legislation were not yet known, the industry was convinced that steps would be taken to legislate on the disclosure of expenses and possibly commissions. The new legislation would also probably focus on consumer protection. — Reuter.

FNB's offshore funds treble

68

From CHARLOTTE MATHEWS

JOHANNESBURG. — The near-trebling of First National Bank's (FNB) one-year syndicated revolving credit facility mandated by Fuji Bank from the amount originally intended, reflects improved investor perceptions of South Africa, says Fuji Bank director Yoshikazu Tamaki.

He told a press conference yesterday that Fuji Bank had found a great deal of interest in SA from potential lenders, especially in the Far East and Middle East where there was a surplus of capital and a shortage of quality lending opportunities.

FNB's MD Barry Swart added that the European banks had also strongly supported the transaction and had contributed about 40% of the final total.

"Europe remains a highly competitive banking market, with the banks seeking high-quality lending opportunities.

"It reflects very well on FNB to have attracted such a deep European commitment to the deal."

Tamaki said the interest expressed in the loan was also a direct vote of confidence in FNB.

FNB originally aimed to raise R75m for general funding purposes, but the facility was oversubscribed by 2,8 times and was eventually settled at over R200m.

It was supported by 38 banks from 21 countries, and a total of R211m was committed, of which FNB had accepted R200m.

The facility was priced at 0,55% above the London Interbank Offered Rate (Libor).

Swart said this rate was excellent when compared with funding raised by local institutions related mainly to trade finance and to the minimum of one and one-eighth over Libor being paid for standstill debt.

"The keen pricing has already had a positive effect on other offshore borrowings, notably trade finance.

"We would expect that other local borrowers will experience a decline in the cost of offshore finance as a result of the success of this deal."

Malaysians buy stake in Boland Bank

(58)

CT 15/2/95

By AUDREY D'ANGELO
Business Editor

CAPE businessman Christo Wiese, who bought control of Boland Bank in November, is selling 27% of it to a Malaysian company for R273m. He will remain the controlling shareholder.

He said yesterday that the deal with Landmarks Berhad of Kuala Lumpur was part of his comprehensive plan to restructure and enlarge the capital base of the bank to make it a more substantial player in the SA financial services sector.

He said the bank's directors were considering proposals for its restructuring and the raising of up to R380m in new capital.

A statement issued yesterday by the bank said the enlarged capital base, "coupled with strong directional shareholder leadership, will enable Boland Bank to expand and take advantage of new opportunities presented in a rapidly changing SA".

Landmarks is an investment holding company with interests in hotels, leisure and property developments. It is quoted on the Kuala Lumpur Stock Exchange and has a market capitalisation of about R2,3bn.

It is currently developing the 700 hectare Samrand industrial, commercial and residential project beside the Ben Schoeman highway between Johannesburg and Pretoria.

The complicated deal, under which Wiese will sell ordinary shares and preference shares to cash shell Martin Jonker Holdings (MJM) which is a 98,7% held subsidiary of Landmarks, and receive approximately 94,5% of all the equity instruments in MJM, has to be approved in terms of the Banks Act of SA. It must also be approved by the Central Bank of Malaysia, the committee of the JSE, the Securities Regulation Panel and the shareholders of Landmarks Berhad.

The Malaysian company has already concluded a successful due diligence investigation of Boland Bank.

In the first stage of the deal Wiese will sell 8,8m ordinary and 5,2m preference shares in Boland Bank to MJM for R350m.

To pay for the Boland Bank shares MJM will issue new shares to Wiese. This will result in him holding 94,5% of MJM with Landmarks Berhad holding 5,4%.

After the transaction, aimed at consolidating Wiese's interest in Boland Bank into a listed holding company and facilitating the participation of Landmarks Berhad in the recapitalisation of the bank, MJM will own 65,2% of the issued ordinary shares of Boland Bank and 54,8% of all the bank's instruments in issue.

It will change its name to indicate that it is the bank's holding company.

In November, Wiese, who already held 63% of the ordinary shares in Boland Bank, giving him 34% of its total share capital, bought five million preference shares for R71,3m from the Board of Executors.

The preference shares, converted, gave him 54% of Boland Bank's total share capital.

BUSINESS

Sanlam leads way with corporate governance

58

Star 16/2/95

■ BUSINESS STAFF

The overall responsibility for the management of companies — corporate governance — is receiving increased attention these days, says Sanlam chairman Marinus Daling. general meeting.

"In-depth discussions between Sanlam and international experts in this field resulted in Sanlam's directors accepting a set of guidelines for their functioning in Augu 1994," he told the AGM this week.

As far as was known, Sanlam was the first SA company to publish such a s of guidelines, he said.

However, they were not final and would be adapted and improved "as they are applied in practice".

Sanlam nevertheless decided to make these guidelines known to policy-owners.

"The board represents the policy-owners and will in this way provide feedback on how it envisages meeting its responsibilities."

The basic points of departure underlying the guidelines:

■ The board has overall responsibility for Sanlam, but this responsibility is exercised largely via management;

■ A healthy balance with the necessary checks and balances is maintained in respect of the powers of the board, as opposed to management, as well as between individual members of the board and management;

■ The board should always be a vital and effective added value."

Daling said that although business would remain assurance-oriented, the company was becoming involved in other financial services.

Unit trusts and medical aid schemes had been operated for a long time, but during the past year Sanlam had become involved in fund management for various organisations.

"Sanlam will continue to place emphasis on the financial field as a whole — to the benefit of its owners and clients.

"Where necessary, this will take place via specialist organisations in the group.

"Other alliances and co-operation agreements will be forged to render the best service possible to our clients."

Two results of the strategy in the past year were a partnership with Alliance Capital of the US to facilitate international investment in South Africa, and a joint project with Investec in the field of investment-linked life annuities.

Daling said productivity had to increase substantially.

This was necessitated by the dramatic increase in competition and developments in the field of technology and particularly against the background of SA's re-admission to international business.

Not only did this give Sanlam the opportunity to enter the international arena, but multi-national companies could be expected to enter SA markets.

Sanlam was already involved in extensive projects to raise productivity by using new technology.

"Increased productivity will further improve our ability to add value for our owners and clients," he said.

Mutual assurers elsewhere in the world had been following the practice of making known the value they had added as well as its distribution among various interested parties.

This year Sanlam had added R20,849 billion to the value of its policy-owners' funds.

The remuneration of senior management would increasingly be influenced by the value that Sanlam added, Daling said.

Sage set for major expansion

ROBYN CHALMERS

SAGE Group will undertake a rights offer as the initial step in a new phase of development and expansion locally and abroad, the financial services group announced yesterday.

Directors did not disclose the amount they expected to raise through the rights offer, but said it would eliminate interest-bearing debt.

For the six months ended September 30, interest-bearing, long-term liabilities and provisions amounted to R132m, while current interest-bearing liabilities stood at R51,9m. (58) BD 17/2/95

Rights offer proceeds would fund expansion and allow it to pursue the development of its domestic life assurance and financial and property activities.

Sage has undergone significant rationalisation and restructuring in recent years, and is poised for an expansionary phase abroad in the financial services sector, specifically in the US, directors said.

"This will encompass raising additional capital abroad following the completion of the rights offer and an intended listing of the company's shares by way of a depository receipt programme.

"The foreign issue, which will be subject to exchange control authorisation and shareholder approval, will be undertaken as soon as market conditions are considered appropriate."

Sage said there was potential for developing its financial product distribution activities in the US through the Independent Financial Marketing Group.

It was also intended that the group would simultaneously pursue alliances and acquisitions in the US life assurance field.

SANLAM

(58) FM 17/2/95

Managing managers

Sanlam managers' remuneration will increasingly be tied to the value they add to policyholders' funds — which would have been no disadvantage last year when nearly R21bn was added to policyholders' worth.

MD Desmond Smith defines value added as the sum of net investment income, realised and unrealised changes in the value of assets, less administration expenditure, sales remuneration and taxation.

Of the R20,8bn added value, R1,1bn was used to strengthen Sanlam's accumulated surplus by 52% to R3,2bn.

Chairman Marinus Daling declared this new policy at the mutual assurer's AGM this week, showing how the operational style of Sanlam has changed. Privacy once surrounded many of its actions and results were suitably applauded at a well-orchestrated annual meeting.

"Corporate governance," says Daling, " is enjoying increasing attention. After in-depth discussions with international experts, the directors accepted a set of guidelines for their functioning in August 1994."

The patriarchal board which controlled every major management decision has been revitalised with younger directors (average age now is 58) and the appointment of Peter Swartz, the first nonwhite.

Senior management is given greater freedom but is fully accountable for the results, which the board will scrutinise from the viewpoint of policyholders. ■

(58) FM 17/2/95

BANKING — 1

Practical men

Beneath the veneer of political correctness lies pragmatism on the part of provincial governments in awarding accounts to commercial banks. Practical considerations such as costs and a local infrastructure seem to be the reasons for North-West's joint award of its estimated R7,5bn account to Absa and First National Bank. Gauteng awarded its R10bn account to Standard Bank mostly on pricing.

While Finance MEC Martin Kuscus says Nedbank came out well ahead in its commitment to the RDP and affirmative action, lack of infrastructure in the region counted against it. In Absa's favour was the strong physical presence of its Volkskas branch network developed through historical ties with the Afrikaans farming community.

Absa has been awarded the revenue side of the account and will deal with the collection of the R1,2bn out of the R7,5bn revenue — principally casino levies and related income.

The deciding factor in First National's favour was its pricing, a function of competitive advantage in electronic processing

of transactions. It was awarded the payments side of the account.

Both banks' commitment to the region — Absa has taken firm steps to set up a provincial head office and First National will review its regional boundaries — was also viewed favourably, says Kuscus.

Standard Bank's failure to get a slice of the cake in the North-West implies political correctness is still a factor. Its close ties with the Mangope regime clearly counted against it.

All parties insist commitment to the RDP and affirmative action are not unimportant considerations, particularly in areas where banks' capabilities are of use to the communities. The tender board was particularly impressed with First National's system of biometric identification — which identifies clients by fingerprints — used to pay pensions in rural areas of Kwazulu-Natal.

Absa's Nallie Bosman believes the bank's role as the largest funder of low-cost housing in SA was decisive, as was the Africa Growth Network, an educational and training television network. Kuscus says while Absa lacks a history of affirmative action, recent trends are favourable.

Clearly, talk is cheap and commitment to such lofty ideals even cheaper. But Kuscus says progress will be monitored: "We won't hesitate to fire any bank that falls behind on its commitments."

That may be so. But with so few large banks around capable of handling provinces' practical requirements, the choice is limited. ■

BANKING — 2

Slicing a bigger pie

Legislation allowing foreign banks to open branches in SA is due this session. Unlike local banks which attempt to cater to the whole corporate market, the newcomers will target niche markets in which they are already specialists internationally.

Barings, an emerging market specialist, has opened an office in Johannesburg and plans to attract finance to the sub-Saharan region via investment funds. MD for southern Africa Simon Hollis says the bank hopes to play an important role in the privatisation of State assets. "Our ability to distribute southern African equities will be an important asset."

The bank has taken a seat on the SA Futures Exchange, says Hollis, "and we will take a seat on the JSE when regulations permit." Barings is planning to help local companies expand abroad — Hollis foresees a number of such deals.

UK bank S G Warburg, with total assets of over US$35bn, is the largest distributor of ordinary SA equities in America and the second largest of American Depositary Receipts representing SA equities.

It will focus on cross-border transactions, either those of SA companies wanting to go abroad or foreigners wanting to invest here, says Mark Katzenellenbogen, who heads the newly opened Johannesburg office.

The bank operates in the corporate market and is also attracted by privatisation opportunities and is already competing, through its association with Ivor Jones Roy, with local stockbroking firms.

S G Warburg is not a lending institution, so it will not seek deposits through a branch network but will remain a subsidiary.

Commerzbank, which has had a representative office since 1958, will open a branch as soon as the Banks Amendment Bill is promulgated.

It will concentrate on treasury operations and the domestic and international corporate market. It will also cater to German companies who are clients already.

Equator Bank, based in Africa, 60% owned by one of the largest global finance groups in the world — the HSBC Group — and 20% owned by Nedbank, intends to offer credit facilities to SA companies wishing to trade or invest in the rest of sub-Saharan Africa.

Citibank has an office in Rosebank and will open a branch or subsidiary by mid-year. "We intend to support the financial markets in foreign exchange and its derivatives. And we see a role onshore, supporting inter-Africa trade," says the bank's Paul Bigler. It will also go for larger financial operations such as privatisation.

Privatisation is one of the most lucrative prospects facing banks — total State assets were valued by the government in December at about R500bn.

Because of the need for international capital, foreign banks will have an advantage over locals when bidding for these deals. Many of the banks entering SA have already taken part in privatisations worldwide, either as advisers to the governments or to the companies involved.

Local banks will not lose out. "We are likely to see alliances with local knowledge combined with foreign expertise," says FirstCorp's Jacques Mulder.

However, many of the banks are cautious. Some, such as the Union Bank of Switzerland, which has had a representative office since 1951, are waiting for SA to demonstrate it can fulfil its potential to be the financial gateway of Africa before making

Continued on Page 39

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any new moves.

Newcomers are evaluating the situation before making a large capital investment. They are building up operational capacity slowly, investing rather in personnel and organisation.

Local banks welcome the newcomers, says Standard Merchant Bank MD Jacko Maree, because they add liquidity to the market. "The cake is getting bigger — there will be more for everybody." And the foreigners can do things the locals can't do on their own — such as big international bond issues.

Firstcorp's Mulder says local banks are confident of keeping market share "but the margins of products and services will reduce across the banking spectrum as a result of the competition."

Local banks expect to be priced out in First World trading activities: long-term finance and loans and cross border corporate transactions. However, most local banks believe day-to-day business with local companies will not be threatened.

They handle 95% of business in SA and Africa, have closer relationships with corporate customers, a better understanding of local conditions and a larger infrastructure in the country.

So there will be no radical restructuring of the banking sector for the next two to

five years. However, as relations and co-operation develop between the newcomers and customers, they could make an important impact on the industry.

Investec MD Stephen Koseff says: "These banks are global players and they can get better people and better technology because of their access to global markets.

"However, some global banks expect a fee which is not charged in SA and they may find they can't make the returns they were expecting."

Whatever pressures local banks may feel, as competition from foreigners hots up, they will be able to seek consolation — and substantial profits for the fleet of foot — from a pie that is getting bigger even if their share should decline.

Tammy Lloyd

BOLAND BANK (58) FM 17/2/95

Malaysian alliance

The tie-up between Boland Bank and Landmarks Berhad (Landmarks) of Malaysia, an investment company with interests in hotels, leisure and property, may seem unexpected because the transaction is with an Eastern-based operation rather than a Western one. The logic becomes more apparent when the commercial roots of Boland controlling shareholder Christo Wiese are considered.

As chairman of Pepkor — a composite retailer with turnover approaching R10bn — Wiese is casting his eye to the East and the large, fast-growing markets there. And some Eastern investors have been investigating the growth potential in the SA economy.

Wiese has sought to consolidate his control of the bank by creating a holding company. In a R350m deal, he achieves this by selling all his 8,8m Boland ordinary shares to Martin Jonker Holdings (MJM), now an unlisted cash shell (*Fox* February 3), and his 5,2m Boland Bank preference shares to MJM for R25 a share.

In payment, MJM is to issue new shares valued at about R25 which will result in Wiese acquiring about 95% of MJM. MJM will then hold roughly 65,2% of the issued Boland and 54,8% of all the Boland issued equity. MJM will make an offer to minorities later.

The operations and management of Boland are unaffected. Landmarks enters the picture through Wiese's quest to recapitalise the bank and move it out of the small bank category.

Boland is to raise up to R380m of new capital to increase its capital:asset ratio from about 8% to 18%, among the highest in the industry. Landmarks, after a due diligence study of the bank, is to invest about R273m in MJM, subject to certain conditions precedent, to give it an effective 27% interest in Boland.

Wiese bought his controlling interest in Boland in late 1993 for 960c a share. Last month the price reached R25. In historical terms, that is expensive for a share whose EPS growth has been sub-par for years. Clearly, the market is expecting significant changes in the bank's infrastructure that will boost its earnings capacity. But Wiese won't comment on planned changes.

Landmarks is diversifying into "infrastructural and other industries with high growth potential." That fits neatly with an expanding bank.

On an historical p:e of 11,8 at R24 a share, Boland does not appear expensive in the light of its potential and Wiese's growth ambitions.

Gerald Hirshon

Trainees go into Achib banks

By REV NTOULA (58)

THE informal business sector moved another step forward when 25 bank managers sponsored by Achib graduated at Nafto's Johannesburg College.

The graduates, who underwent an intensive six-week training in subjects such as business and finance management, will be deployed throughout South Africa to man Achib's recently established hawkers banks which already boast of more than 30 branches.

Addressing the graduates at a glittering ceremony in Johannesburg, Achib's founder, Lawrence Mavundla, said the organisation was proud of the students who had managed to finish the course in record time under the most trying conditions.

Mavundla, whose dream became true when the first branch of the hawkers' bank opened in Johannesburg last year, said the secret of its success lay in the fact that it did not require large sums of capital outlay and administrative staff.

CP 19/2/95

Simple

The branches operate from simple containers, each manned by a manager and an assistant.

"Whereas it costs up to R700 to process a loan with established financial institutions with us it can cost as little as R30 with a minimum time period," said Mavundla.

"This enables us to cut our overheads as well as the time period."

The hawkers' bank specifically focuses on lending money to the informal sector. First-time lenders are allowed loans up to R500 but the amount can be increased depending on the performance of the client, said Mavundla.

"Our recovery rate has been 100 percent. This has made it possible for us to increase our capital base tremendously within a short period of time and we can therefore open more branches," he said.

Umbrella fund for employers

CP 19/2/95

BLACK business and the financial services industry have carved out a new deal.

Nafcoc-Gauteng, previously known as Soutacoc (Southern Transvaal African Chamber of Commerce and Industry) have announced a joint venture between themselves and the financial services industry.

According to Mashudu Ramano, chairman of the joint venture programme for Nafcoc-Gauteng, the process of assisting fellow members of the association has been given greater impetus with the introduction of the Letlhabile Fund (meaning the sun has risen).

Essentially the Letlhabile Fund is an "umbrella fund" arrangement for participating employers who are members of Nafcoc.

Nafcoc-Gauteng now offers fund membership to all emerging black business partners within this framework.

Dr Morris Bernstein, MD of Fedlife, notes that the Letlhabile Fund will allow smaller groups of employees within the developing business secure access to structured and competitive group benefits.

FSB plans tougher laws for investors

(58)

ST(BT) 19/2/95

By CIARAN RYAN

THE Financial Services Board is to seek the Cabinet's approval for tougher laws against shady portfolio managers and financial advisers.

The FSB will submit proposals next month seeking to subject portfolio managers and investment advisers to the same trust account provisions as stockbrokers.

If approved, the proposals will bind financial advisers to stockbrokers' stringent conditions of trusteeship, violations of which are criminal offences. Advisers will have to obtain written mandates from clients detailing their level of authority, the types of securities in which they may invest and levels of disclosure required by the client. Breaches of these, too, will become criminal offences.

The proposals are expected to be promulgated later this year as amendments to the Stock Exchanges Control Act and the Financial Markets Control Act.

The FSB is also seeking wider powers to investigate malpractice. At present, the board must first obtain ministerial approval before investigating unauthorised portfolio managers.

The Financial Markets Control Act at present requires portfolio managers dealing in securities to obtain approval from the FSB, but fund managers dealing in unlisted securities fall outside the Act.

The proposed amendments are seen as a precursor to a Financial Intermediaries Act, embracing all financial intermediaries, including insurance brokers.

Once the FSB's proposals become law a controversial options dealer such as Paul Rigden, who syndicates highly geared options at several times their face value, will have to abide by strict conditions of trusteeship and obtain mandates from clients.

Last year the Investment and Derivatives Exchange was declared a harmful business practice after separating unsuspecting investors from their portfolios of listed shares, worth millions of rands.

The directors approached the investors and offered to manage their listed portfolios, sold the shares on the JSE and invested the proceeds in unlisted companies of which they were also directors.

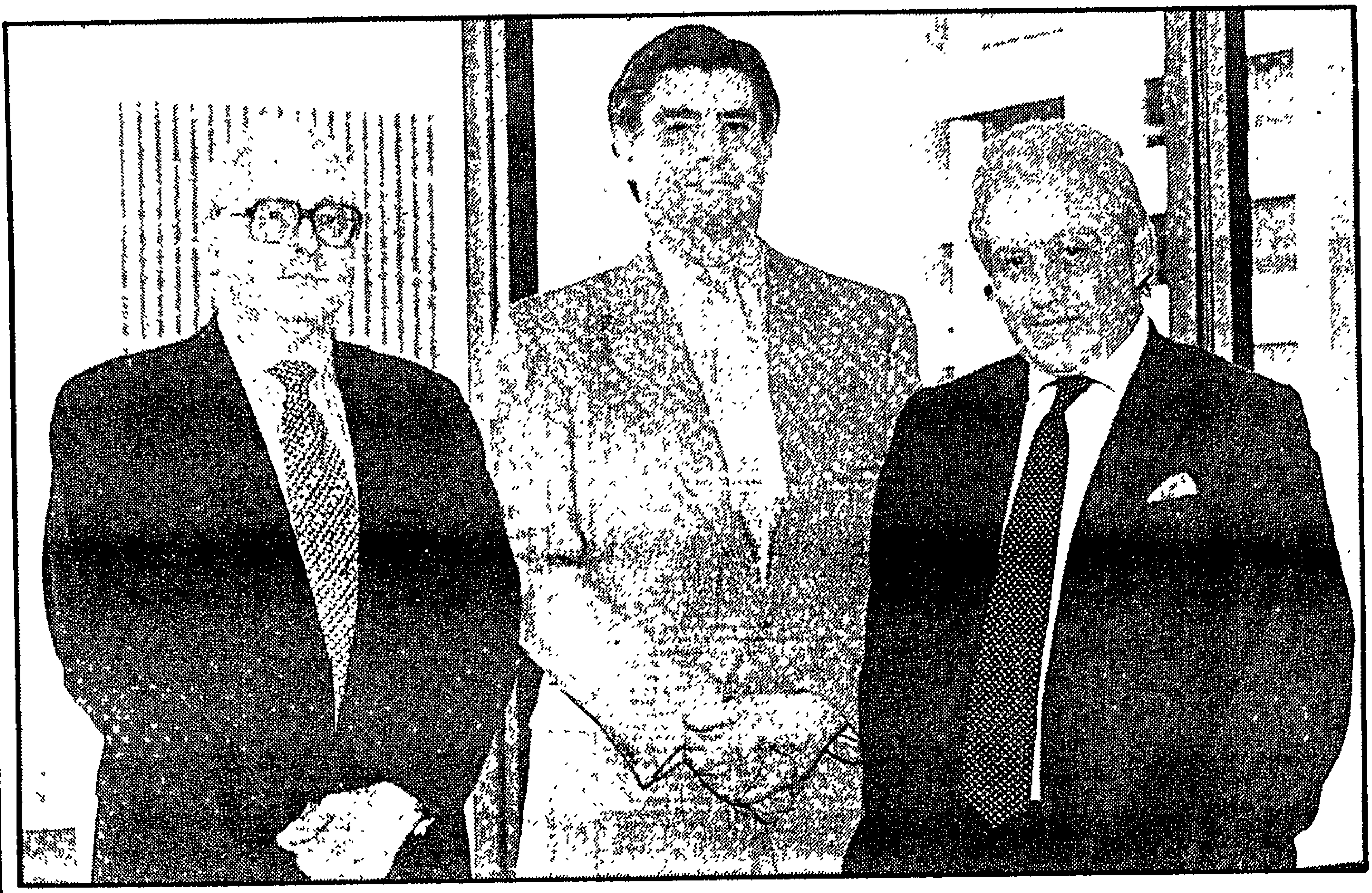
The Unlisted Securities Market was also declared a harmful business practice for a similar scam.

One portfolio manager in Durban forged the signature of an elderly client and signed the client's estate over to himself. The portfolio manager was investigated by the FSB and jailed after the client's son complained that he had been left out of the will when the father died.

Several portfolio managers have been found in breach of the Unit Trust Control Act by agglomerating clients' funds into a common pool. Only registered unit trusts may do this. Investment returns can be inflated by paying outgoing clients from funds contributed by new investors. This is one of the outstanding charges against David Kucszinski, who fled the country two years ago with R36-million belonging to clients.

"One of the biggest problems we face is the growing number of calls from people claiming they lost money because of malpractice by a portfolio manager or investment adviser," says an FSB spokesman.

"Even with the changes in the law, we need to embark on a huge public education exercise so that investors know what kinds of questions they must ask a portfolio manager or investment adviser, and what kinds of powers they are prepared to mandate."



GOOD RETURNS . . . Chase Manhattan's Richard Cumberland, Richard Lowry and Simon Steward, who will head up the new SA branch

(58) ST 19/2/95

Chase Manhattan returns to SA

By JEREMY WOODS

CHASE Manhattan Bank, one of the largest US banks, with total assets of $117-billion, is coming back to South Africa.

Chase Manhattan, whose main board in the US approved on Thursday the reopening of the SA office, will offer access to a fully fledged investment banking business from its Johannesburg base.

This will include corporate finance, capital market capabilities such as securities underwriting, sales and trading, private placements and syndications, as well as private banking where total clients' assets are over $55-billion.

The Chase SA operation will be run by Simon Steward, who ran the office before it was closed in 1986. Mr Steward was until recently a senior general manager at Syfrets in Cape Town, where he headed the private banking and investment division.

"Chase is delighted to be back and confident it can add value to the relationships already built up with the leading institutions. The bank has been warmly received by the new government and was pleased to have been included in the recent RSA note issue of $750-million as co-manager."

Chase senior vice-president Richard Lowry and regional credit executive Richard Cumberland are currently in South Africa preparing for the reopening of the Chase office and visiting Reserve Bank and other government officials.

Chase Manhattan left South Africa in 1986 shortly after a state of emergency was declared and Prime Minister P W Botha made his "Rubicon" speech.

"It wasn't just the pressure by stockholders and government being put on American companies to justify their presence in South Africa under the apartheid regime, Chase redefined its global strategy after the Mexican debt crisis by moving out of commercial banking and concentrating its international focus on global trading and advisory services," said Mr Lowry.

"The important point is Chase is back and we think the region has tremendous upside."

Momentum lifts earnings

(58)

AMANDA VERMEULEN

ASSURER Momentum Life lifted earnings a share 24% to 30,8c in the six months to December due to strong performances from subsidiary Rand Merchant Bank and the group's life insurance earnings.

An interim dividend of 15c (12c) a share was declared. Net taxed surplus increased 24% to R41,6m, which represented the results from the insurance activities of Momentum Life as well as the results of Rand Merchant Bank, Aegis Insurance Company and Momentum Health. BD 20/2/95

Total premium income increased 28% to R895,9m. The board said the marketing division had performed exceptionally and production targets had been exceeded.

Annualised new premium income and single premium income for individual life business increased 104% and 83% respectively. Total assets under management increased 26% to R22,9bn.

RMB Asset Management and RMB Properties, which manage the investment and property portfolios of the group and third parties, performed in line with expectations and RMB Asset Management attracted a net R1bn in new funds.

Momentum subsidiary Rand Merchant Bank's attributable earnings increased 25% to R33,5m. Earnings attributable to Momentum Life shareholders were R20,1m. Total capital and reserves increased 17,6% to R443,7m.

☐ To Page 2

Momentum

(58) BD 20/2/95

From Page 1

Directors said Aegis had been affected by the expected poor underwriting results experienced by the short-term insurance industry, and consequently Aegis's earnings contribution was 20% lower than the comparable period the previous year.

Momentum Health's performance had been pleasing, with the number of policyholders and the expense ratios ahead of the targets devised when the subsidiary was established.

The rights issue to finance new business growth in Momentum Health, which was completed last month, raised R25m.

The directors said the group was performing in line with expectations but potential changes to legislation which could affect the various business units remained an uncertainty.

Mercantile Bank reports 58% income boosts

(58)

CT 20/2/95

By MAGGIE ROWLEY
Deputy Business Editor

MERCANTILE Bank, in which Sanlam and NSA Investments both recently acquired stakes, has put in a strong performance for the year to end December with diluted earnings up 30%.

Its audited accounts for the year show operating income up 58,1% at R54,6m and, in spite of expenditure, bad and doubtful debts and taxation together being up more than 48% at R48,9m, net income after tax showed a 125,6% improvement at R5,6m.

At year end, the bank's net qualifying capital and reserves topped R76m, up 228% on the previous year while its depositors' book had grown 66,2% at R692m.

The highly focused niche bank has had the nod from institutions with Sanlam now owning 10%, NSAA 20%, Hollard 15% and Prestasi 6% with the balance being held by directors, management and associates.

During 1994, negotiations were started with a view to Mercantile acquiring the Bank of Lisbon. MD Derek Cohen said while confidentiality agreements excluded further comment at this time, "a successful conclusion to the negotiations would create important business opportunities for both banks".

He said Mercantile Savings and Loans continued to lead in its service to the emerging middle class which was becoming an important economic force.

S&L's distribution and collections grid, he said, grew during the past year with new branches being opened in Port Elizabeth, Pretoria and Bellville.

In addition, a breakthrough arrangement with the Cape Town City Council had given S&L the exclusive right to finance mortgage bonds for houses in Mitchell's Plain currently under rent to the council. In all, residents of about 28 000 houses in Mitchell's Plain could benefit from the scheme, which could raise up to R500m for new housing development as it will enable the council to liquidate its equity in these homes and use the cash for new development, he said.

Commission requires 'safeguards'

BD 21/12/95

Business Day Reporter

CAPE TOWN — Constitutional safeguards should be introduced to ensure that the Financial and Fiscal Commission's recommendations were respected, the SA Chamber of Business said yesterday. (58)

Sacob told a Constitutional Assembly committee it also wanted the constitution to compel government to publish the commission's reports and give detailed reasons for decisions on its recommendations.

It suggested its members' terms of appointment be four years. It said the commission's functioning would be impaired by a shorter term and members would be subject to undue political influence upon reappointment.

ADRIAN HADLAND reports that Sacob said it was vital that the independence of the SA Reserve Bank was clearly enshrined in the final constitution.

A central bank's ability to control inflation through monetary policies was "widely recognised as a necessary condition for effective overall macroeconomic packaging".

At times, monetary policy was required to counterbalance macroeconomic planning, and it was essential that the correct institutional framework was in place to implement this.

While business was often critical of Reserve Bank decisions, it recognised the economic merits of according the bank considerable autonomy, Sacob said. International experience had shown that countries with autonomous central banks performed better.

Among Sacob's recommendations were:

- The Reserve Bank should be independent of Finance Minister and should accept institutional responsibility for monetary and exchange rate policy;
- Any conflict between the Finance Minister and the Bank should be resolved by Parliament; and
- Politically active people should not be éligible for appointment to the Bank's board while directors and governors should not be political appointees.

In its submission, the Council of Southern African Bankers supported the notion of an independent Reserve Bank, saying its role would be significant "through its duty and ability to conduct an autonomous monetary policy".

The council and Sacob suggested methods, including the marketing of Bank activities and the obligatory appearance of the Bank's governor before Parliament, to improve the institution's transparency and accountability.

Banks 'could pull out of provinces'

(58) BD 21/12/95

ADRIAN HADLAND

CAPE TOWN — Banks could start pulling out of some provinces if national and regional regulations on credit contracts were not standardised, the Southern African Bankers' Council said yesterday.

In a submission to a Constitutional Assembly committee, the council said if different legal systems were established in each province — as a result of constitutionally granted powers — the costs for banking institutions would be "so expensive that it will result in an increase in costs and subsequent inflation".

It was possible, too, that "many banks (will find) it uneconomical to continue to operate in certain provinces", the council said.

It was not easy for the highly regulated banking industry to comply with myriad rules and regulations applicable at national and provincial levels, the council said.

The development of different legal systems in each province would mean the costly printing of different sets of documents and forms as well as varying instructions and training manuals. Practical problems were already being incurred when lending in certain areas of SA.

Various examples of the Usury Act, the Insolvency Act and the Companies Act were applicable in different parts of the country. The old Hire Purchase Act was still relevant in the former Bophuthatswana and Transkei, but in different forms.

Various versions of the Credit Agreements Act were applied in different parts of the country while legislation deemed vital to the business of granting credit, such as the Close Corporations Act and the Security by means of Moveable Property Act, did not apply in many areas.

"The different laws applicable do not only make it difficult for the banks but, as these laws regulate matters which affect the validity of any security taken by the banks and, in many instances, the validity of the agreement in terms of which credit is granted, uncertainty relating to these issues makes it imprudent and dangerous for banks to lend money or enter credit transactions in some areas," the council said.

This obviously affected the range of development activities and services banks could provide across SA.

The provinces could not be considered financially independent, the council said. It was essential for large business and financial institutions to operate on a national level.

"In the circumstances we believe that it is necessary for the efficient and effective operation of the economy that consumer legislation, which is central to the operation of many of these businesses, be uniform throughout the country."

Rules for foreign banks to enter SA due soon

(58) (60)

BD 21/2/95

SAMANTHA SHARPE

THE Reserve Bank and the parliamentary finance committee met yesterday to discuss the requirements for foreign banks wanting to o[illegible] branches in SA, Registrar of Banks Christo Wiese said yesterday.

Parliament passed a Bill that enabled foreign banks to open branches in SA in its last sitting, but the regulations governing entry still had to be adopted by the finance standing committee. Publication of the regulations is expected in the next few weeks.

The latest international player is the US-based Chase Manhattan Bank, which took the decision to reopen its SA office late last week.

Chase Manhattan's re-entry — the bank withdrew in 1986 — followed moves by the largest US banking group, Citibank, to open an investment and commercial operation by July. Regional economic revival and the grow[illegible] of SA companies [illegible] behind the group strengthening its presence.

German banking group Commerzbank announced recently that it would open a branch in Johannesburg in May. The bank had set up a representative office last year.

Dutch-based Internationale Nederlanden Bank of Holland is expected to join the list in the near future.

Equator Bank — owned 60% by the Hong Kong Shanghai Banking Corporation, 20% by a Nedbank affiliate and 20% by members of its management team — opened an office last week. The organisation works exclusively in Africa and has identified SA as a growing investment market.

Govt 'must control board'

(58) BD 21/2/95

ADRIAN HADLAND

CAPE TOWN — JSE executive president Roy Andersen called on government yesterday to review the Financial Services Board Act, arguing the board should once more fall under the direct control of the Finance Minister.

Transnet deputy treasury manager Hercu Bloem argued earlier this month, in a submission to a Constitutional Assembly committee, that the board's role and independence should be entrenched in the constitution. Andersen said in a submission to the same committee yesterday that rather than entrench the board, the Act needed to be amended to bring the board under firmer Finance Ministry control.

In addition to its increasing influence in the framing of policy, the board had become increasingly independent of government control. SA was facing a situation where ministerial control was being replaced by "privatised financial regulation", Andersen said.

The interposition of the board between the Minister and the financial services industry had caused uncertainty about the role and function of the various participants involved in regulation and had led to "serious problems in practice", Andersen contended.

The board was established in 1990 as the principal regulator of all SA's financial markets — including the insurance, pension fund and unit trust industries — to replace the financial institutions office. The Van der Horst committee had recommended the removal of the office from the public service and the board's establishment as a statutory body, because of its inability to obtain and retain trained and professional staff on public sector salaries.

Despite this limited aim, the Act had created a body which, in addition to administering financial services legislation, "acquired significant powers with respect to policy-making". These policy-making powers had previously been the preserve of the Finance Minister.

The regulation of any activity as a matter of public policy was a state function and it was unrealistic to suggest such a policy could be depoliticised, Andersen said.

Andersen said "a return should be made" to the situation where the board should again fall under the direct control of the Minister.

"This would improve cost-effectiveness and co-ordination between the state regulatory bodies and represents a return to basic principles of ministerial accountability and sound constitutional government."

'Insurers need capital market to fund risk'

(58) CT 21/2/95

JOHANNESBURG. — The insurance industry was not able to fund the total risk exposure of major corporations and needed to interact with the capital markets in order to come up with more innovative solutions, Tony Valsamakis, chairman of Integrated Risk Consultants said yesterday.

Speaking at the SA Risk and Insurance Management conference here, Valsamakis said the worldwide insurance industry did not have enough capital to fund all the risk available on the books of mega corporations — some of whose balance sheets were stronger than those of their insurers.

This imbalance was a world-wide problem, he said. "In the US, for example, the value of all properties is around $13 trillion, far in excess of the mere $180bn of capital behind the entire US insurance industry. A similar imbalance exists in South Africa."

Innovation

Also, the insurance industry, despite its undoubted sophistication, was nowhere near as innovative as the financial and capital markets, which had come up with innovative instruments such as derivatives (futures and options), swaps and forwards able to tap the billions of rands of investment capital floating around the world.

"The challenge is clearly to combine the insurance and capital market sectors in order to redress the imbalances hanging over the strategic management of risk in major corporations," Valsamakis said.

This "commoditisation" of insurance would produce hybrid instruments which might be bought and sold on financial exchanges such as Safex (SA Futures Exchange), which he said was making good progress and was capable of looking further into the issue.

"Already several billion dollars of insurance derivatives trade on exchanges in Chicago," he said. "The imbalances between supply and demand of risk capital should make this market grow further."

Such an integrated approach would enable companies to protect their balance sheets across the entire risk spectrum and better safeguard shareholder value.

"This would redress the situation where companies might insure their 'pocket calculators' while running an exposure worth millions of rands through interest rate movements," Valsamakis said. — Sapa

Southern's RDP fund beats inflation

SAMANTHA SHARPE

SOUTHERN Life's reconstruction and development programme fund, Futuregrowth, posted a 26,1% gross return for its Balanced Fund and a 3,2% return for its Income Fund in the year to December, the first annual report said yesterday.

[illegible] Life [illegible]ve direc[illegible] Adrian [illegible]nott said the Bala[illegible]ed Fund had comfortably exceeded an inflation rate of 9,9%, with the Income Fund well ahead of the targeted all bond index, which provided a return of -9,1%. "But the key measure of Futuregrowth's success is its impact on the quality of lives of disadvantaged South Africans," Arnott said. BD 22/2/95

"The fund provided electricity to 40 000 households, housing finance for 5 700 people and convenient shopping facilities for 660 000 township residents." (58)

Twenty retirement funds had invested in the fund in the past 12 mont[illegible] Eskom, Highveld, Sappi, [illegible] Anglo American and De Beers pension funds, with the Iscor and First National Bank funds among the first to take part.

Futuregrowth co-ordinator Michael Leeman said the endorsement of the fund by leading pension funds reflected a growing confidence in the portfolio and an increasing realisation of the need for support for RDP project funding.

Losses show tough year for Protea

58

Business Editor

COMPOSITE insurer Protea Assurance Company's short-term operation suffered an underwriting loss of R42,5m in the year to December, due to rising crime — particularly car hijackings — and an increase in fires.

This was the main reason for an attributable loss of R8,8m compared with a profit of R56,3m the previous year.

But the life office lifted premium income growth by 43% and reported a taxed surplus of R4,1m. The directors say the life company "has shown excellent growth with renewable premium income increasing by 32% and single premium income by 69%.

"It is rapidly becoming a stabiliser in the consolidated company picture and prospects for future growth remain good."

CT 22/2/95

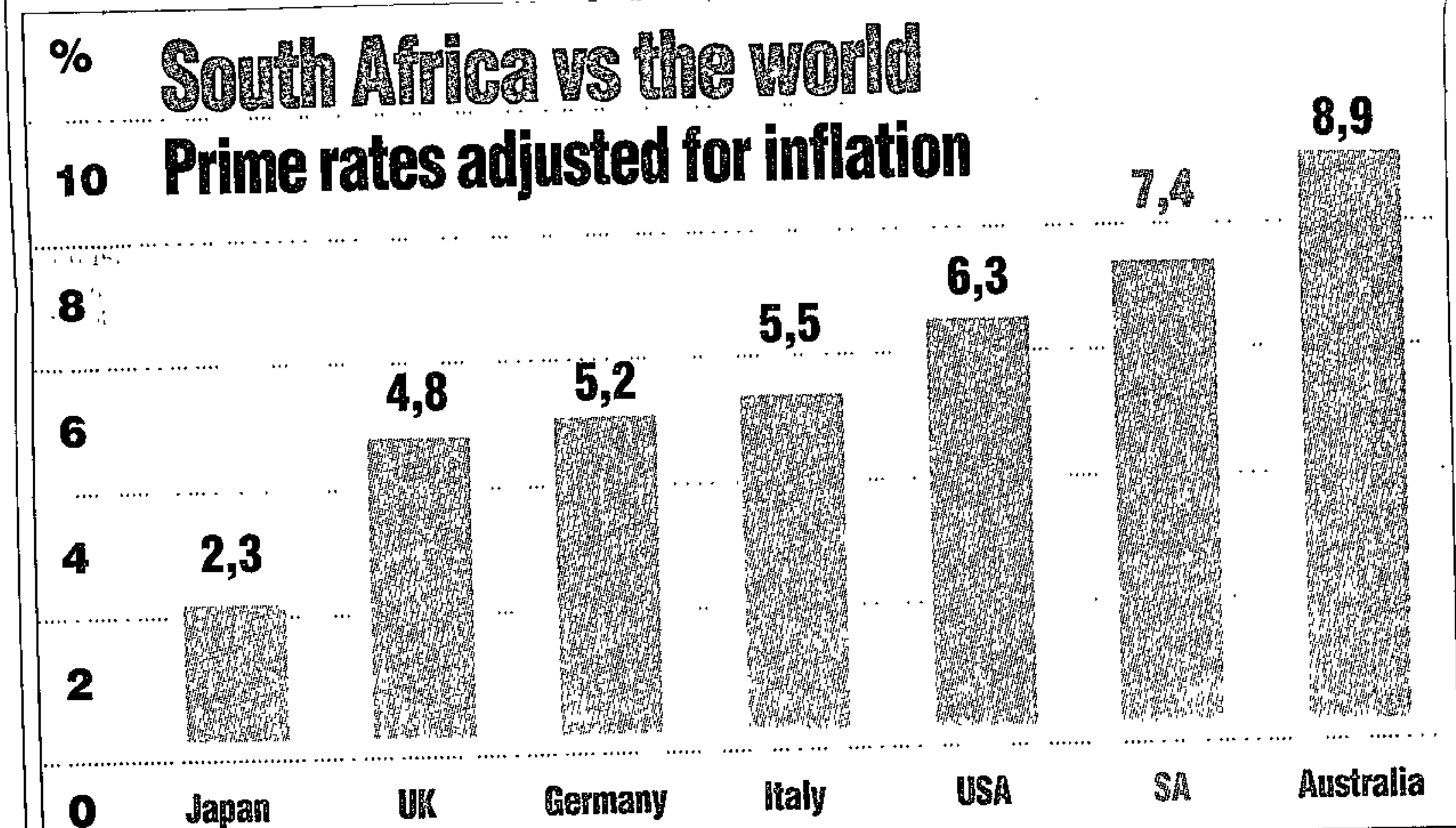
Consolidated results show that unrealised investment gains soared to R86,6m (R62,9m). Realised investment losses of R10,3m compared with realised gains of R18,3m the previous year were due to hedging costs "considered prudent to protect the portfolios in the run-up to the election".

The attributable surplus slipped to R70,5m (R137,6m) and the solvency margin of the general business operation to 72,4% compared with 89,6%.

But the final dividend is 50c a share making a total payment to shareholders of 80c (70c) for the year.

Net asset value has risen by 16%.

The directors say the results "are somewhat disappointing but the reasons are clear — 1994 was a difficult year for the short-term industry."



Are our bank rates too high?

(58) WM (BM) 24/2/95 – 2/3/95

Reg Rumney and **Simon Segal** report on the implications of this week's bank rate rise

HOW high is too high? After this week's general rise in interest rates South Africa's real — that is adjusted for inflation — prime rate is now 7,4 percent. The prime rate is the rate banks charge their best customers.

South Africa's real prime rate is well above that of its main trading partners.

It is unfair to compare South Africa's rates with countries in real trouble like Mexico where the nominal rate has risen to 50 percent.

But in Australia, comparable in terms of export profile at least, the real prime rate is 8,9 percent.

SA Reserve Bank governor Chris Stals raised the Bank rate — the rate at which the Reserve Bank provides credit to the banking system and thus a cornerstone interest rate — by one percentage point from 13 percent to 14 percent on Tuesday, branding it an essential move to prevent inflation escalating.

Commercial banks soon increased their prime overdraft rates by a heavier 1,25 percentage points to 17,5 percent. Home loan rates rose by a percentage point to 17,25 percent.

The Reserve Bank's action was seen as inevitable and the markets had already discounted the rise.

The rate rise comes after mounting inflationary pressure, growth in the money supply and a widening deficit on the current account of the balance of payments. The Reserve Bank is also preparing for the scrapping of the financial rand.

The level of discomfort in a one percentage point rise for bondholders, who account for about 42 percent of private sector credit, is not intense at an extra R50 a month or so on a R100 000 bond. But spare a thought for those with overdrafts, which account for around one-third of private sector credit.

The real prime rate may be 7,5 percent, but those with credit cards and overdrafts are now paying much more. The annual interest rate on an outstanding credit card balance rises from 24 percent to 25 percent. If inflation stays at 10 percent year-on-year, that is a 15 percent spread.

It is understandable that one group definitely not complaining about the hike in rates is the banking sector, where high rates and relatively low inflation are a boon.

Among the factors behind the bank rate rise was the exceptionally high growth in credit extension to the private sector. This growth has mainly been in the consumer category.

Old Mutual's *Economic Monitor* notes credit extension to the private sector rose no less than 16 percent over the year to November 1994. This was a key factor in the M3 money supply far exceeding the Reserve Bank's official six to nine percent target range for virtually the entire year.

According to the Standard Bank economic unit, in November last year, the growth in instalment credit (HP) was a high 27,2 percent; for leasing the figure was six percent; for mortgages the figure was 17,6 percent. Though some of that instalment sale figure includes business, and car sales, which are up by around 15 percent.

It was in the context of credit extension that Finance Minister Chris Liebenberg last week expressed concern about the effect of so-called "private label" credit cards on the country's savings.

It is not clear whether these cards are targeted at the emerging black market or at present credit users.

Holders of Mastercards or Visa cards are unlikely to use a private card unless they are already over-extended.

That not only has personal finance implications for the customers concerned, it means the banks are creating even more money through these cards, and that causes inflation.

The emerging market is unlikely to be particularly sensitive to interest rate rises until it is sufficiently leveraged, and here monetary policy is likely to be blunted. Those who are overextended will feel the pain quickly.

Economists point out the direction of interest rates is almost more important than the rise itself.

Also, Old Mutual economist Terence Moll notes, the level of interest rates reflects the political risk in South Africa. Lower rates should be expected in the relatively calm countries of the industrial world.

Frankel Pollak chief economist Mike Brown reckons real rates should be even higher, to combat inflationary expectations since the trend in long-term interest rates indicates rising inflation.

Expectations are of inflation at 12 to 13 percent. So perhaps, suggests Brown, to combat expectations the prime rate needs to rise to 19 percent.

Brown suggests controlling inflation is paramount, and that high rates are not a problem in themselves. The need to pay more for inflated goods and services is what gets the bond-holder into trouble, not any rise in mortgage bond repayments.

Thinking along these lines, Stals must have been tempted to raise Bank rate by two percentage points right now, as some economists have called for.

Instead he aims to further curtail bank credit to the private sector by technical measures which include raising banks' minimum cash reserve requirements.

(58)

MOMENTUM LIFE

Running in tandem

FM 24/2/95

First-half results from Momentum Life show the assurer consolidating and well on track for what looks a sound full-year performance. Bottom-line growth of 24% is a good result, particularly off the previous year's high base when EPS rose 43%.

Just under half the 24% advance in net taxed surplus, to R41,6m, comes from subsidiary Rand Merchant Bank. Earlier results from the bank, which saw earnings grow by 25% to R33,5m, were in line with market expectations, though the 26% increase in operating expenditure, to R43m, looked high.

However, RMB MD Paul Harris says the bank aims to cover operating expenditure with net interest income (R44m), allowing investment and other income to drop through to the bottom line.

The remainder of Momentum's taxed income came largely from the core life assurance and asset management activities, though the life business result should perhaps be seen as little more than a progress report, its interim taxed income calculated at half that achieved in the preceding financial year.

Deputy chairman Niel Krige is pleased with the 28% climb in total premium income to R896m, particularly new business received which saw annualised new premium income grow 104%.

"What is most gratifying is the tight control we have kept on the quality of business," he says. "Our lapse rate is in single figures, which must be one of the lowest in the industry."

RMB Asset Management, which picked up R2,5bn in new funds during the previous financial year, has added a further R1bn.

Krige says 70%-subsidiary Momentum Health is still making a small loss, but that's in line with expectations for the relatively young company.

GAINING

Six months to	Dec 31 1993	Jun 30 1994	Dec 31 1994
Total assets (Rbn)	13,1	14,4	15,5
Life fund (Rbn)	9,2	9,6	10,1
Attributable (Rm)	33,5	47,9	41,6
Earnings (c)	25	36	31
Dividends (c)	12	8,5	15

Jointly-owned Aegis Insurance is suffering underwriting losses along with most of the short-term industry. Its contribution for the six months was 20% down; Krige feels its underwriting result might not be as poor as others in the industry, partly because its exposure to vehicle insurance is only about 25% of the book.

After last year's strong performance, the share price seems to have settled in a band around R18. While the price has gained about 71% over the past year, it's now the same as six months ago, after peaking at R20,50 towards the end of last year.

Earnings growth should be sustained over the second half, though the share, one of the best rated in the sector (complicated by having a highly rated merchant bank as a subsidiary), looks fully priced.

Momentum could offer a cheap entry into parent RMB Holdings, which — now that subsidiaries have reported — will show strong results.

Shaun Harris

LIFE ASSURANCE (58)

Time runs in

FM 24/2/95

TimeLife Insurance is like a TV cliffhanger. MD Bill Haslam hopes the latest episode which sees him, with marketing director Tony de Munnik and Anne Cabot-Alletzhauser in joint control, will see some other players written out of the script.

A prominent exit is intended for Cabot-Alletzhauser's husband — and, for a while, TimeLife chairman — Albert Alletzhauser.

The saga of TimeLife has caused it to be one of the most publicised and controversial life assurers — something which hasn't stopped it being the fastest-growing.

It was the jewel in the empire of Colin Hibbert's Time Holdings. With its collapse, it became a subsidiary of Concor, a construction group which knew nothing of life assurance and did not welcome the investment. Negotiations began to sell a majority to a Bophuthatswana organisation which was State-controlled. That was overtaken by the realisation that, with the former homeland's imminent reintegration with SA, central government would end up owning a life assurer.

Penrose, a JSE-listed print company, took control, installing Alletzhauser as chairman. At the time, Haslam said he was "comfortable" with the arrangement, though it diluted his personal holding in TimeLife from 21% to 13%. Subsequently, Alletzhauser was ousted, a complicated and as yet unresolved series of legal actions ensued and Penrose became a willing seller, so long as it got back its investment. Meanwhile, Haslam had become impressed by Cabot-Alletzhauser's analytical prowess and, possibly, by her membership of one of the most powerful families in Boston, US.

In the latest swing, Haslam, Cabot-Alletzhauser and De Munnik take over the Penrose holding of 75,3%, for R3m which they have raised privately — all still subject to the approval of Penrose shareholders and other parties, including the Financial Services Board.

In control . . . *Cabot-Alletzhauser, De Munnik and Haslam*

Control is to be exercised through a new holding company, TimeLife Financial Services. A shareholders' agreement ensures equality of status through the creation of a voting block, though the shareholders decline to state what their actual holdings are. Membership is open to other "highly talented people who can add value." Haslam says there's a complicated series of trusts to protect the new structure from any attack by previous stakeholders. Anne confirms her husband has no role in the company.

De Munnik says that despite the furore, policy lapsing was low. Most of the TimeLife business is aimed at the "top hat" market through selected brokers and largely attracted single premium investments.

That, he says, will remain the focus. TimeLife will continue to be regulated as a life assurer, concentrating on investment policies which are invested through BoE, Investec and UAL — other portfolio managers may be included — exploring further the synergy between life assurance, unit trusts and other investment outlets.

When all has settled down, TimeLife still intends to seek a JSE listing to add liquidity and marketability. ■

Ultimate cost: Life assurance companies are fighting tooth and nail to get a slice of the lucrative funeral business
PHOTOGRAPH AFRAPIX

Burials become big business

WM 24/2-2/3/95 (58)

Life assurers are honing their strategies in order to capture the multi-billion rand funeral business, reports Jacques Magliolo

HOW big is the funeral business? Big enough for the life assurers to fight tooth and nail for it. Financial Services Board long term insurance manager Oppie Opperman says: "In 1993 total premium received by the life assurers registered to conduct funeral business amounted to R327,5-billion." The 1994 figures are not available, but estimates range between a 25 to 35 percent increase.

While this business is obviously an extremely lucrative one, the "big boys" are only now realising that there has been a lack of understanding of the manner and the types of policies which they have marketed to the public, particularly to the black community.

The large assurers were reluctant to talk to us, citing that this area was "confidential and sensitive to competition". However, Fedlife's new venture with Thebe Investment Corporation, called Safricon, was willing to discuss the matter.

Fedsure and Safricon national sales manager Tony Diogo says: "The essence of the new venture is to target black funeral business. In 1994 we received R60-million in premium income and we expect to increase this by 60 percent this year."

He expects to achieve this through the company's connection with trade unions like the South African Workers Union, through Stokvels and undertakers.

"It is high risk, but we are developing new group schemes to cover residents of certain areas, rather than only employees," he says.

Another company which is targeting this market is retailer Wooltru, which has established a new Transvaal region inhouse insurance company, run by business development officer Dion Goldie.

He says: "Over the past 10 years life assurers have continually improved funeral policies, but it is only in the last few years that they have tried to accommodate the black population."

"Black people have specific needs which cannot be met by standard life cover," he says, indicating that new trends will concentrate on group schemes which "are cheaper and meet most of their needs".

These group schemes include:

■ *Receive cash immediately.* Instead of the assurer paying for the actual funeral, it would provide cash to the beneficiary. This enables payment for travel to the homelands where black people are often buried by the beneficiary. In addition, there are custom-related traditions which would not be paid for under normal life schemes.

■ *Extending cover to parents and to the husband's numerous wives.* The principle is that, if the husband dies, the first wife and all the children are covered. If any of the wives die before the husband, he would receive a payout

■ *Better explanations (through marketing) on how to claim.* Beneficiaries usually supply a death certificate which has been provided by a doctor. This is not acceptable to life assurers, who insist on a certificate from Home Affairs.

■ *Policy keeps pace with inflation.* The old Funeral Book system tended to create the perception that assurers paid for the full expense of a funeral, but — after 10 years of premiums — these actually amounted to a fraction of funeral costs.

■ *Group schemes are controlled by the government and are tax free.* Despite assurers' attempts at improving funeral policies under group schemes, they are limited to government restrictions. Says Opperman: "Registered assurers may provide benefits of up to R2 000, but can apply to the registrar to extend that to R5 000 a policy."

Is this enough to pay for a funeral? Goldie believes it is. "It depends on where you are and what magisterial district you wish to have your burial or cremation, but for most black areas R5 000 is enough," he says.

"The life assurers have applied to the government to extend this amount to R10 000, which would be in line to meet most of their specific needs," he says.

14% VAT shock ruffles insurers

CP 26/2/95 (58)

INSURANCE premiums are likely to go up following the shock announcement that VAT will in future be payable on most fees and commissions due for sale of insurance and other financial services, warns Kobus Hanekom, senior manager at Old Mutual Employee Benefits.

Hanekom says insurers will now be compelled to pay VAT at 14 percent in addition to the commission payable to brokers in terms of the Insurance Act.

"This will result in a proportional increase in insurers' operating costs which will probably be passed on to clients.

"In the case of employee benefits business, the increased cost of taxes will ultimately have to be absorbed by the members of retirement funds and other group arrangements. Where smaller schemes are concerned, administration costs could also rise by as much as one percent a year."

The Taxation Laws Amendment Bill, published in November 1994, introduced a number of amendments to the VAT Act of 1991. Of particular importance to insurers was the fact that certain financial services previously exempt from VAT would be subject to the tax from April 1 this year.

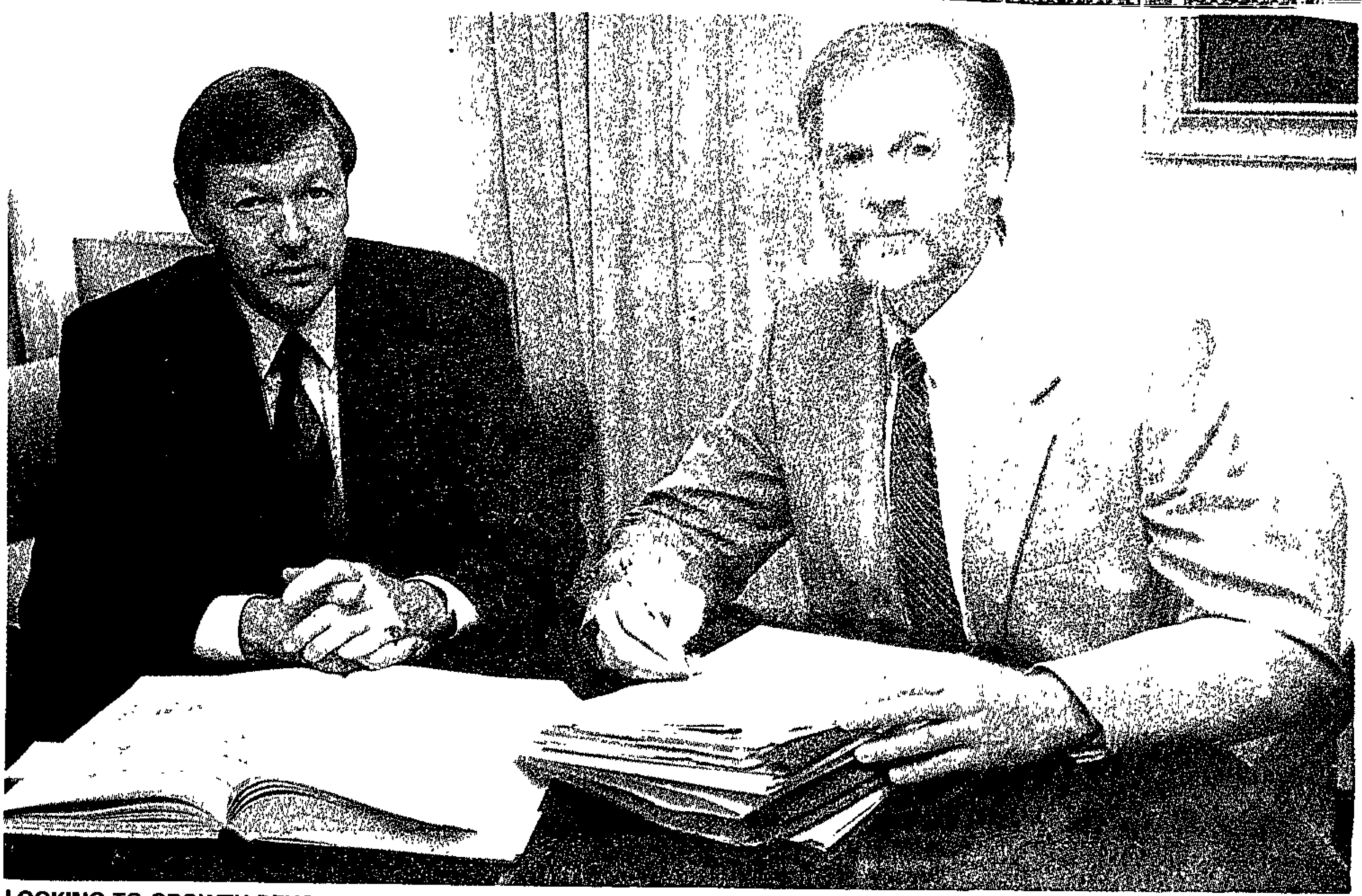
Hanekom said given that VAT would not be chargeable by agents on their commission-based salaries and smaller brokers who are not required to register as VAT vendors, the legislature had also created inequality between small and large brokers and between large brokers and life agents.

"This could create a number of distortions in industry practice," warns Hanekom.

This latest scenario came about despite the fact that the industry had not been consulted regarding the changes. Subsequent protest saw the Commissioner for Inland Revenue state that the alterations were considered justified and that they would be implemented.

While the amount of commission payable in respect of life and group business is prescribed by Regulation 28 of the Insurance Act, in terms of the VAT Act insurers will have to pay 14 percent to brokers who are registered as VAT vendors – that is brokers whose turnover exceeds R150 000 a year. Hanekom adds that the VAT Act, however, exempts remuneration paid to employees – so commission earned by an agent is exempt from VAT if an employer/employee relationship exists.

"On the other hand, agents marketing products other than those of their employers, such as unit trusts or short term insurance, will in principle be liable for VAT on the commission earned from the unit trust company or insurer. Some brokers will already be registered for VAT for their short-term business on which VAT has for some time been payable," he said.



LOOKING TO GROWTH BEYOND 2000 ... John Thompson, left, managing director of South Africa's oldest bank, the Cape of Good Hope Bank, with John Forsyth, head of the bank's recently formed Property and Business Ventures Division

Picture: AMBROSE PETERS

Oldest bank poised for major role in W Cape

(58)
ST(CM)26/2/95

SOUTH Africa's oldest banking institution, the Cape of Good Hope Bank, is poised to play a major role in the development of the Western Cape up to the year 2000 and beyond.

Building on the solid foundation of 164 years of experience in the Western Cape which has seen assets reach R1,5-billion, the bank is now expanding by setting up a Property and Business Ventures Division and placing more emphasis on providing banking to the broader Western Cape through partnerships and joint ventures.

By FRED ROFFEY

The bank is maintaining its tradition of being the first institution in South Africa to finance property by increasing its long-term book for commercial and industrial property finance by 25 percent, reflecting its confidence in the Western Cape.

Emphasising the bank's pro-active role in encouraging development in the region is its joint initiative with the Western Cape business promotion organisation Wesgro Through it they plan to establish a Business Development Panel.

ing business people was held recently in Cape Town and set a high tone for subsequent panel meetings through the background paper prepared by Wesgro economist Wolfgang Thomas on the Western Cape taking off for a decade of growth.

The chairman of the panel, Mike Thompson, managing director of the Cape of Good Hope Bank, said the bank would publish four economic monitors a year aimed at stimulating development and helping business to plan ahead in the region.

"The first Western Cape Economic Monitor will appear shortly complete with statistics, regional data estimates and economic indicators," said Mr Thompson.

"The joint Cape of Good Hope Bank/Wesgro initiative of a half-yearly panel and a quarterly monitor aims to contribute to the development of a coherent regional economic growth perspective.

"Such a perspective seems crucial for the pursuit of appropriate economic policies by the provincial government and other development stakeholders."

Mr Thompson said another factor favouring the bank's approach to encouraging development in the Western Cape was its quick turnaround time on project and finance decisions.

The bank employs the services of highly-skilled negotiators, accountants, attorneys and property people to structure flexible and highly innovative financial packages for its instalment credit as well as its residential and commercial property divisions.

"Above a certain level we can give the go-ahead on a project in as little as 30 minutes, after due consideration of all the facts."

Despite continued expansion into the corporate market, the bank feels as strongly as ever about value-added customer service.

"We are still small enough to treat each client as an individual, who often becomes a friend," said Mr Thompson.

"We do not operate outside the Western Cape, and are presently growing at the rate of about 35 percent."

Sage forms alliance

By JULIE WALKER

AN eye on the future in terms of foreign expansion and stock market deregulation has resulted in a strategic alliance between Sage Life and Coronation Asset Management.

With R4-billion under management, Sage Life is the bulk of listed Sage Group (market capitalisation: R1,2-billion). Coronation deals in the wholesale capital market and has R3,5-billion under management. Coronation's market capitalisation is below R200-million.

Sage Life's Robin Marsden says the strategic alliance is akin to "living together without being married".

He notes the growing world trend towards alliances and says that Sage needed to expand without straying from its focus.

"Bigger means better when it comes to international partnerships and possible stockbroking opportunities. We looked around and identified Coronation as a possible proposal because of its independence and reputation. When we approached them it transpired that they had also been looking for someone like us."

Mr Marsden says the first step has been to integrate on the common ground of fund management.

Sage Coronation Fund Managers will hold 75% interests in two operating companies, Sage Capital Managers and Coronation Asset Management. Coronation's Leon Campher will lead both companies from Cape Town.

Coronation chairman Gavan Ryan is flattered that Mr Campher won this accolade. He says the alliance opens the way for new products such as guaranteed investments and unit trusts from which Coronation was excluded. (58) ST(BT) 26/2/95

(58) BD 27/2/95

Saflife sets up new vehicle

SAMANTHA SHARPE

LIFE assurer Saflife — the business plans of which recently prompted much market speculation — had entered investment banking with the creation of a R40m investment vehicle, Saflife chairman Larry Nestadt said at the weekend.

The group, which had seen its share price leap from 75c in February last year to R5 on Friday, had chosen to diversify its interests through the new investment company, he said.

Sources said that the consortium behind the investment vehicle — 54% owned by Saflife — included Investec Bank, Citizens Corporation and the US-based Peninsula House Capital Group.

This was not the first international affiliation for Saflife, which recently sold a 10% stake to Luxembourg-listed Trans Zambezi Industries.

Its major shareholders included several top international investment houses.

Nestadt said the new company would enjoy an initial capital base of R40m. It would list on the JSE soon.

The aim of the new investment vehicle would be to take strategic minority stakes in businesses with proven track records and sound management teams, with the intention of adding value.

Several deals were being considered, he said.

The new company would not assume responsibility for the day-to-day management control of the various business interests acquired, but would rather lend financial and strategic input.

This would be provided by the consortium which took over Saflife in September and included Nestadt and Saflife financial director Gary Burg.

Former W&A executive chairman Jeff Liebesman would be involved on a consultancy basis.

Saflife reported an attributable surplus of R5,18m for the six months to September compared with an attributable loss of R25,95m in September 1993.

Rising crime takes toll on Commercial Union

(58) BD 27/2/95

SAMANTHA SHARPE

THE harsh operating conditions characterising the short-term insurance industry took its toll on insurance group Commercial Union, which posted attributable income of R67,82m for the year to December, compared with R80,16m in December 1993.

The group reported a marginal fall in net premium income to R1,04bn from a previous R1,1bn, with pre-tax income slipping to R72,83m from R103,66m.

A R4,11m tax charge translated to after-tax income of R68,71m compared with R81,61m in the previous reporting period.

The extraordinary items, made up of a R26,5m realised surplus on the disposal of an unlisted investment in subsidiary Commmercial Union Trade Finance and R34,4m from the disposal of listed investments, notched up R60,99m on the group's income statement.

A dividend of 60c a share was declared, which was 10c up on December 1993, while earnings fell to 135,6c a share from 160,3c.

The figures relating to the shareholders' interests a share for 1993 were restated to reflect the five-fold subdivision of the shares, which took place in May last year.

The group's short-term arm reported a R13,6m underwriting deficit, which was "satisfactory given the very difficult operating environment during the year", MD John Kinvig said.

The financial year had been dominated by rising crime, especially theft and hijacking of motor vehicles.

"The underwriting result was also adversely affected by an increased number of fires and by storms in some parts of the country," he said.

The method used in calculating the short-term company's unearned premium reserve had been changed to bring it into line with modern international industry practice, Kinvig said. "The effect of this has been to reduce the unearned premium reserve and improve the underwriting result for the year by R18m."

Commercial Union Life showed solid growth in recurring premiums, but an "expected fall" from the exceptional single premium income of the previous year translated to a decline in gross premium income to R619,1m, compared with R713,39m in December 1993.

However, the growth in recurring premiums and investment income received, combined with good market value appreciation, saw assets rise from R4,1bn to R4,7bn.

Shareholders' net taxed surplus was slightly lower at R21,5m, compared with R22,8m in the previous period.

This was attributable to the lower investment return on shareholders' funds and despite 22% growth in the surplus generated by business activities.

Jobs remain safe after Sage merger

(58) CT 28/12/95

From CHARLOTTE MATHEWS

JOHANNESBURG. — Contrary to market rumours, mass retrenchments of the Sage Life asset management team have not followed the merger announced with Coronation Asset Management last week, says Sage executive director Bernard Nackan.

The merger will see the creation of a new company, Sage Coronation Fund Managers, with a 75% stake in two operating companies, Sage Capital Managers and Coronation Asset Management.

Sage Coronation Fund Managers will be based in Cape Town and headed by Coronation Holdings director Leon Campher.

Nackan said yesterday it was only possible to discuss the merger with staff shortly ahead of the public announcement, once the transaction had been concluded.

However, intensive discussions had now begun, with the total staff of about 20 affected. Some would be offered the choice of moving to Cape Town and others offered alternative positions within the Sage group.

AfDB talks 'successful'

JOHANNESBURG. — South Africa's Department of Finance said talks with the African Development Bank (AfDB) with a view to South African membership had been successful and further talks were scheduled to take place in Abidjan in late March or early April. (58) (229)

It said the government and the AfDB had signed a "proces-verbale", which recorded understandings reached between the parties so far, and outlined issues needing clarification ahead of the Abidjan meeting.

The meeting was held from February 21 to 23 in Pretoria, the department said. CT 28/2/95

"Round one consultations were characterised by a positive and open-minded atmospehere," the department said in a statement.

The South African team was led by Finance Department director-general Estian Calitz, and the AfDB team by secretary-general Hedi Meliane. — Reuter

SA, development bank hold talks

CT 28/2/95 (58)

JOHANNESBURG. — Department of Finance officials have held successful talks with the African Development Bank about future membership.

The department said further talks were scheduled at the bank's headquarters in Abidjan for late March or early April.

The two parties had signed a document recording understandings between them and outlining issues needing clarification before the Abidjan meeting.

Bank sources say the size of South Africa's shareholding has yet to be determined but it could be up to 12%, overtaking Nigeria to become the biggest member.

For South African business, membership would bring an influx of cash for development projects, while the government would have a say in bank involvement in the whole of Southern Africa.

The bank would benefit from a creditworthy new borrower.

● Finance Minister Mr Chris Liebenberg has named Mr Nick Christodoulou acting chief executive of the Development Bank of Southern Africa (DBSA).

Deputy Finance Minister Mr Alec Erwin said Mr Christodoulou would fill the post while the transition team appointed to re-assess the role and operations of the DBSA did its work.

A new chief executive could assume office by September. — Reuter

Province tenders for bankers

(58) Sowetan 28/2/95

By Montsho Matlala

THE Northern Transvaal provincial government has announced tenders for its official banking account.

Four institutions contesting for the account are the Standard Bank, First National Bank, Nedbank and ABSA group, according to a spokesman for the provincial ministry of finance and expenditure Mr Simon Matome.

According to Matome, a public adjudication for the awarding of the provincial account will take place in Pietersburg on March 1 and 2. "Amongst other things the adjudication session will carefully look at the individual bank's social track record, such as its involvement in the upliftment of its workers as well as its commitment and promotion of small and medium black enterprises.

"Organisations such as Nafcoc, trade unions and civics have been invited to take part in the adjudication session, " he explained.

Sage denies retrenchments

BY CHARLOTTE MATHEWS

Contrary to market rumours, mass retrenchments of the Sage Life asset management team have not followed the merger announced with Coronation Asset Management last week, says Sage executive director Bernard Nackan.

The merger will see the creation of a new company, Sage Coronation Fund Managers, with a 75 percent stake in two operating companies, Sage Capital Managers and Coronation Asset Management. Sage Coronation Fund Managers will be based in Cape Town and headed by Coronation Holdings director Leon Campher.

Nackan said yesterday it was only possible to discuss the merger with staff shortly ahead of the public announcement, once the transaction had been concluded.

However, intensive discussions had now begun, with the total staff of about 20 affected. Some would be offered the choice of moving to Cape Town and others offered alternative positions within the Sage group.

Some might inevitably be retrenched, he said.

(58) Star 28/2/95

Call for more fuel levy reviews

BD 1/3/95

Alarm over motor fund's soaring losses

(58)

ADRIAN HADLAND

CAPE TOWN — The board of the Multilateral Motor Vehicle Accidents Fund has expressed "great concern" over the R512m escalation in the fund's operating losses for the 1993/94 financial year.

Fund chairman DJ Malan said yesterday proposals, including a more regular review of fuel levies and the provision of an explicit guarantee of the fund's solvency, had been put to government.

According to the annual report released yesterday, the fund's operating loss increased from R135,7m in 1992/93 to R648m in 1993/94 while a R950m increase in actuarial liability had been registered. Although there was no danger of the fund failing to meet its immediate cash requirements, future requirements in respect of accidents that had already occurred were not fully funded.

Malan said outstanding claims were now funded to the extent of only 14%. In addition to the fuel levy reviews and the solvency guarantee, he said the fund's board was also considering making the early reporting of claims a legal requirement.

The long period over which claims could be filed — which varied from two years up to 24 years in the case of minors who had sustained injuries — and the unlimited liability to which the fund was subject had exacerbated the difficulties the fund was experiencing.

A distinguishing feature of the fund's business was that claims were actually settled several years after they arose while the pattern of settlement varied from year to year.

The fund's internal rule was to settle all valid and proven claims within seven days of receipt of the final documentation.

Malan said the problem lay in reaching this stage of finality. "If the claimant delays consulting an attorney, and the attorney in turn delays documenting the proof of the claim and reporting it to the fund or an agent, two or three years could pass after the accident without even the fund or an agent even knowing about the claim."

Unlike commercial insurers, who could select a particular risk, assess it, price it and quote an appropriate premium, the fund had no opportunity to select risks and there was no actuarial nexus between the liability imposed by one Act and the premiums provided by another. Income for the fund was governed by the Central Energy Fund while liabilities were determined in accordance with the Motor Vehicle Accidents Fund Act.

With these constraints, there was little the board could do on its own to improve the fund's position. "Apart from managing the available resources as efficiently as possible, there is little the ... fund can do to redress the situation."

He said a further contributing factor to the fund's growing deficit was the high fatality rates on SA's roads. Rates were 2,5 times and seven times as high as those in Europe, measured by population and the number of vehicles on the road.

"There is much room for improvement, and more effective road safety measures and lower accident levels in SA would contribute to the improvement of the fund's finances."

RMBH's income climbs 55%

(58) CT 1/3/95

From CHARLOTTE MATHEWS

JOHANNESBURG. — RMB Holdings (RMBH), the financial services group whose interests encompass Rand Merchant Bank, Momentum Life and Aegis, lifted attributable income 55% to R44,3m in the six months to December 1994, against the same period in 1993.

Results are in line with the market's high valuation of the share, which, at yesterday's closing price of R31,50, is on a P/E of 24, hard on the heels of Liberty Life's 27,9 and above the insurance sector average of 20 and bank sector average of 21.

Net taxed income was R41,8m (R35,4m previously) and was boosted by a trebling of income from associates.

On a higher number of shares in issue, earnings a share were 27,5% better at 60,3c. A dividend of 18,5c (14,5c) has been declared.

The group's total capital and reserves have gained 4% since June 1993 and 18% since a year previously to a current level of R916,6m.

Momentum Life, which is 68%-held by RMBH, recently reported a 28% increase in total premium income and a 26% surge in group assets and assets under management to R22,9bn.

However, reported poor underwriting results in line with industry trends and reduced its contribution by 20%, compared with the same period in 1993.

RMB Asset Management and RMB Properties performed in line with expectations, while Momentum Health has exceeded original business plans in its number of policyholders, claims experience and expense rating.

Rand Merchant Bank improved attributable earnings by 25% to R33,5m as most of its divisions exceeded budget.

Of RMBH's associate companies and subsidiaries, NBS Holdings performed well, while Hollandia Holdings and Glenvaal Dewar Rand made positive contributions.

Australian Gilt Securities was affected by a difficult trading environment, but still made a positive contribution.

SA edges towards AFDB membership

■ BY THABO LESHILO

South Africa is edging, albeit slowly, towards becoming a member of the African Development Bank (AFDB) after holding a series of meetings last week.

A technical team from the Department of Finance, led by Director-General Estian Calitz, met an AFDB team, led by secretary general Hedi Mellane, from February 21 to 23 in Pretoria to clarify matters relating to membership.

According to the department, the meetings produced understanding between the parties. They also outlined issues that needed to be further clarified.

The delegations agreed to continue the consultations at a second round of talks to be held in Abidjan, Cote d'Ivoire, in late March, or early April. Star 1/3/95

The meetings followed the decision by the Government of National Unity in September to seek membership of the AFDB.

SA, however, expressed concern at the continuing decline in the bank's net disbursments.

By becoming a member SA stands to gain access to concessional financing, which could lower the cost of its borrowing.

Local companies stand to benefit by taking part in development projects in the region.

Financial Services Board under fire

(58) ARG 1/3/95

COLIN DOUGLAS
Business Staff

PARLIAMENT'S Finance Standing Committee is to debate the future of the Financial Services Board (FSB) following a fierce attack by the Johannesburg Stock Exchange on suggestions that the board's independence be constitutionally entrenched.

JSE attorney Peter Leon told the Constitutional Assembly (CA) sub-theme committee on financial institutions that entrenched independence for the FSB — mooted by Transnet in its submission to the committee earlier this month — would amount to "privatised regulation".

This would create a brake on government policy-making.

"The regulation of any activity as a matter of public policy is a State function and it is unrealistic to suggest that such policy can be 'depoliticised'.

"It must remain within the control of the government of the day," Mr Leon said.

The committee resolved on Monday to refer the matter to the Finance Standing Committee, whose chairman, ANC MP Gill Marcus, has already lashed out at Transnet, branding its proposals an attempt to "constitutionalise prejudice".

"The gist of their submission was that if we don't have these things in the constitution, we are going to have this rampant government running away with things," she was reported as saying.

Mr Leon said the FSB's policy-making powers had led to serious problems for the financial services industry and had disempowered the Minister of Finance, undermining his accountability to parliament.

These problems had been exacerbated by the fact that the FSB had become independent of public funding, and the removal of initial government controls such as ministerial approval of staff salaries.

Legislative attempts in 1993 to turn the FSB into a "super-regulatory" body and transfer several ministerial powers to the board were scuttled after last-minute lobbying by the major life assurers, who were said to object to the FSB's taking control of policy-making.

The Johannesburg Stock Exchange's Constitutional Assembly submission proposed the amendment of the FSB's governing Act to place the board under the direct control of the Minister of Finance, a change which would "improve cost-effectiveness and represent a return to basic principles of ministerial accountability and sound constitutional government".

■ The JSE is to bring a submission concerning its own regulation before the Constitutional Assembly committee on financial institutions next month.

SA to join ADB

(58) Sowetan 2/3/95

NEGOTIATIONS for South Africa to join the African Development Bank are at an advanced stage following positive "first round" talks in Pretoria last week.

Consultations

The consultations concluded that the negotiations in Abidjan, Ivory Coast, in April should continue.

"Round one consultations were characterised by a positive and open-minded atmosphere. The first round of consultations were successful in moving the process of South Africa's eventual accession to ADB membership further," says Dr E Links, department of finance chief director of International Development Finance.

Profits shine for TransAtlantic

(58)

CT 2/3/95

From JOHN CAVILL

LONDON. — Transatlantic Holdings, the £1bn UK life insurance and property group controlled by Liberty Life, enjoyed a 34% jump in pre-tax profits to £90,1m last year.

Earnings per share were boosted by 21% to 16pence and TransAtlantic — 58% owned by Liberty Life and 22% by Union des Assurances de Paris (UAP) of France — has increased its dividend by 10% to 13,2pence.

TransAtlantic chairman Donald Gordon revealed that the biggest growth came from the group's 74%-owned Capital Shopping Centres (CSC's) which was floated as a seperate company last year.

Helped by the introduction of Sunday shopping, sharply rising sales by retailers, which pay turnover-linked rentals, at CSC's main out-of-town shopping centres pushed the group's investment income by 35% to £40,3m

Income from TransAtlantic's portfolio of commercial properties in the UK, the United States and Australia, rose 8,6% overall to £44,4m while real estate trading yield £2m more at £6,4m.

Gordon said an open market valuation of CSC's seven centres had raised their value by £56,5m to £805m which included capital spending of £8,8m. But he added that an actuarial valuation on the basis of projected pre-tax cash flows discounted at 10,5% indicated that CSC's biggest site, Thurrock, east of London, would be worth £510m on its own against the latest figure of £452m.

TransAtlantic's net asset value per share was 8% up at 315pence (342pence assuming full conversion of its convertible preference shares and bonds).

He said further deregulation of shopping hours plus the UK government's policy which may curtail new out-of-town centres would only enhance CSC's value in the market.

Profits at Sun Life Assurance — owned 50:50 with UAP — increased its profits after tax by 12% to £60,8m chiefly on the back of 75% jump in earnings by its pensions management and unit-linked subsidiaries which made £22,4m.

But 1994 was "an extremely difficult year" for life insurers, said Gordon. Total new premium income dropped from over £2,3bn to £2bn. New single premium business was down at £1,9bn (£2,2bn) but regular premiums, anualised, rose 22% to nearly £130m.

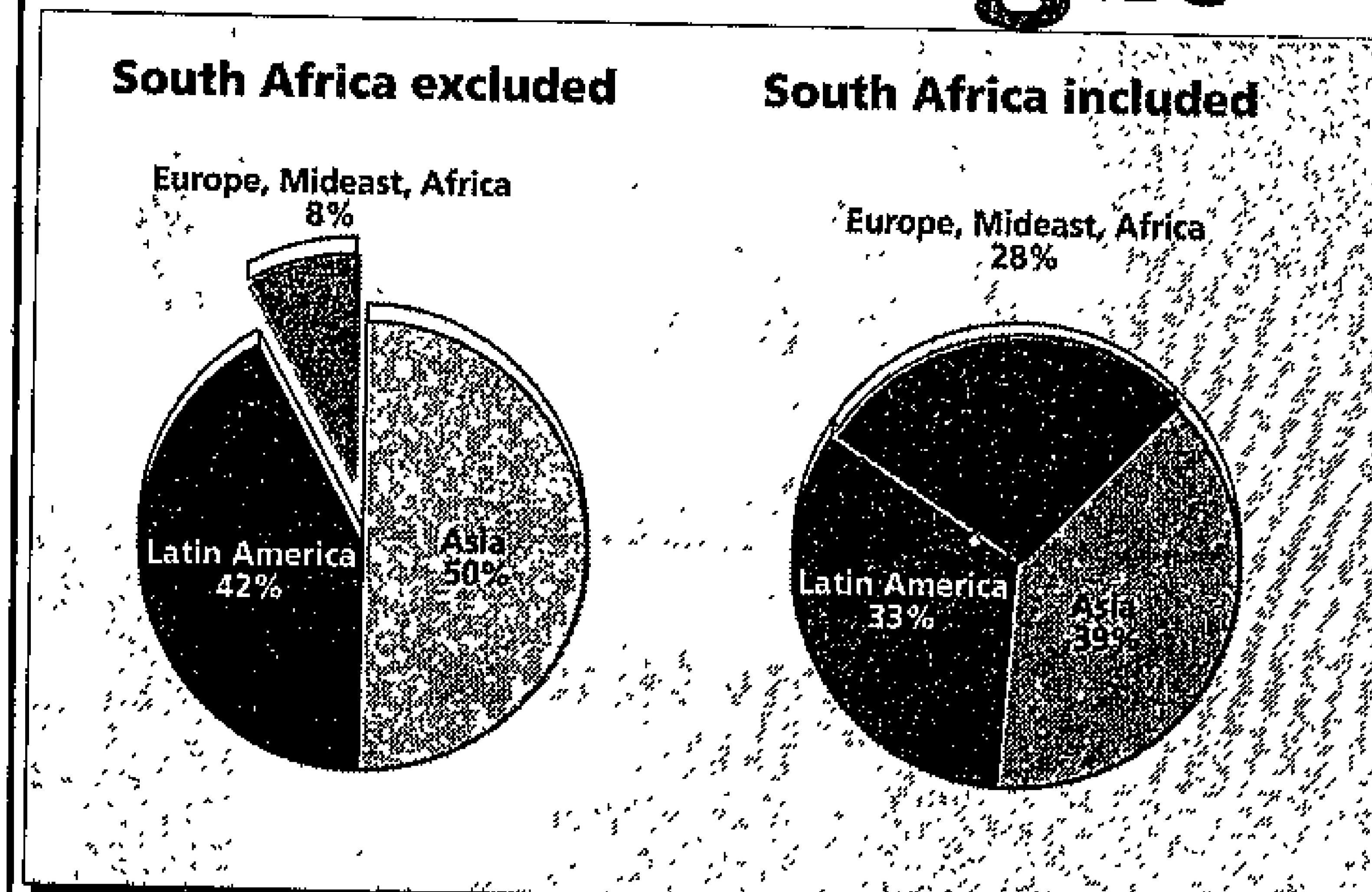
On the standard measure of new premiums — which includes one tenth of single premiums — new business total £321m, just 3% down on 1993 when it soared by 46%.

Gordon said Sun Life's performance was "highly satisfactory give the sharp contraction of the life market as a whole". Industry figures showed total new business last year was down 10%.

"There appears little prosapect of easier market conditions in 1995," said Gordon. "On the contrary, the industry's situation is expected to become more difficult" because of increased regulation which requires full disclosure of expenses and commission.

Criticising "negative regulatory pronouncements," Gordon said described the disclosure rules as "a business requirement unique to the life industry."

SA adds weight



BY CLAIRE GEBHARDT

South Africa's inclusion in the International Finance Corporation (IFC) Emerging Markets Index on April 7 could bring a flurry of institutional money.

US-based Bear Stearns says many investors who track indices, especially US institutions which have a zero or low exposure to the country, will use the country's inclusion as a buying opportunity.

The IFC is a member of the World Bank Group and is the largest source of financing for private enterprise in emerging economies.

(58) STAR 2/3/95

Index

South Africa's weighting in the Emerging Market Global Index will be approximately 11,3 percent and its weighting in the Investable Index about 21,9 percent.

Although the IFC has not yet published its index with South Africa included, an "after" index has been calculated by Bear Stearns' based on the index as at end March 1995.

	%	
Latin America	**Before**	**After**
Argentina	4,7	3,7
Brazil	17,4	13,6
Chile	2,7	2,1
Colombia	3,0	2,3
Mexico	12,6	9,8
Peru	1,2	0,9
Venezuela	0,7	0,5
	42,3	32,9
South Asia		
India	4,4	3,4
Indonesia	2,7	2,1
Malaysia	24,4	19,1
Pakistan	1,5	1,2
Sri Lanka	0,3	0,2
Thailand	6,3	4,9
	39,6	30,9
East Asia		
China	—	—
Korea	3,2	2,5
Phillippines	3,9	3,0
Taiwan	2,9	2,3
	10,0	7,8
Europe, Mideast, Africa		
Greece	2,0	1,6
Hungary	0,1	0,1
Jordan	0,2	0,2
Poland	0,4	0,3
Portugal	2,0	1,6
South Africa	—	***21,9***
Turkey	3,5	2,7
	8,2	28,4
	100,0	100,0

Norwich loses eight staffers

NICOLA JENVEY

DURBAN — Eight members of Norwich Life's investment team resigned yesterday to join financial services company Capital Alliance, established last year with 51% black business control.

Capital Alliance CEO Mzi Khumalo said the company had recruited them to position itself firmly in the SA financial sector.

The team would start work in April for Cape Town-based Capital Alliance asset management subsidiary Capital Alliance Investment Counsel.

Khumalo said the company would focus on refinancing, development and expansion projects for both the private and public sectors and was already involved in several projects, including an international hotel venue.

He said the company could understand SA's new agendas and analyse the socio-political environment at the core of risk financing. A Durban office was expected to be opened before the end of 1995.

Capital Alliance's remaining 49% is held jointly by McCarthy Retail and Rand Merchant Bank with McCarthy Retail CEO Terry Rosenberg as chairman. Other board members include RMB MD Paul Harris and Alexander Forbes executive director Max Maisela.

(58) BD 3/3/95

I-Net reports that Norwich Life investment GM Louis Fourie said five portfolio management staff members, two of the company's administration personnel and one of its skilled investment people out of a total staff complement of 24 had left to join Capital Alliance. The resignations included deputy GM Steve Mills, who would head Capital Alliance Investment Counsel.

Old Mutual funds safe

(58)

CT 3/3/95

By BRUCE CAMERON

OLD Mutual International, a wholly-owned subsidiary of Old Mutual, has more than R300m invested in a subsidiary of the collapsed British merchant bank, Barings — but not a cent of South African policyholders' money is at risk.

Panic buttons were hit at Old Mutual when news of the crash of international bankers Barings broke at the weekend — more than R300m belonging to policyholders of Old Mutual International, headquartered in Guernsey off the coast of Britain, is held by a Barings subsidiary, Baring Brothers Guernsey.

Old Mutual confirmed the position after rumours swept local markets that a South African institution had £60m invested with Barings in Guernsey.

Barings was placed under administration after one of its traders in Singapore, Nick Leeson, lost at least £400m gambling in the deriviates markets. He was detained at Frankfurt airport in Germany yesterday.

Old Mu al chief legal advisor Koos Stas n confirmed the money was lo ed with the Barings.

But, h aid, not a single Old Mutual icyholder in South Africa w at risk.

Barings collapse touches SA

The money belongs to policyholders of Old Mutual International, which is a wholly owned subsidiary of Old Mutual.

And he believes that none of the more than R300m is likely to be lost.

The money is being held by Baring Brothers Guernsey in trust on behalf of policyholders — it was not invested with the bank. The money is "on call" and is part of the liquid section of assets of the foreign policyholders.

The money totals 10% of the total assets of the policyholders with the balance being held in investments in companies around the world.

Stassen said Baring Brothers Guernsey "is not under administration or in liquidation".

It does however have a cash flow problem because the regulators have temporarily frozen activity while investigations are held into the mother company.

Stassen said the risk was entirely with the foreign policyholders as their money was invested in market-linked portfolios. There were no guarantees provided to the policyholders as was the case with guaranteed portfolios.

The value of the portfolios in which the policyholders are allotted units (rather like the manner in which a unit trust fund works) determines the gains or losses of the policyholders.

If any loss is suffered as a result of the collapse of Barings, the loss would be absorbed by the portfolios and ultimately by the policyholders.

Stassen said, under Guernsey law the money had to be put under the custodianship of a banking institution. It could not be held by the portfolio manager, Old Mutual International.

The securities, accounting for the other 90% of policy holders funds, were also held in custody by Baring Brothers Guernsey but the scrip was being transferred into the custody of Credit Suisse Guernsey.

"The money is invested in companies around the world and we need operational efficiency. We have to act in the interests of policy holders."

If any of the cash had been placed with Barings, the exposure would be small.

In other words it be "a proportion of a proportion".

Shock as top staff quit Norwich

(58) Arg. 4/3/95

JOHN VILJOEN
Business Staff

THE defection of members of the highly successful Norwich Life investment team to Capital Alliance sent shockwaves through financial circles this week.

The loss to Norwich stunned the fund management industry, where competitors have been casting envious eyes on sparkling results achieved by the team under Stephen Mills.

But Norwich reacted to the news by putting on a brave face and said the disruption would not be severe.

Reports emerged on Thursday that the life assurer had lost nine members of its investment team to Capital Alliance Limited, a company 51 percent controlled by black business interests, Rand Merchant Bank, McCarthy Retail and Alexander Forbes.

Mr Mills, assistant general manager of investments and senior portfolio manager, was recruited to head the new company's investment team and other members of Norwich administration staff were invited to join him.

MD Charles Davies was sad to see Mr Mills leave, but said it was not a certainty that other members of the team would follow him.

"Fortunately, our investment strategy is not short term and is in place.

"Our style has never been frenetic and therefore we are well positioned to cope with the change in the team.

"I have confidence that we can turn this restructuring into a positive opportunity."

they can invest abroad.

Property loopholes to tighten up

By Bruce Cameron
POLITICAL EDITOR

Loopholes allowing billions of rands to slip through the tax net in complex property deals are likely to be at least partially restricted by Finance Minister Chris Liebenberg when he presents his Budget tomorrow.

The schemes have so far passed the test of section 103 of the Tax act, which permits the commissioner of inland revenue to ban avoidance schemes.

But the tax authorities have become increasingly concerned about tax consultants aggressively marketing the schemes.

The loophole involves companies selling off land to a developer who effectively sells the right of usage back. This enables the original owner to write off capital costs in as little as one year.

Some recent schemes involve major property deals between top South African companies.

Banks braced for foreign competition

(BR) (58)
CT 4/3/95

By Charlotte Mathews
INVESTMENT EDITOR

Local institutions are giving mixed signals towards the appearance or reappearance of international heavyweight banks in South Africa.

In some respects the foreign banks are welcome but local institutions expect increased competition in a number of areas.

Last week there were announcements from Holland's biggest bank, ABN-Amro, and from the UK's Barclays Bank that they would be setting up full banking operations, concentrating on the corporate market.

Senior representatives of the international financial group Lehman Brothers also visited the country last week and announced they would probably set up a full branch, although not this year.

The consensus from local banks is that there will be increased competition in some areas but a number of foreign banks would in time discover the SA market was less profitable than they had hoped and would scale down their activities.

Absa executive director responsible for corporate and merchant banking, Jean Brown, said it was difficult to comment on the possible effects of foreign entrants without knowing what conditions the SA Reserve Bank would attach to licences it granted.

Assuming full branches were permitted, three areas would be most affected. In mergers and acquisition activity, there would be fierce competition to advise local companies wanting to expand abroad.

However, foreign banks would initially find it difficult to operate in the local environment.

On the trading side, more players would provide a more balanced market, Brown said.

Standard Corporate Merchant Bank MD Jacko Maree agreed, saying that more dealing rooms

Clothing coalition seeks safeguards

(BR)
CT 4/3/95

By Morgan Naidu
STAFF WRITER

A coalition of the clothing industry's main players has been formed to establish safeguards for the industry's small, medium and micro enterprises (SMMEs) which, they claim, are in danger of collapsing.

The Clothing Federation of South Africa, headed by tycoon Ahmed Sadek Vahed, regional clothing associations and the Sunnyside Group, which represents 70 small business interests, last night backed a proposal calling on the government to recognise and deal with the severe problems facing SMMEs.

The plea comes just two weeks before President Mandela opens the watershed conference on SMMEs — a meeting of small business lobbyists and Trade and Industry Minister Trevor Manuel.

Durban businessman and Consultative Business Forum secretary Shirish Soni, is heading a delegation in Gauteng where the proposals aimed at the short-term development of SMMEs will be discussed.

Major points in the proposal include the recognition and active participation of SMMEs in decision-making, repairing the financial damage caused by high tariff duties during the "Band Aid" period, clear definition of SMMEs and wage payments based on worker productivity.

The document also outlines their intention to resist the textile monopolies.

BACKGROUND&ANALYSIS

Giants of life assurance square up to

BY BRUCE CAMERON
ASSISTANT EDITOR

On a day when the southeaster has blown away the smog that settles on the Cape Flats, Old Mutual chairman Mike Levett and Sanlam chairman Marinus Daling, if they were so disposed, could glower at each other from their grandiose headquarters, which lie less than 10km apart in the shadow of Table mountain.

They head two of the most powerful financial institutions in the private sector — and through their organisations are locked in intensive competition, seeking the advantage at every turn.

The tentacles of the two institutions reach into almost every listed company in the country, and through them into many unlisted ventures. They own swathes of property in prime areas They lend the government billions of rand every year. Between them they have assets under management nearing R250 billion.

Like their institutions, the two men are dissimilar, but also have a lot in common. Both are actuaries (very bright chaps), and have held senior positions in their organisations from a relatively young age.

Both exude the confidence of men to the manner born, who do not need to prove anything to anyone. Both have a laconic sense of humour and joke easily in relaxed surroundings. But both can be deadly serious, and their staff hold them in awe.

They have an enormous capacity for work, like to be intellectually challenged, and analyse issues extremely quickly

LOCKED IN COMBAT *Sanlam chairman Marinus Daling and Old Mutual's Mike Levett*

How the two life assurance heavies shape up

OLD MUTUAL as at June 30 1994		SANLAM as at Sept 30 199
R128,1 billion	Total assets under management	**R110,3 billio**
R14,97 billion	Total annual premium income	**R13,62 billio**
33,2%	Market share of premium income	**30,0**
3 million	Total members	**3,3 millio**
R11,6 billion	Annual benefits paid out (1993/94)	**R11,8 billio**

But they are also very different. Born and educated in Cape Town, Levett comes from a South African English-speaking background. Almost cherubic in looks, he tends to be shy, a trait which is often mistaken for stand-offishness. But he is a private man, whose annual highlight is a skiing holiday with his family.

Daling, who at 49 is 10 years younger than Levett, was born in the Netherlands, came to South Africa as a child with his family, and grew up on a farm in the northern Transvaal. He still prefers a rural life and lives in the winelands near Somerset West.

He is a large man and can appear intimidating, but comes over more like a gentle giant.

The demeanour of the two men does little to reveal the intense, competitive environment in which they operate.

Sanlam and Old Mutual are sprawling bureaucracies, which often give the impression that they exist in their own right and not because of their policyholders, who in reality are their true owners.

Their senior executives try to give the impression that each institution goes its own way, preferring not to comment publicly on the activities of its competitor.

But little quarter is given. They watch each othe hawks from the eyries of their impressive headqua They employ staff to analyse every figure produced b other, and develop new products in great secrecy and rity.

Many of the battles are quietly fought, either in wr or behind the closed doors of the Life Offices Associ (the body that co-ordinates the industry on a volu basis).

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assurance square up to the future

(58) C(BR) 7|3|95

Sanlam chairman Marinus Daling and

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Many of the battles are quietly fought, either in writing or behind the closed doors of the Life Offices Association (the body that co-ordinates the industry on a voluntary basis).

They do not like their policyholders to read about their disagreements and battles in the media. They would prefer policyholders to see them as mannerly and gentle. Both employ a solid phalanx of "spin doctors" to put over this image. Both Daling and Levett are acknowledged strategists, who play key roles in the remarkable changes both institutions are undergoing.

Daling believes organisations change because of the environment in which they operate. The role players come second.

Increasing competition is uppermost in the minds of both men. The figures tell them they dominate their markets at the moment, holding between them almost two-thirds of the total share.

Levett describes Liberty, which holds 10 percent of market share and is the next biggest competitor, as a "yapping puppy", with the rest of the companies comprising the pack.

The market share of the two companies has grown from about 50 percent to about 65 percent in 10 years.

The reason, Levett says, is firstly because they are both mutuals.

Unlike the proprietary assurance companies, "we don't have hungry shareholders taking 10 percent of the earnings".

But on top of this, he says, both companies have shown superior investment growth for policyholders

Daling says the two institutions are "extremely good companies", but that the time has arrived to look at the way the mutuals are driven.

In the past, the mutuals tended to be driven by volumes. In other words, they had looked at the top line of turnover rather than the bottom line of profit.

Sanlam has changed its philosophy to that of

Of the two, Sanlam is going through the more profound changes.

Old Mutual was established 150 years ago to meet the needs of people for life assurance. Levett says this basic driving force has not changed, although the company has expanded into a wide range of services and products.

Sanlam, which is 77 years old this year, was established for entirely different reasons. Its raison d'etre was to concentrate the savings of Afrikaners to develop the economic might of Afrikanerdom.

It struggled through the early years, but with the coming to power of an Afrikaner nationalist party in 1948, Sanlam started to see steady growth. Although Daling says he knows of no high-level decision that gave Sanlam preferred access to the civil service, its competitors believe that this was the reason for its growth.

From these roots, Sanlam has steadily been changing over the past 20 years — in a way unknowingly preparing itself for the post-apartheid environment. Daling says Sanlam is now important to the whole economy and the whole population.

"We are here to do for the whole economy what we did for Afrikaners."

Both exude the confidence of men to the manner born, who do not need to prove anything to anyone

Daling and Levett acknowledge the enormous holdings of their institutions, but both are adamant that they are careful not to exercise control over the companies in which they have very large stakes.

Levett says the size of the holdings of the mutuals results from exchange control rather than design. They had no option but to take large slices of equity in investing the money of policyholders. Sanlam has a policy that prevents board members of the companies in which large stakes are held from joining the board of Sanlam.

This, however, does not prevent Daling from serving on the boards of the major companies in which Sanlam has a stake.

Levett is also a member of the boards of the major companies in which Old Mutual has large equity holdings.

It is very likely that when it came to major decisions such as the unbundling of the mining house Gencor (in the Sanlam stable), and of Barlows (Old Mutual), they were at least consulted.

Even on issues which could be regarded as being in the national interest, such as whether more money should be spent on empowering blacks through education and training, both say they are not prepared to give such an order.

Levett says the duty of directors is to watch over the activities of management — not to give orders on how a company should be managed. If Old Mutual did not like what was happening it would vote with its feet — that is, sell off the shares.

Daling takes a slightly softer line, saying that when major issues arise, the top executives of companies in which Sanlam has a large stake are invited to a conference.

Attendance is not compulsory. The issue are thoroughly debated, but no decisions are taken, and no one is forced to take any action

The two mutuals approach the future from different angles.

Levett says Old Mutual has always seen itself as an international operation, crossing the borders of the former Cape Colony soon after it was established.

For many years its international operations were limited mainly to Africa. In 1985, the year he became managing director, a decision was taken to purchase Providence Capitol in Britain. The wholly owned subsidiary formed the base of what was

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Daling says Sanlam will itself have to expand its operations offshore within the next two or three years.

Apart from growing competition, the two will also face the challenges of an investment market which is increasingly moving away from assurance to unit trusts; the issue of Aids; the demands for greater transparency in an industry that has traditionally been secretive; increasing pressures from the government to play a larger corporate responsibility role in developing the economy; and, in the short term, problems such as the threat by the Katz tax commission to cap retirement contributions for tax purposes.

The skills of these two men and the formidable teams they lead will be fully tested in the years to come.

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Inflation will rise but don't panic, there are powerful constraints

CT(BR) 7/3/95

SPOTLIGHT

By Howard Preece

Put all the facts together and it is clear that rising inflation is inevitable, at least in the first half of this year

Inflation in South Africa is heading for around 11,5 percent by mid-year. It could even go over 12 percent.

But don't panic, yet. There will be important relief in the third quarter of 1995. However, things are going to be extremely difficult — perhaps impossible in terms of practical politics, although technically not from a theoretical economic viewpoint — to contain the rate to 10 percent or less by the end of this year.

That is indeed an issue of profound concern. It poses a potential threat to a desperately needed continuation, and better still an acceleration, in the recovery of economic growth to at least minimum sociopolitically acceptable levels in 1996-97.

Reserve Bank governor Chris Stals has said: "Inflation must at least be kept below 10 percent a year. Even that will not be an easy task in 1995." That, I regret, is something of an understatement.

Sure, it might be argued that in the abstract it makes little difference if inflation is, say, 9,9 percent or 11,5 percent. The varying experiences of such diverse economic success stories as South Korea, Taiwan, Malaysia, Chile and Hong Kong, among others, show that there is clearly no precise correlation that says the lower the inflation level, the higher will be the long-term rise in real GDP and thus in living standards.

An increase or decrease in inflation must also be seen in an absolute perspective. A hike over a year of two percentage points in the CPI in South Africa today must be a quite distinct situation from a rise in inflation by the same absolute percentage in a major industrial nation, from, say, 2,4 percent in Britain to over 4 percent. Well before any such surge peaked the national and international financial community would have passed judgment — "crisis".

Stals's moves on interest rates are tough anti-inflationary stuff by any standards

Psychologically, however, South Africa has to stop inflationary expectations from taking off again. Reserve Bank studies have concluded that such expectations, through their effect on wage-bargainers and price-setters, have an ominously self-fulfilling element about them.

But let's look at the specifics of South Africa, at where we are on the inflation front and where we are going. For the 12 months to January this year inflation as measured by the official CPI was 9,6 percent.

That is in line with CPI annual rates on a year-on-year basis of just under 10 percent for 1992, 1993 and 1994.

However, the struggle to get inflation back into single digits for those years — the previous time this occurred before 1992 was back in 1973 — was necessarily a painful process.

True, it happened much in part because of the overriding determination of Stals to achieve that objective. But it was also only possible because between late 1989 and early 1993 the economy suffered its longest, though not deepest, recession. The length of the downswing surpassed even that of the depression of the early 1930s.

For South Africa today there can be no resolution of inflation by a renewed era of business stagnation and even worsening unemployment. That way lies disaster. There has to be preservation of the growth momentum — and there has to be inflation constraint. Without that the foundations of growth will prove more and more to be built on sand. Easily said, of course. But obviously immensely harder to secure. I said that inflation seems headed for around 11,5 percent by mid-year. But even that forecast assumes there are no major adverse developments regarding food, oil and other key prices during the next three to four months. It also assumes the March 15 Budget which will be presented by Finance Minister Chris Liebenberg will not contain steep across-the-board rises in indirect taxation; in other words, that the basic rate of VAT will be unchanged at 14 percent.

I also do not expect abolition of the financial rand and the consequent devaluation of the commercial rand in a unitary rand system to take place in the near future, despite all the market speculation.

However, if the finrand does go earlier than I think it will, the accompanying rand devaluation over and above the steady depreciation of the currency on forex markets that is taking place anyway will add naturally to inflationary pressures.

Why, though, if we are excluding these factors for now, is there still bound to be an inflation upturn? It is not, contrary to many impressions, immediately because money supply, whether broadly defined M3 or any of the other main measures, has been rising excessively, though down the line that could never be ignored. But Stals has not ignored it.

He has raised the Bank rate by another percentage point and the commercial banks have upped prime rate by 1,25 percent.

This means that with prime now at 17,5 percent and inflation, for the moment, at 9,6 percent, the "real" prime rate — nominal prime less inflation — is 7,9 percent.

That is tough anti-inflationary stuff by any standards. No, what South Africa is looking at over the coming months is essentially a harsh statistical situation that is going to run an unhappy course.

The table below shows the actual monthly increase in CPI inflation, and the running 12-month rate, for February-June 1994.

Month	CPI rise (%)	Annual CPI rate (%)
Feb 94	0,31	9,9
March	0,66	9,0
April	0,66	7,1
May	0,59	7,2
June	0,65	7,5

As shown, the average rise in the CPI each month was unusually low. That was why the annual rate dipped from 9,9 percent at the end of February last year to a then 23-year low of 7,1 percent in April.

It is impossible for the monthly position of the CPI from February to June this year to keep to as low a level as it did in the first half of 1994.

We already have, importantly, a 5c/litre increase in the retail price of petrol in the CPI pipeline (and there could be more to come) and from April 1 the latest increase in mortgage rates will take place.

Also, in 1994 there was no March Budget. While I am assuming no change in the basic VAT rate in this month's Budget, I do take for granted that there will be some increases in indirect taxes, above all in the duties on tobacco and alcohol, that will certainly adversely affect the CPI. Put all these factors together and it is evident that rising inflation, towards 11,5 percent or so, is inevitable in the first half of this year.

But while there is cause for concern, there is no need to panic. There is one huge statistical bonus for the opening six months of 1995 that will act as a powerful constraint on the extent of the inflation upturn (otherwise we might be at looking at 13 percent inflation by end-June rather than 11,5 percent).

This is the critical and always volatile component of food prices. Food makes up about 20 percent of the overall CPI and its impact is necessarily vital. We can see here how food-price inflation on a moving 12-month basis went into orbit from February to June last year.

Month	Annual rise (%) in food prices
Feb 94	5,9
March	7,0
April	8,8
May	10,2
June	11,8

In January this year food prices did rise by 1,4 percent but economists, in general, are confident that the pattern of food price inflation to mid-year will, against the soaring performance in the first half of 1994, act as a brake on overall inflation.

Moreover, it is food that should lead South Africa into a crucial spell of deceleration of total CPI inflation in the July-September quarter this year.

In 1994 food price inflation just kept climbing in that same quarter, hitting 21,9 percent at end-September. That led to monthly rises in the CPI last year of 1,5 percent in July, 1,5 percent in August and 1,1 percent in September.

Compared with base, and provided obviously there are no special new shocks in the third quarter of this year, South Africa could see CPI inflation back down to or at any rate close to 10 percent by the end of September.

That is why the government and business must take a firm line over the coming months on pay demands, which will naturally and legitimately seek to exploit rising inflation.

The crunch, however, will come in the fourth quarter of this year. There were exceptionally modest rises in the CPI in October, November and December 1994 of only 0,25 percent, 0,25 percent and 0,3 percent respectively.

This is why it is going to be virtually impossible to hold inflation to 10 percent or lower this year while also giving the economy the room it needs to obtain GDP growth of 3 percent to 3,5 percent.

Nourishing the market of ideas

COLUMN ONE

By Jim Smith

Openness – and a debate that needs first-class information – has replaced the old South Africa's navel-gazing

The sense of stagnation and retreat that has dominated the economic life of South Africa for the past decade is giving way to a frenetic quest for redefinition and new direction.

Business leaders are poring over books proffering "seven effective habits" and other formulas for strategic success; trade union leaders talk the language of productivity rather than struggle; Jay Naidoo is calling for more businesslike planning by the government.

What a pleasure it is to start a new daily business publication in this climate of revitalisation and renewal. What a privilege to have the chance to respond to the thirst for good information among those shaping our economic future.

In the year since the first post-apartheid elections were held, democratic values are taking root for the first time in our history, starting with President Nelson Mandela's unflinching commitment to openness — to a far greater extent than was ever the case in the days of white rule.

The clamour everywhere is for transparency to promote comparative analysis and criticism. The demand for openness has percolated through to the business world as well, with Mervyn King's commission on corporate governance forcing directors to re-examine their own practices.

South Africa will soon be included in the International Finance Corporation's emerging market index, considerably raising our visibility in comparison with other emerging markets.

And we are raising finance abroad, including the successful R750 million bond issue last year.

These are just a few of the areas in which effective information will play a vital role in our ability to succeed against the best competition worldwide — and to make the right choices at home to balance the sometimes contradictory demands for equity and growth.

In the laager days, it mattered less whether this country's political and financial leaders had up-to-date information on which to base their choices. Protectionist measures kept out competitors, then sanctions chased away those who made the effort to open shop here.

The isolationist 1980s, with its mood of retreat and introspection, gave way in the early 1990s to a mixture of renewed hopes for justice — economic as much as political — tinged with fears that the impending transformation could bring anarchy.

That sense of sweaty anticipation stayed suspended in the air until the miraculous days of April last year, when in one breath the spectre of civil war was overtaken by the dignity of white generals escorting the new black president into the Union Buildings.

Since the elections, the hard work has begun in earnest and the immensity of the task has become starkly clear. The centre has held, handing all of us an opportunity — indeed a responsibility — to contribute to the sustained economic recovery needed to reinforce the political victory of democracy.

The timing of the launch of Business Report is therefore fortuitous in every respect. Across all sectors of the society, people are debating priorities and making choices.

Despite meagre economic growth of 2,3 percent in 1994, hotels are full, airline tickets are all but unobtainable and the ports and airports are overwhelmed. These bottlenecks are posing serious threats. Manufacturers are being squeezed by shortages of raw materials ranging from stainless steel to fabrics, causing delays and waiting lists.

Obstacles to faster growth reach into the traditional black townships as well. Soweto entrepreneurs complain of lack of storage capacity; in Durban, street markets are open at midnight.

To respond effectively to these sorts of fast-changing trends, decision-makers need multiple sources of useful information.

Particularly in a vibrant democratic society, diverse and contrary sources of news and criticism are essential for decision-makers, those who elect them, and those who earn their livings — or lose their jobs — through the ability and wisdom of the decision-makers.

Business Report produces its first issue today with the goal of nourishing a marketplace of ideas in a nation where openness and competition are increasingly being accepted as essential components of prosperity.

ReportBack

Business Report plans to offer a forum for dialogue and critical comment. To kick off this letters forum, we invite readers to fax today their observations on and criticisms of our first issue. Let us know what you liked or didn't like and what else you'd like to see.

Fax Number: (011) 838 2693

Telephone: (011) 633 2996

After Hours: (011) 633 2332

Banks and the JSE: Time to choose your partner

By Ivan Fallon and Charlotte Mathews

This week every major bank in South Africa is pondering the same alternatives: should they decide to buy one of the 46 member firms of the Johannesburg Stock Exchange (JSE) before the foreigners beat them to it?

Or should they enter the securities market on their own, as some British and American banks did (with mixed success) when their stock markets deregulated? Or should they opt out altogether — and avoid the dangers the Barings disaster has highlighted so clearly?

The South African banks are aware of the need for urgency. The big global banks and securities houses are all looking closely at the JSE, and JSE member firms are equally looking for potential foreign partners. The rules permitting outside capital into the hallowed halls of the JSE do not change until mid-year, but the time to decide on your partner is now — before the best have gone.

Of the 46 JSE member firms only 10 really matter, and five of them have already agreed to alliances. All are with foreign companies, and the surprising feature is that so far only two of them are banks — although in every market in the world the big banks have ended up leading the pack.

As the first major stage of the JSE's plans to make itself more internationally competitive, and more responsive to the needs of the new South Africa, broking firms will initially be permitted to sell up to 30 percent of their equity to outsiders, and from November 8 that becomes 100 percent.

Already Martin & Company has teamed up with Robert Fleming of London; Simpson McKie with James Capel; and Frankel Pollak Vinderine has formed a clever three-way alliance with the Wall Street house Donaldson, Lufkin & Jenrette on the one hand and the Japanese house Yamaichi on the other.

Two other big JSE players have struck deals with two of the three most powerful market-makers in London: Ivor Jones with S G Warburg, and Davis Borkum Hare with Smith New Court. Last week the market was abuzz with rumours of at least two others; certainly the Sandton Sun has recently housed more than its fair share of representatives of London and Wall Street securities houses looking over the Johannesburg scene.

But the moment the market is waiting for is the first move by a big bank, and that cannot be far away.

One of the favourites is Barclays. In London, Barclays, even as it was contemplating moving out of South Africa, committed itself heavily to the securities market and bought the biggest jobber, Wedd Durlacher, and one of the biggest brokers, De Zoete & Bevan.

For a few years it looked as if it had made a giant mistake as it wrote off more than R5 billion. But it persevered, and now its BZW subsidiary is the fastest growing and most profitable part of the bank.

Barclays has recently decided that instead of trying to grow its banking side internationally it will grow its securities business, and is currently looking hard at a major deal on Wall Street.

With its two major London market-making rivals already in South Africa, there is now considerable speculation in London that it is planning to re-enter the country through the same medium, agreeing to buy one of the remaining JSE member firms before they are all snapped up.

That would certainly be its style, although old Barclays hands reckon it is still hurting so much over the decision to pull out that it will think hard before it jumps.

Even without the influx of foreign money and skills, the JSE stands on the brink of the biggest change in its history, a change which will affect every aspect of its structure, from ownership to listing requirements and even its culture.

HOW ANDERSEN PLANS TO CHANGE THE JSE

CURRENT STRUCTURE	NEW STRUCTURE
MEMBERSHIP	
Individuals with limited liability Ownership by qualified brokers only South African citizens only	Option of corporate membership with limited liability Ownership by 'fit and proper' non-stockbrokers allowed Foreigners allowed
TRADING CAPACITY	
Single capacity	Dual capacity
TRADING SYSTEM	
Open outcry on trading floor	Centrally automated on computer – floor to disappear?
CAPITAL REQUIREMENTS	
JSE's own tough requirements	Even tougher international requirements
BROKERAGE	
Fixed scale up to R3m	Fully negotiable
LISTING REQUIREMENTS	
JSE's own version	Extensively revised to meet both foreign and domestic needs
SETTLEMENT	
Generally the following Tuesday Manual exchange of cheques and certs	Rolling settlement Electronic transfer of cash and share ownership

Centralised automated trading must inevitably mean the end of the old trading floor, with all the attendant implications — the floor is the tradition-laden heart of the JSE village, and once it closes firms will inevitably seek more congenial space in Johannesburg's northern suburbs or even further afield. "Nothing could effect a change of culture as fast as that," says one broker.

Legislation currently with the cabinet and expected to be passed by June at the latest will open the way to the first injection of outside capital, allowing non-stockbrokers to enter the arena for the first time — which is where the banks come in.

The accompanying switch from the JSE's old-fashioned single capacity, where a firm acts as either principal or agent but not as both — the distinction between the old stockbroker (agent) and jobber (principal) — to the modern dual capacity, means firms will have entirely different capital requirements that could never be supported by partners and directors with their existing unlimited liability.

Inevitably that will speed up the change in culture, as the old partners take their money and leave the business to a younger generation with none of the personal relationships and close contacts men such as Max Borkum and Henry Hare have built up over decades.

When Wall Street went through its Big Bang there was a rush of outside capital into the market, and in London after 1986 the big French, Swiss and American as well as British banks poured in; no one doubts the pattern will be repeated here. Within a few years there was barely a grey head to be seen.

Roy Andersen, the JSE's impressively calm and thoughtful executive president, has studied the lessons learnt more painfully in London in particular, where enormous mistakes were made. He is, he insists, trying to effect more of a "little bang", or "soft bang", with deregulation phased in according to a carefully worked out and widely debated timetable. The full range of changes (see table) will not be in place until the end of next year, but outsiders reckon Andersen and the JSE may be underestimating the momentum which is already picking up.

The London market had no concept of what was about to hit it either, and the period that followed was one where controls and electronic systems failed, particularly during the crash of October 1987.

That, says Andersen, possibly with more outward than inward confidence, is not going to happen here.

Even before deregulation, the changes in South Africa's position in the world are becoming apparent.

Right now it stands as the 10th-biggest market in the world in terms of market value, but 28th in terms of volume of trade — an indication of its extraordinary lack of liquidity. At present the JSE averages around 3 000 deals a day. Australia, which is smaller, averages 25 000.

Foreign investors, excited by the investment prospects of the country, complain loudly about the refusal to trade of the big institutions which dominate the JSE with their pyramid structures (see Charlotte Mathews on page 3). But, in turn, the South Africans point out that this is a reflection of exchange controls and of the 1 percent marketable securities tax/stamp duty on transactions.

"Liquidity is a major impediment to foreigners," admits Andersen. Yet, he points out, even with the present problems, foreign interest has increased dramatically, from R4,9 billion (gross purchases) in 1992 to R22,4 billion in 1994. "That tells you we are fast becoming part of the global economy."

The potential, he goes on, is considerable. "If exchange controls go, and restrictions are lifted, there will be enormous opportunities here."

To an extent that has already been recognised by the fact that South Africa has now been declared a "designated" market by the Japanese, an accolade only previously given to the major stock markets of the world. "It took 10 months," says Andersen, "but we believe it is a great honour."

Andersen and the JSE have another, urgent, reason for change: the need to keep as much South African business inside the country as possible. "We are competing directly against London, and to some extent Wall Street, for our own companies. We have to bring back to South Africa some of the business which left after sanctions."

Some 87 South African companies now have dual listings in London and Johannesburg, and over 100 are traded as ADRs in the US. In the global world of the securities industry, efficiency is needed to compete, and without the changes the JSE had neither.

In the past year South African companies, led by Liberty Life and Anglovaal, have for the first time been able to go abroad to raise fresh capital. The abolition of exchange controls and restrictions will speed up that trend, forcing further change on the JSE whether it is prepared for it or not.

As they contemplate the South African market, the decision for foreigners on what to buy is a relatively simple one. They have few conflicts of interest, and their plans are essentially to plug South Africa into their existing global networks.

Not so for the South African institutions, which have no global networks — and huge potential conflicts of interest. "If a firm aligns itself with Nedbank, will it cut itself off from all investment business but Old Mutual's?" asks one stockbroker.

"And if it links up with Standard Bank, will it lose all but Liberty Life's business?"

Few business communities are as inbred and intermixed as South Africa's, and the problems created by this are only now beginning to surface.

South African banks face the same dilemma as the brokers, except it will be in reverse. If they buy a stockbroker, their investment management sides risk being shut off from everyone else's research, and blocks of shares will be offered elsewhere.

"It is an interesting strategic decision," says Stuart Tapson, treasurer of FirstCorp. "We are approaching it with circumspection, but also with determination. November 8 will bring a window of opportunity, but it is earlier than we'd expected. It could be argued that if you're not there on November 8 you won't be considered a serious player. But it is not necessarily the first on the field that will win the day."

However it works out, there is no question that a revered and ancient institution is at the end of one era - and the beginning of a dramatic new one.

Rural financial services 'in chaos'

LOUISE COOK

LACK of co-ordination between parastatal bodies financing rural communities' social services had resulted in chaos, with allocation of funds overlapping, Gazankulu Development Corporation GM Martin Uhlig said yesterday. (58) BD 7/3/95

He called on the Rural Financial Services Commission, appointed in January, to speed up its probe of rural financial services. The probe was scheduled to be completed at the end of the year.

Uhlig said state funding for social projects was drawn from the Independent Development Trust, the Development Bank and the Agricultural Credit Board. Each body operated differently; grants were available from the IDT, but the bank offered only loans. "The Development Corporation faced a major problem in persuading rural communites to accept principles of credit and concomitant obligation when the IDT was able to make grants and the bank could only loan money."

The Gazankulu Development Corporation recently "spent months" negotiating a R1,4m loan from the bank on behalf of a community when the IDT came up with cash for the project, undermining months of education about credit and discipline.

The IDT's use of consultants to negotiate grants was expensive. Uhlig said the three bodies should amalgamate into a single body with a properly co-ordinated credit system.

Commission chairman Conrad Strauss said the body would need until July to gather information. "There is a limit to the speed at which the commission can work," he said.

Closer scrutiny mooted for Bank

BD 7/3/95 (58)

TIM COHEN

CAPE TOWN — The Council of SA Bankers (Cosab) yesterday called for a more "transparent" Reserve Bank, suggesting it could report back on its decisions at televised meetings of parliamentary committees.

Making representations to parliamentarians on new constitutional provisions, Cosab said in a written proposal that central banks should not be made politically accountable by placing political appointees on their board or in executive positions.

"Persons who are politically active should not be eligible for appointment", the submission said.

Competence to carry out the function autonomously and in a technically competent manner must be the main criteria for appointments, not merely representing a specific population or interest group.

Transparency of decision making together with effective marketing of issues and decisions would enhance the Reserve Bank's credibility with the population at large.

A suitable vehicle for this could be regular televised testimonies to a specific parliamentary committee, for example the Joint Parliamentary Committee on Finance, in the form of a report back, but not to account for or seek approval of actions.

Cosab suggested that the new constitution provide local authorities with representation on the Financial and Fiscal Commission.

It said that the current constitution had given the task of looking at national, provincial and local government to the Financial and Fiscal Commission.

While the national and provincial governments were represented on the commission, the only concession to local government was a provision that one of the members appointed had to have "expertise in local government finance".

The submission said: "It is necessary that the financial requirement of local government be fully understood and provided for", recommending that their interest be given proper representation on the commission in the same way as the first and second tiers of government.

Cosab broadly argued for the retention of existing constitutional provision on the Auditor General and the Reserve Bank, saying an independent Reserve Bank should play a significant role through its duty and ability to conduct an autonomous monetary policy directed at internal and external price stability.

GOVERNMENT TO CALL FOR WORLD SUPPORT

SA's poverty shock

(297) (241) CT 8/3/95

SOUTH AFRICA will tell the world this week that the industrialised nations have an obligation to help developing countries but "the RDP is a commitment by the government and civil society, working together, to pull ourselves up by the bootstraps". By BARRY STREEK

A GRIM picture of poverty and deprivation in South Africa is being presented by the government this week to the international community at the World Social Summit in Copenhagen

The government's call for international support to tackle these problems will be bolstered on Friday by the attendance of President Nelson Mandela at the conference.

The South Africa Report, which was released last night by the Reconstruction and Development Programme office, says the industrialised nations have an obligation to developing countries.

"However, the developing nations cannot simply sit back and expect to be helped. What we do ourselves will ultimately determine whether we can lift ourselves up.

"We in South Africa have realised this. The RDP is a commitment by the government and civil society, working together, to pull ourselves up by our own bootstraps"

The 40-page document also says don nations should be committed to avoid putting pressure on recipient countries "for prestige, high-cost capital projects or arms purchases, ensuring skill and technolog nsfers in all projects, channelli g id into programmes prioritised b the recipient government and its people".

The go rnment will tell the conference that the RDP is essentially a development agenda for South Africa.

Corruption-free

"It aims to eradicate poverty to attain fu mployment, to build a free and nocratic society, and create na l unity.

"We i e committed ourselves to allocat resources to achieve these go d to building the transpare ticipative and corruption-f de mocracy which is essentia terpin development"

The report said the government realised it had a large role to play in addressing the existing economic problems, which were mainly structural, and in this way create an environment conducive to investment.

The new government had inherited a huge deficit, with government consumptive expenditure more than 20% of GDP and interest repayments more than 17% of the budget

The document said South Africa had a population of between 40 million and 43,5m, with children under the age of 15 years making up more than 37% of the population.

Asian South Africans had per capita disposable income only 40% of that of whites, while that of coloureds was 27% and blacks 13% of white disposable incomes

The report added that 26% of households were headed by women, and only 17% of these did not have dependents

Only 34% of Africans had access to flush toilets

South Africa produced more than 50% of the electricity in Africa, but only 30% of the population had access to electricity in their homes.

Although 17% of the population lived in the rural areas, they were served by only 2% of the telephones

If the population was 41m it was estimated that 12,5m people, 30%, were illiterate.

The document also said 2,3m South Africans suffered from malnutrition.

PROTEST: One of 750 puppets hung in Copenhagen this week. The puppets represent children around the world who will die of preventable diseases during the World Social Summit being held there. President Nelson Mandela will address the summit on Friday

PICTURE: AP

Reserve Bank 'reviewed'

(58) CT 8/3/95

BY AUDREY D' ANGELO

THE Reserve Bank's role is being reviewed, the government has said.

"The role of the central bank in the economy is under review," it said in the South Africa Report for this week's World Social Summit in Copenhagen "Aspects being considered include its functions of maintaining the value of the currency, keeping inflation relatively low, ensuring the safety and soundness of the financial system

"At the same time, the monetary policy must be developed to advance the aims and objectives of reconstruction and development"

The document was released last night by Reconstruction and Developn it Programme office It said government policy objectives were employment generation, improved labour relations, skills developmen and technology transfer to ance productivity and break iliance on primary commoditie

"These g ls can be promoted by the ident cation of new areas of industrial development," it said

Economists and business leaders said any suggestion that the independence of the Reserve Bank was under threat or that South Africa might abandon financial discipline would discourage badly needed foreign investment

Sanlam chief economist Mr Johan Louw said the report was worrying. It would create uncertainty which would make it risky to abolish the financial rand He said some government members felt that the Reserve Bank's power should be reduced as the government was not keen on higher interest rates.

"Interest rates are becoming a political issue now that lower-paid workers are buying houses with mortgage loans"

Gordon's gamble pays off again, and again

By John Spira
GAUTENG BUSINESS EDITOR

For seven of the past eight years Donald Gordon, chairman of Liberty Life, has won first prize for the breadth and detail he puts into his annual chairman's statement.

The latest statement, published this morning, is yet another Gordon *tour de force*, taking his shareholders through the 37th consecutive year of growth and prosperity for a company which Gordon proudly labels "the largest South African-based financial services group."

The basic facts came as no great surprise to stock markets (Liberty is quoted in London as well as Johannesburg) used to Liberty's success: earnings per share up 23,5 percent, dividends up 24,5 percent, and asset base advancing R14 billion to top the landmark of R100 billion (which even before the latest collapse in the dollar is equivalent to $28 billion, or £18 billion).

The figures reveal that Liberty at R127 billion is rapidly catching Sanlam in terms of funds under management, although it is still behind Old Mutual, this year celebrating its 150th birthday.

Including its other interests, notably Standard Bank, where it has a 39 percent stake, Liberty now boasts total worldwide investment and financial assets of over R270 billion.

Liberty's growth is probably the most remarkable since Ernest Oppenheimer created Anglo American, or Anton Rupert put together his Rembrandt empire.

Back in 1958, when Gordon started, he had difficulty raising capital or persuading insurance executives to join him.

Talented instrumentalists were reticent about joining the aspiring conductor: he hadn't proved himself and they weren't prepared to put their careers on the line for someone who eschewed the classics in favour of a tune which cast tradition to the wind.

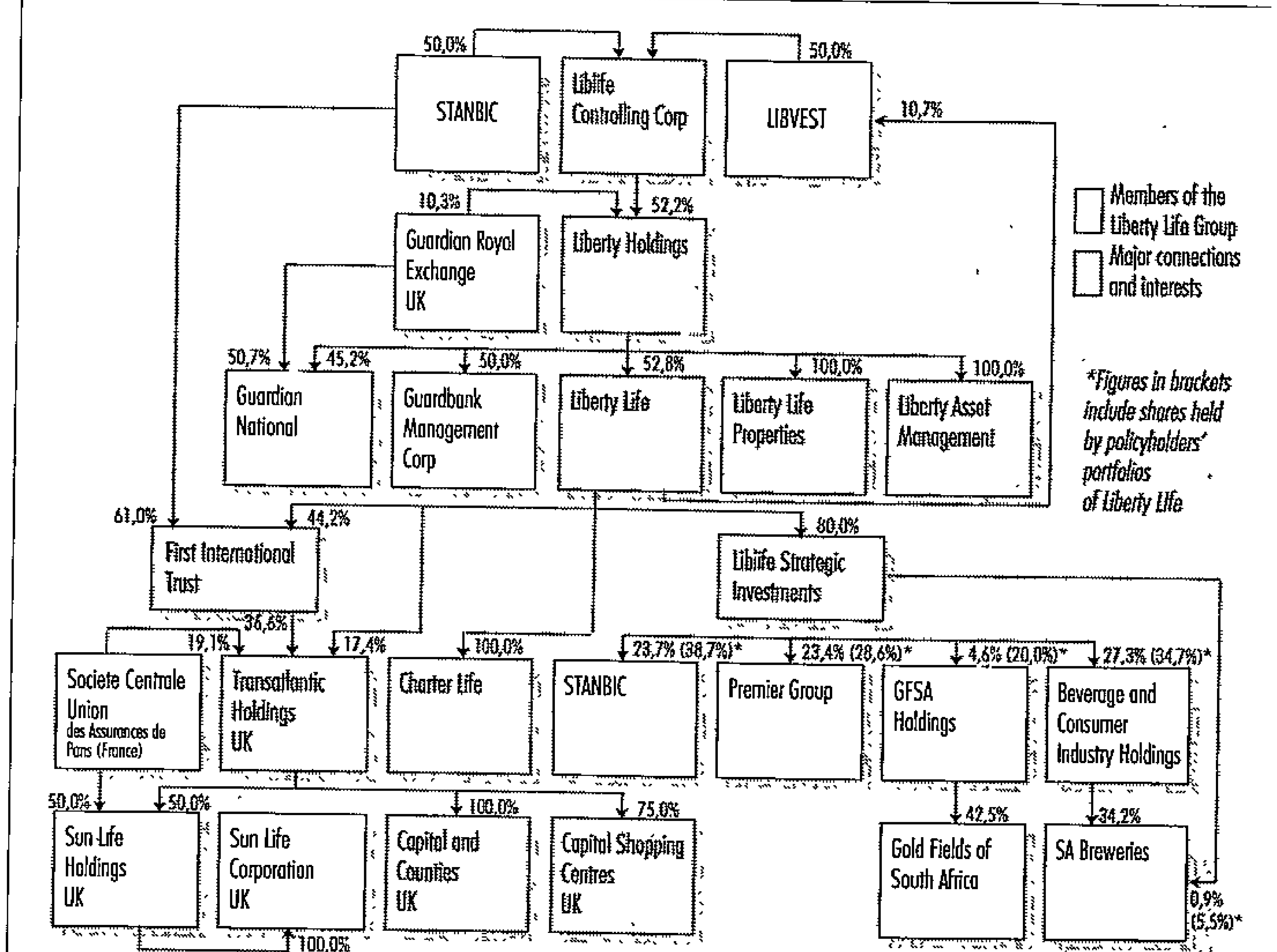
Gordon eventually managed to scrape together R100 000 and, with a small, loyal troupe which included Sidney Lipworth and later Mark Weinberg (both later knighted) found growing acceptance among the discerning public for his avant garde life assurance policies.

Since then the Gordon empire has grown to include a R5,25 billion investment in South African Breweries, a R2,5 billion shopping centre east of London, a R1,6 billion investment in Anglo (about 5 percent), a controlling R1,2 billion shareholding in Premier and the R1 billion shopping centre at Sandton.

See Page 6

(BR) CT 9|3|95 (58)

Structure of the Liberty Life Group



Liberty Life lifts assets to over R100 bn

CT 9/3/95 (58)

Assurance leader reports continuing strong growth and confirms it is eyeing the US market

By Charlotte Mathews
Investment Editor

Life assurance giant Liberty Life increased its total assets to over R100 billion at the end of December 1994 from R86,8 billion at the end of 1993 — a R14 billion increase equivalent to R50 million for every working day of the year, chairman Donny Gordon said yesterday.

Liberty Life's taxed surplus in the period, excluding equity-accounted earnings of associates, was R565,4 million.

Capitalisation shares, or a final cash dividend of 108c (84c) a share were recently announcing, bringing the total cash dividend for the year to 204c (164c), a 24,4 percent improvement, on earnings of 240c (192c) a share.

The number of shares in issue increased during the year as a result of the take-up of capitalisation shares, which had the effect of adding R360 million of capital to the group.

Gordon said the stated dividend policy was to distribute 85 percent of basic net taxed earnings as dividends. But this policy excludes the substantial capital appreciation in the market value of shareholders' investments, which grew to R14,8 billion at the end of December from R1 billion in 1984.

To show wealth created for shareholders, it would be necessary to combine both the growth in net asset value and dividend distribution. Over the 10 years to December 1994, this growth was 32,8 percent a year in rand terms for shareholders of Liberty Life. The growth for Liberty Holdings was at a similar level.

Liberty Life, which is 52 percent-held by Liberty Holdings, contributed 85 percent of Liberty Holdings' consolidated taxed earnings of R831,9 million. Liberty Holdings also derives its profit from Liberty Asset Management, Guardbank Management Corporation and 45 percent of Guardian National Insurance.

Liberty Holdings reported earnings of 727,3c (589,1c) a share on attributable profit, excluding equity-accounted earnings, of R337,6 million (R270,1 million). As previously reported, it offered capitalisation shares or a final cash dividend of 296c a share, bringing the total cash dividend to 560c (450c).

Liblife Strategic Investments (Libsil), which is 80 percent-owned by Liberty Life, lifted earnings a share excluding associates by 12,6 percent to 27,7c a share. Gordon said this increase was restrained by the lack of growth in the Premier Group dividend. Libsil owns 23,4 percent of Premier.

However, of Libsil's two other largest investments, 23,9 percent of SBIC and a total 28,3 percent of SA Breweries, both performed well. Libsil declared a final dividend of 14,5c, bringing the year's dividend to 27,5c, with no capitalisation offer.

As reported recently, FIT, the group's international arm, lifted eps by 23,7 percent to 39,7c and raised the total cash dividend to 26c from 22c.

In 1994 the group and its international subsidiaries raised new long-term capital of R3,7 billion through three major fund-raising transactions. This improved the liquidity and flexibility of both Liberty Life and Transatlantic Holdings and reduced short-term debt significantly.

Asked about long-rumoured plans for Liberty Life to enter the US market, Gordon said there were ongoing discussions with a number of US companies to get to know their businesses and Liberty had "refined our thoughts" to about half a dozen companies, half of which were mutuals.

However, the process was likely to take several years because the group's approach was to be careful and conservative.

GORDON'S GLORY

LEADING LIGHTS *Roy McAlpine, Alan Romanis and Donald Gordon announcing another sparkling set of Liberty Life results at their headquarters*

PHOTO: [illegible]

Bank independence affirmed

CT 9/3/95 (58)

BARRY STREEK
POLITICAL STAFF

THE independence of the Reserve Bank was guaranteed in the constitution, Minister without Portfolio Mr Jay Naidoo said yesterday.

He was responding to concern expressed after the South Africa Report to the World Social Summit in Copenhagen said the role of the Reserve Bank was being reviewed.

Economists and business leaders said any suggestion that the independence of the Reserve Bank was under threat or that SA might abandon financial discipline discouraged badly needed foreign investment.

Mr Naidoo and the deputy director-general in the President's office ,Mr Bernie Fanaroff, affirmed the bank's independence at a briefing, adding it was reviewing its role in terms of the goals of the Reconstruction and Development Programme (RDP), like all other government institutions.

Mr Naidoo also said attempts to keep inflation down and control the monetary supply were important objectives of the RDP.

The report to the World Social Summit said aspects of the bank's role under review included "its functions of maintaining the value of the currency, keeping inflation relatively low and ensuring the safety and soundness of the financial system.

"At the same time, monetary policy must ... advance the aims of reconstruction and development."

Norwich Life now more robust

(58) BD 9/3/95

SAMANTHA SHARPE

ROBUST premium income growth lifted life assurer Norwich Life's total income 76% to R2,03bn in the year to December.

Single premium income soared 173% to R928m, while recurring premium income — a better indication of the group's underlying strength — grew a healthy 25% to R798m.

A strong increase in investment income, which climbed 72% to R302m, also made a substantial contribution to the assurer's bottom line.

The 1994 results translated to a 55% increase in earnings to 200c a share, representing a 51,9% average annual compound growth in earnings over seven years.

Norwich declared a dividend of 133,3c a share, which compared with a dividend of 85,8c in December 1993.

The group's income statement strength was matched by its balance sheet, which reflected a 56% increase in total assets to R6,07bn in the year under review.

Norwich MD Charles Davies said 1994 had been an inspiring and gratifying year in terms of competitive investment returns, new business and the containment of management expenses to income ratios.

"The ratio of management expenses to total income was 6,7% compared with 10% last year and keeps Norwich Life ahead of the improving target set in our long-term strategy."

Davies said good absolute and relative investment performance was an outstanding feature and contributed to the strong growth in single premium income, especially on the employee benefits side.

"Norwich Life have recognised their responsibility as a corporate citizen for a number of years by developing and empowering their staff in the decision-making process.

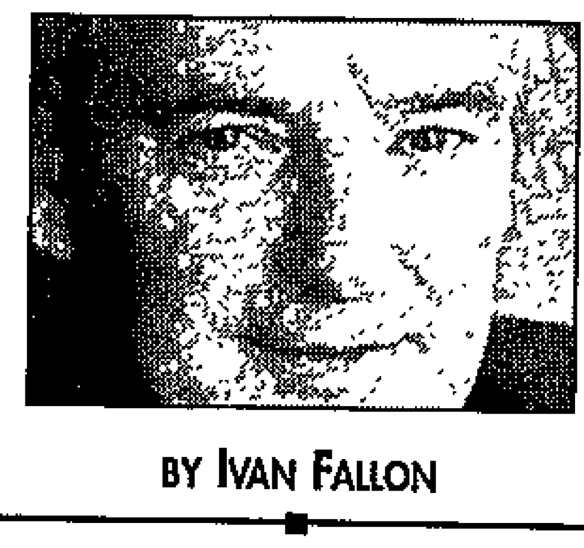
"Our involvement in external areas such as sponsorship and the development of sport for disadvantaged youth has been extended to include business suppliers, through subcontracting activities to black entrepreneurs."

In addition, the group's initial investment of R25m in Electrification Participation Notes — developed by Eskom and the Life Offices' Association — had been increased to R50m.

The 'yapping puppy' bites back

CT (BR) 9/3/95 (58)

VIEWPOINT



BY IVAN FALLON

Liberty Life - from upstart to the largest South African-based financial services group

In the first issue of Business Report on Tuesday, Mike Levett of Old Mutual referred to Liberty Life as a "yapping puppy", a distant third in his more traditional battle with Sanlam for the leadership of South Africa's insurance industry.

It is a remark which stings Donald Gordon, the man who started Liberty from scratch only 37 years ago, some 113 years after the birth of Old Mutual (and 40 years after Sanlam came into existence). But he has a riposte, which is deliberately designed to get under the skin not only of Levett but also of Marinus Daling of Sanlam. In his latest chairman's statement published this morning Gordon refers to Liberty as the largest South African-based financial services group with worldwide assets of more than R270 billion.

Both Levett and Daling would dearly love to dispute that, but they can't, and Gordon knows it - and revels in it. He has chosen his words with care. Take in Standard Bank (39 percent), a half-stake in the British Sun Life and the rapidly rising assets of Liberty Life and he is unquestionably bigger than either of the Cape-based giants. Even on straightforward assets under management terms, Liberty at R127 billion is probably level with Sanlam and closing in fast on Old Mutual. Include Gordon's overseas assets and there is no contest.

DONALD GORDON *Started Liberty from scratch 37 years ago*

From total assets of R100 000 in 1958, Liberty's asset base in the past year has passed the R100 billion mark, which is a growth rate that probably no insurance company — and no financial service company that I can think of anywhere in the world — can match.

The Liberty story is a remarkable one by world standards, let alone South African. Compare Gordon for a moment with the British competition, against which, for want of something better in South Africa, he increasingly measures himself. At this level the history is even more fascinating.

Not long after he started, Gordon and his team were approached by the venerable City of London institution Guardian Assurance which bought them out. Gordon joined the Guardian board and was seated, as the newest member, on the left hand of the chairman.

The sum Guardian paid was a pittance, although it seemed a lot to Gordon at the time.

A dozen years past and Guardian, by now Guardian Royal Exchange, decided it would disengage from its South African subsidiary which was growing uncomfortably fast and was also walking into political flack.

Gordon, by now halfway round the board table as the ancient members toppled off (he would eventually reach the right hand of the chairman before he retired last year), begged and pleaded for them not to do it, but in vain. So he did the next best thing: he went to his bankers, Barclays, to borrow the money to buy Guardian out. Barclays, much to its eternal discredit, declined, so Gordon went around to the great Henri de Villiers (who retired on Monday, full of honours) who instantly said yes.

Standard's investment, for a one-quarter share in the Liberty holding company, was R2 million. Later it would put up another R80m for another quarter. That shareholding today has a market value of R3 billion, but since it has control of the top company in the Liberty pyramid, its value is actually incalculable.

Meanwhile Liberty, by now quoted on the London stock market, has powered past its old parent. Its market value today is £3,4 billion compared with £1,5 billion for GRE. Indeed GRE's biggest asset is the 8 percent stake in Liberty which Gordon prevailed upon it to keep, much against its better judgement. That stake alone is worth £240 million, many times more than GRE got for the other 92 percent.

And if he has done well for the shareholders of Standard, his own shareholders have not done badly in the wealth creation stakes: over the past 10 years the net asset value of Liberty shares, including dividends, has risen 32,8 percent a year compound, or 24 percent in dollar terms.

In London today, Liberty stands shoulder to shoulder with Commercial Union in terms of size, and second only to the Prudential, whose sale of its South African assets to Liberty has been one of the powerhouses behind Liberty's leap up the ladder. Gordon can thus be said to have scaled the heights of the insurance world in both South Africa and Britain; America now beckons as does the Far East.

If this were Gordon's only achievement this past 37 years, he could move towards his own retirement, which he hints may be within the next few years (he is approaching his 65th year), with a feeling of some accomplishment. But it is far from all. Foreign visitors to the Liberty-controlled shopping centres in South Africa, notably Sandton City, emerge in a state of astonishment — they have never seen anything like them. Or at least they hadn't until recently, certainly in Britain.

Gordon's other arm, TransAtlantic Holdings, has shaken the retailing world in Britain to the core with its massive new shopping centre at Thurrock in Essex, on the east side of London. One silly British minister, John Selwyn Gummer, attacked it savagely on television as the prime example of everything that was wrong with British planning, with its threat to the high street and the traditional way of British shopping. The camera crews instantly descended on the centre, seeking the reaction of Essex shoppers to this intemperate outburst. The result was extraordinary: the next day there were queues of cars on the motorway as shoppers from all over the country turned up.

Thurrock is effecting a change of shopping culture in the land of shopkeepers as effectively as Gordon has stamped his mark on the insurance industry of South Africa. Not only is the pressure for more Sandton-style shopping centres unstoppable, but the very presence of Thurrock, with its enormous American-owned warehouse stores and other imports, has sparked a price war which has torn gaping holes in the profits of the big supermarket companies Sainsbury and Tesco.

Even if the old-style Tories look down on what he is doing, the British shopper equally looks up. Perhaps the most singular element of all this is that Gordon has grown Liberty internationally at a time when the global business world was bypassing South Africa, and when South Africans had only disadvantages in competing abroad.

If the country had another dozen like him, President Mandela would not have to worry about its economic future.

> *If the country had another dozen like him, President Nelson Mandela would not have to worry about the economic future of South Africa*

AIDS claims slowing down, says insurance industry report

CT 9/3/95

By Audrey D'Angelo

Cape Business Editor

There are early signs of a slowing down in AIDS-related claims reported by the South African insurance industry, even though the number of deaths in the population has increased.

A report issued by the Mercantile and General Reinsurance Co yesterday said "the trend no longer follows the exponential rise evident in the number of AIDS deaths recorded in the population."

This, it said "is probably an indication that the underwriting measures introduced by life insurers are having the desired effect."

The report said the number of AIDS-related claims notified by the insurance industry since 1994 now totalled 1 234. Over the past year 311 new notifications were received, increasing the total by 34 percent.

The number of claimants rose by 222 to 825, an increase of 37 percent over the previous year. An increasing number of claimants — over 50 percent of those notified in the past year — were married.

The proportion of female claimants continued to increase, with the fastest growth among single women. Almost half the claimants were between the ages of 31 and 40.

The total sums claimed to date have risen to R44,2 million for life, R6,5 million for disability and R150 000 a month in personal health insurance payments.

About 12 percent of claims notified are not settled immediately either because of an AIDS exclusion clause in the policy or suspected non-disclosure of information when it was taken out.

The bulk of claims came from individual business. But, the report warned, group claims are now rising at twice the rate of individual claims.

In the population as a whole the number of AIDS cases reported by December 30 totalled 4 926.

In 1994 a total of 1 943 adult cases were reported, of whom 1 027 were women and 916 men. This compares with eight men and no women 10 years earlier.

The first AIDS-related deaths reported among women were four cases in 1987 compared with 36 men.

"Even allowing for reporting delays the population figures are now increasing at a much faster rate than that apparent in the insurance data," the report concluded.

Life assurers face shaky future

WM(BM)10-16/3/95 (-58)

Life assurance companies will take some strain over the next five years, reports Jacques Magliolo

LIFE assurance companies are under threat. Government intervention, increasing competition from banks and the effects of Aids on income will weaken the security of life assurance firms in the next five years, says Andersen Consulting, a member of the Arthur Andersen group.

Every four years Andersen Consulting undertakes, on behalf of assurers, a comprehensive study of factors which could affect the industry. Research for its latest report — called *Delphi* — focused on direct business underwritten by long term assurers and excluded personal and commercial short-term business.

Problems the industry could face include:

■ Operating under continued economic uncertainty until the turn of the century.

However, Andersen Consulting does not expect to see the government adopting a nationalisation programme, but it will increase its interference in the marketplace.

■ Government regulation will increase through a re-introduction of prescribed assets and greater financial disclosure. Under a prescribed asset system institutions are forced by the government to invest about 15 percent of their funds in government-type bonds.

Wally Strictland, head of Andersen Consulting's Insurance Industry Practice says: "The ever-rising income, the enormous growth in assets and the healthy cash flows of the large insurance companies have attracted the attention of South Africa's new government as a source of funds for the reconstruction and development programme."

■ Another threat is growing competition between assurers and banks/building societies for consumers' savings. Andersen Consulting says: "Competition is becoming more intense as contractual savings products from assurers are often taxed at more favourable rates in the hands of consumers than, for example, funds lodged in banks accounts."

Assurers also face growing competition for their long-term products from companies offering health care cover. The report says the life industry is likely to pre-empt this competition by acquiring a controlling stake in health care and managed health care products.

Managed care companies grew by 29 percent, health care companies by 30 percent and retail banks by an impressive 33 percent.

■ Increased labour mobility, meaningful steps through affirmative action progammes and steadily rising incomes are identified as some of the factors which will lead to greater demand for assurance products.

"Whereas previously the demand for assurance products among less sophisticated consumers was geared towards funeral, life and disability policies, a new generation of prosperous and more enlightened consumers will almost certainly evince an active interest in investment-type policies and other long-term products."

Finally, assurers are likely to face the future with greater government focus on consumer protection. It seems certain that steps will be taken to legislate on the disclosure of expenses and possibly commissions.

WEEKLY MAIL & GUARDIAN
March 3 to 9 1995

Call to streamline development bank

(58) BD 10/3/95

JOHN DLUDLU

THE Development Bank of Southern Africa should streamline and decentralise its operations to remain relevant to the needs of the people, the SA National Civic Organisation (Sanco) and the Congress of Traditional Leaders of SA (Contralesa) said in Johannesburg yesterday.

Sanco reconstruction and development co-ordinator George Dor, after making his organisation's submission during the public hearings on the transformation of the development bank, said it should hand functions such as policy formulation, research and the negotiation of foreign loans to government departments.

The bank should limit itself to the financing of development projects identified by communities and government.

Dor expressed concern at the size of the bank's bureaucracy, saying it should be reduced through diversion of functions and staff. "But we are not talking about retrenchments. People could be shifted to appropriate government departments."

Contralesa president Chief Patekile Holomisa called for a decentralised development finance institution to meet development challenges.

The bank's senior policy analyst Mosebjane Malatsi said the staffing of the transformed bank should reflect the demographic composition of the country's population, without sacrificing effectiveness and productivity.

He called for the bank's boards of directors and trustees to be "democratically elected" by all stakeholders.

The bank, possibly with a new name, Ubuntu Development, should be expanded to cover the southern Africa region.

Malatsi called for the establishment of a revolving development fund with affordable concessionary interest rates disbursed to poor communities through non-governmental and community based organisations.

He recommended the decentralisation of the bank.

Malatsi said also the bank should play a facilitative role. "But the ownership of development belongs to the people on the ground," he said.

Entrepreneurial Development Network's Luckie Makgonye, addressing the transformation team, said the restructured bank should get its funding from government bonds invested at the stock exchange and from private sector capital.

National Black Business Caucus executive director Danisa Baloyi called for close interaction between the restructured bank and other institutions such as, he suggested, the Industrial Development Corporation and the proposed Small Business Development Agency.

Oral submissions continue today.

Several groups, including Business SA, the Youth Development Forum and the Department of Roads, failed to make submissions yesterday.

Barclays Bank heads back to SA

LONDON — Barclays Bank, with assets of £162bn, is returning to SA nine years after selling its stake in Barnat, which became First National Bank.

It said yesterday the Reserve Bank had granted it authority to set up a banking operation. It expected to open an office in Johannesburg next month.

Barclays Bank of SA Ltd, with starting capital of R50m, would be a wholly owned subsidiary and would not be involved in retail banking. It would focus on cross-border trade finance, corporate banking and serving multinational clients with interests in SA.

BD 10/3/95

Barclays said it would also be looking at opportunities for investment banking arm Barclays de Zoete Wedd, which dealt in SA equities and debt in London.

The operation would be headed by Philip Howell, who was chief of Barclays' Southeast Asian interests in Singapore.

Barclays would start up with a staff of 15 but expected to increase its payroll as business expanded.

Chris Havilland, who oversees Barclays's African and Caribbean interests, said the move was a logical extension of the bank's existing operations. "We are in Botswana, Swaziland, Zaire, Kenya, Uganda and Ghana. Trade between SA and those countries is increasing. In addition, many of our British corporate clients do business with SA and this will place us in a position to finance exports from the country. We will be serving our existing client base and hope to expand our wholesale banking operations in SA."

JOHN CAVILL

R72-m boost for DBSA today

(DEV 158)

A loan agreement of Ffr100-million is to be signed today between the Development Bank of South Africa (DBSA) and the French financial institution Caisse Francaise de Developpment, which supports third world countries.

The terms of the loan will be very favourable - 3,5% a year (before forex cover) over 21 years, with a nine-year moratorium on capital repayments.

The funds will be used to supplement DBSA resources and are to be used mainly for urban and rural infrastructural development such as water supply, electricity and sanitation, in support of the RDP.

Star 14/3/95

Condition

A condition of the loan was that it should be used exclusively to benefit the historically disadvantaged people of South Africa. The first drawdowns will be made next month.

"Loans of this nature at such favourable terms will enable DBSA to assist provincial governmentsto address backlogs in income-generating infrastructure and will also allow DBSA and South Africa access to the substantial French expertise built up over the decades in the rest of Africa," Nick Christodoulou, acting chief executive of DBSA, said.— Sapa

R70m for DBSA

(297) (58)

CT 14/3/95 (BR)

Staff Reporter

A R70 million loan agreement between the Deve.. Bank of Southern Africa (DBSA) and French financial institution Caisse Francaise de Developpement, will be signed at noon today.

The loan signals the first concrete step in co-operation between the two development institutions.

The terms are exceptionally favourable, with a rate of 3,5 percent a year (before forex cover) over 21 years, with a nine-year moratorium on capital repayments.

The funds will be used to supplement DBSA resources and will be spent mainly on urban and rural infrastructural development in the provinces in support of the RDP.

A condition of the loan is that it must be exclusively used to benefit South Africa's historically disadvantaged people.

The first draw downs will be made in April.

Nick Christodoulou, the DBSA's acting chief executive, commented: "Loans of this nature at such favourable terms will enable the DBSA to assist provincial governments to address their backlogs in income-generating infrastructure.

"They will also allow the DBSA and South Africa access to the substantial French expertise built up over the decades in Africa.

"Further, concessionary loans of this nature, which have allowed us the opportunity to refinance up to 40 percent of existing commitments, will have a beneficial impact on the balance of payments."

Christodoulou urged other countries to follow the example of the French and to support South Africa in its challenge to address the needs of all its citizens.

Tough competition ahead for foreign banks

BY CHARLOTTE MATHEWS

Local institutions are giving off mixed signals over the appearance or reappearance of the international heavyweight banks to South Africa.

In some respects the foreign banks are welcome but local institutions expect increased competition in a number of areas.

Last week alone there were announcements from Netherlands' biggest bank, ABN-Amro, and from Barclays Bank of the UK that they would be setting up full banking operations, concentrating on the corporate rather than the retail market.

Senior representatives of the international financial group Lehman Brothers also visited the country last week and announced they would probably set up a full branch, although not this year.

The consensus from local banks appeared to be that there would be increased competition in some areas but that a number of the foreign banks would in time discover the market is less profitable than they had hoped and scale down their activities.

Absa executive director responsible for corporate and merchant banking and the economic department Jean Brown said it was difficult to comment on the possible effects of foreign entrants without knowing what conditions the SA Reserve Bank would attach to the licences it granted.

Assuming full branches were permitted, three areas would be most affected.

Mergers

58

In mergers and acquisition activity, there would be fierce competition to advise local companies wanting to expand abroad but foreign banks would initially find it difficult to operate in the local environment.

On the trading side, more players would give a more balanced market, Brown said. This was echoed by Standard Corporate Merchant Bank MD Jacko Maree, who said more dealing rooms would help to add liquidity to the local market.

Corporate lending

On the corporate lending side, the foreign banks could make life very difficult for local banks as far as Eurodollar lending is concerned, Brown said. At present local institutions needed overseas correspondent banks but the foreign institutions could cut out middlemen, making them highly competitive.

Maree said in general the foreign banks had come in with two or three people and their entry had been very low-key. However, Standard Bank's outlook was the more players the better.

In many cases the foreign banks were moving into particular market niches where they had an advantage, such as bringing foreign financing into SA.

Rand Merchant Bank director Enrico Greyling said there could be some price competition and the local banks would have to live with it, but hopefully the local banks' relationships with their clients was good enough to withstand the onslaught of foreign banks.

"If the SA banks and the foreign banks can provide the same service at the same price I believe the SA banks will rule the roost," Greyling said. "But when it involves other areas, such as capital raising in international markets, foreign banks will have the advantage."

First National Bank group treasurer Peter Carroll said local banking margins in the old-fashioned service area are already squeezed but there was some concern in banking circles about the more sophisticated areas of business. There would be renewed efforts to become world class by South African banks, which already had the necessary tal ent.

No apology

"South Africans don't have to apologise for anything," he said. "Technically we are right there."

Maree said even more banks were likely to enter the country but many would leave when they realised there was not a huge amount of money to be made. The US banks in particular were not renowned for staying unless they could make good profits.

Star 14/3/95

Foreign bank invasion

(58)

☐ From Page 1

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Rand Merchant Bank director Enrico Greyling said there could be some price competition and the local banks would have to live with it, but hopefully their relationships with their clients were good enough to withstand the onslaught of foreign banks. "If the South African banks and the foreign banks can provide the same service at the same price I believe the South African banks will rule the roost. But when it involves other areas, such as capital raising in international markets, foreign banks will have the advantage," Greyling said.

First National Bank group treasurer Peter Carroll said local banking margins in the old-fashioned service area were already squeezed but there was some concern in banking circles about the more sophisticated areas of business. There would be renewed efforts by local banks, which already had the necessary talent, to become world class.

Maree said even more banks were likely to enter the country but many would leave when they realised there was not a huge amount of money to be made.

Metlife's profile attracts business

BD 15/3/95 (58)

EDWARD WEST

CAPE TOWN — Metropolitan Life's (Metlife's) individual insurance business had shown strong growth since the year to end-September 1994, MD Marius Smith said yesterday after the AGM.

There was no doubt that the changed shareholding of the assurer had opened new opportunities in the group insurance sector, although it was still too early to translate these opportunities into rands.

"White-owned companies and local authorities are seeing Metlife as the politically correct company to do business with."

Commenting on speculation that Metlife might, with New Africa Investments (Nail), take up a stake in JCI, Smith said Nail would either have to have a rights issue or consider going into a deal with JCI taking Metlife on board.

Smith stressed, however, that any Metlife investment had to be to the benefit of policyholders, and any decision on an investment with Nail would be made independently and on that basis.

A third independent auditor, Fischer, Hoffman & Sithole, was appointed.

Emerging Business

Emerging Business is edited by Thabo Leshilo

Achib seeks state grant for informal hawker banks

(58) CT (BR) 14/3/95

By Shirley Jones

Plans to establish 42 ... hawker banks have been shelved by the African Council of Hawkers and Informal Business (Achib) pending the outcome of an appeal for a R2 million government grant.

Richards Bay Minerals' small business director, Peter Morrison, and Achib president Lawrence Mavundla, who are behind the move, hope to secure the additional finance to appoint nine regional co-ordinators to control the growth of the project, to which the private sector has already pledged R1,25 million.

Based on a similar operation in Mexico which comprises separate banks run by individual hawker communities, the project running under the Achib mantle has exceeded initial expectations.

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There are five such banks in existence, housed in recycled shipping containers, the RBM-funded, original bank in Empangeni, the Johannesburg bank sponsored by the Anglo American chairman's fund, the Durban bank financed by the NBS, and two which have been set up by the North West government in Rustenberg and Klerksdorp.

Five new Gauteng-based banks financed by Genmin are waiting to start operation, and negotiations with large corporations such as South African Breweries are also well advanced. It is hoped that each region will see a minimum of six new Achib banks by the end of the year. According to Mavundla, "Lack of finance has been one of the major problems facing micro-entrepreneurs for many years. The banks are proving highly effective. They can be set up at minimal cost and, after initial funding, are self-sustaining."

The Empangeni bank, which was established at a cost of R30 000, now has more than 780 members, says Morrison.

Empangeni hawkers now work from covered stalls and can store goods in lockers alongside the bank for 50c a day.

Morrison has applied to the Post Office for postal boxes for traders and it is hoped that public telephones will follow.

With increased funding from both the government and the formal sector, it is hoped that individual loans can be increased.

At present, these are determined by individual banks and the communities in ... operate.

According to Morrison, the Empangeni bank makes loans of between R100 and R200 and expects repayment at the end of the day, with a 1 percent administration fee.

In Johannesburg, he says, loans of up to R500 have been negotiated because it is a more sophisticated market.

The risk factor is low because banks are staffed from within the community and new applicants have to be recommended by existing members. Both parties lose their memberships if a loan is not repaid.

Morrison says the Durban bank has a "small cash flow problem" as it had not followed protocol and had lent to too broad a community.

However, a debt collector has been ... and he ... over at least 80 percent ... outstanding loans.

This problem highlights the need for regional co-ordination, he says.

Morrison hopes the Achib bank project can become an integral part of government policy as outlined in the white paper on small and micro enterprise.

He has urged the government to seize this as an opportunity to implement strategies outlined in the document.

Trevor Manuel, the minister of trade and industry, indicated last month that the financing problems experienced by the informal sector would be on the agenda at the President's Conference on Small Business.

PEOPLE'S BANK *Achib informal banker Josephine Ntambule attends to business*

Photo: Etienne Rothbart

EMERGING BUSINESS

EMERGING BUSINESS IS EDITED BY THABO LESHILO

Achib seeks state grant for informal hawker banks

(58) CT 14/3/95

BY SHIRLEY JONES

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PHOTO ETIENNE ROTHBART

Africa-Re targets SA market

(58) BD 16/3/95

SAMANTHA SHARPE

THE $25m Africa Reinsurance Corporation (Africa-Re), whose shareholders include OAU member states, the African Development Bank and African owned insurers, will establish a presence in SA with the opening of a Johannesburg office.

Company spokesman Bob Greenwood said the SA government would be offered 98 Africa-Re shares — valued at R5,7m — with a further 56 shares on offer to local insurers whose majority shareholding was South African.

The government shares would probably be made available through an SA financial institution, with the take-up of share allocations leading to the opening of a full regional office in SA.

Greenwood said that Africa-Re, which boasted premium income of about R160m a year, would benefit from an SA presence through improved access to the southern African and neighbouring insurance markets.

The company was budgeting for premium income of about R2m in its first year of southern African operations, with a target of more than R50m in the next five years.

While initially concentrating on traditional reinsurance, Africa-Re also intended pursuing business in niche insurance markets including motor, liability, risk management and self-funding arrangements.

"The company is very well connected in Africa and apart from providing additional capacity to SA insurers, brokers and reinsurers, is able to offer specialised insurance packages and financial services to local companies engaged in business in African countries," Greenwood said.

Local businesses were committing substantial assets to projects in Africa. "In many countries insurance cover must be placed in the country where the project is underway, which is sometimes difficult because of capacity problems, cover limitations and misunderstanding of insurance laws."

Africa-Re was able to arrange packages where claims were paid either in rands or in US dollars, Greenwood said.

LIBERTY LIFE (58) FM 17/3/95

Gordon's roller

Liberty Life, engine room of the Liberty Group, continues to purr along with mechanical perfection. The 25% increase in EPS and 24% higher dividend payout, with the option of a 1,33-for-100 share capitalisation award, is comfortably ahead of the stated objective of at least 20% annual growth in earnings and dividends.

But the interest is on the deck, where chairman Donald Gordon is increasingly steering his group into international waters. He plays down the imminence of a substantial US insurance acquisition, saying it could take "a few more years." Yet conditions for another offshore acquisition are increasingly falling into place. It will probably happen sooner rather than later.

Financial 1994 was the year Liberty embarked on an ambitious international capital raising programme.

First, TransAtlantic Holdings, through which Liberty holds its UK property and assurance interests, raised R1,4bn in a convertible bonds issue. This was followed by the flotation of Capital Shopping Centres, with assets of about £1bn, including seven regional shopping centres, on the London Stock Exchange. That raised new capital of around R1,2bn.

The highlight was the Euroconvertible bond issue by Liberty Life, which, despite the surprise resignation of Derek Keys as Finance Minister in the middle of the international road show, raised R1,1bn.

That totals R3,7bn long-term capital,

ROLLING ON

Year to December 31	1993	1994
Premium income (Rbn)	[illegible]	11,47
Investment income (Rbn)	[illegible]	4,81
Taxed surplus (Rm)	[illegible]	565
Earnings (c)*	[illegible]	240
Dividends (c)	[illegible]	204

* Excluding equity accounted earnings

Gordon . . . *when will he go ballistic?*

which Gordon says improves the liquidity and flexibility of Liberty Life and TransAtlantic Holdings. It also reduces international short-term bank debt, including debt raised in earlier years partially to finance overseas investments.

With Liberty Life's strong balance sheet at home — long-term debt has been reduced 10% to R2,55bn, covered by cash holdings of R2,62bn — and debt being radically retired abroad, the group is well placed for a large acquisition.

Gordon says there is no hurry: "We don't want to go in and buy the wrong company. But we have been speaking to a lot of companies in the US and have refined our thoughts down to about six companies, half of which are mutuals."

Back home Liberty Life remains one of the top performing life companies. New annualised recurring premiums, a key measure, advanced 23% to R919m. The ratings are among the highest in the sector; yet Liberty must remain a core investment, offering consistent growth in earnings and a blue-chip investment portfolio.

First pyramid **Liberty Holdings,** which grew EPS 23,5% to 727c and increased dividends 24,4% to 560c, is looking interesting. Apart from drawing 85% of taxed earnings from Liberty Life, it also holds strongly performing Liberty Asset Management and has joint control of Guard-Bank, one of SA's top unit trust management companies.

The share has the highest p:e ratio in the sector, 32,3, but must offer value at R235, down from its January high of R265.

Performance of **Liberty Strategic Investments** (Libsil) has not been sparkling, with earnings and dividend growth restrained to just over 12% and a static share price over the year. At R12 it trades at a discount to NAV of R13,17. Yet, as warehouse for Liberty Life's major investments, it should appeal to foreign investors.

The share price performance of **First International Trust** (FIT), which holds 37% of TransAtlantic (Liberty Life holds 21% directly), has been disappointing, from a high of R23 a year ago to R13,50 now.

That's no reflection on TransAtlantic, which raised EPS 21% to 14,6p. Property interests did well, though the UK insurance industry is going through a tough time.

Still, FIT is a pure rand hedge and should remain attractive to local investors until exchange controls go — especially if the price weakens further.

Shaun Harris

Fedlife grows premium income to R2,1 billion

CT(BR) 17/3/95 (58)

Life assurer's earnings rise 23 percent as expenses increase by only 5 percent

By John Spira
Gauteng Business Editor

Fedsure's life assurance subsidiary, Fedlife, has reported a 63 percent increase in net premium income — to R2,1 billion — for the year to December 1994.

The sterling performance was accompanied by a rise in marketing and administration expenses of only 5 percent, further reducing Fedlife's expense ratio, which remains among the lowest in the industry.

Fedsure's group assets grew by more than 23 percent to exceed R10 billion for the first time. Net attributable income rose 24 percent to R66,4 million.

Earnings expanded 23 percent to 77c a share and a final dividend of 32,5c has been declared, lifting the total payout for the year by 23 percent to 54,75c.

Strategic growth

Over the past five years Fedsure's assets have grown by more than 27 percent a year and earnings a share by more than 22 percent a year compound.

CE Arnold Basserabie says 1994 saw several "significant" developments in line with Fedsure's strategic growth in the insurance and financial services industries

Among them was the creation of Safrican Insurance, with a consortium of black organisations, to expand Fedlife's funeral insurance activities.

Since the close of the financial year, Fedsure had acquired a large interest in Technical Management Assignments to position itself in the specialised investment management services marketplace.

And Fedsure Asset Management had been created to compete more aggressively for the management of corporate and institutional investment portfolios.

According to Basserabie: "Our strategic banking investments have performed well during the year and have contributed to our excellent returns. We continue to enhance these relationships and position ourselves for further developments."

Morris Bernstein, Fedlife's MD, ascribes the growth in premium income to innovative investment-oriented products, an increase in single premium annuity business and good investment returns.

Fedlife's recurring premiums grew by 22 percent to R1,[illegible] billion and single premiums soared by 153 percent to more than R1 billion.

Fedgen, Fedsure's short-term arm, was, along with its competitors, adversely affected by the substantial increase in criminal activity.

Basserabie describes the group's investment returns as "very satisfactory":

- ☐ The flagship Fedlink pensions portfolio was placed in the top 25 percent of all fund managers for the year;
- ☐ The property portfolio is performing well above market averages, with occupancies maintained at around 97 percent; and
- ☐ The Fedgro Growth Fund grew by 55 percent to R107 million and achieved a return of 28 percent for the year. Fedgro ranked sixth out of 26 funds in the three years to the end of 1994.

Expansion plans

On Fedsure's outlook, Basserabie comments: "Fedsure's results for 1994 and the repositioning of the various business units in the group augur well for growth and development in 1995.

"This, with South Africa's improving economic and political environment, will provide the platform for our continued expansion in the insurance and broader financial services environment."

Alan McConnochie of Ed Hern Rudolph's believes the shares are undervalued. "By my reckoning they should be trading at between 1 800c and 1 900c versus the 1 600c now. The increased dividend yields 3,4 percent — well above the average for the JSE insurance sector.

"The 23 percent increase in earnings is a noteworthy figure, bearing in mind that in 1993 the improvement was 21 percent."

McConnochie notes that Fedsure's strategic holdings (in particular, Investec) are sound and the investment performance more than satisfactory.

"The financial statements will provide the market with a much better yardstick with which to evaluate the company, since, for the first time, Fedsure will be revealing the actuarial valuation of its reserves."

LOOKING AHEAD *Fedsure chief executive Arnold Basserabie believes group growth and the improving economy augur well for 1995*

INSURANCE

Shocks are cyclical (58) FM17/3/95

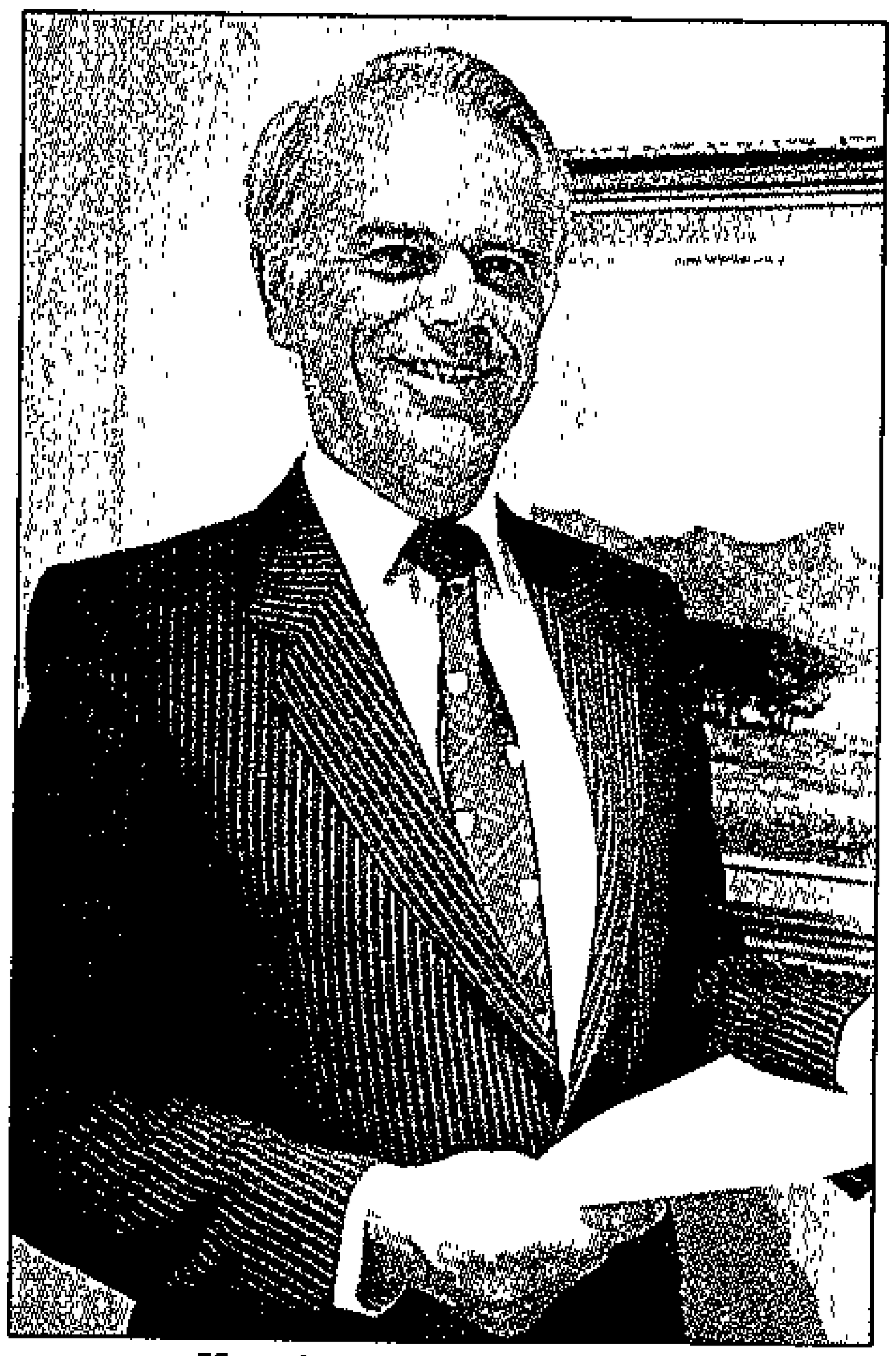
The financial strength of short-term insurers appeals to the longer view

September 1993 is a month John Kinvig, MD of composite insurer Commercial Union (CU), won't forget in a hurry. "That's when our short-term company's monthly underwriting profits turned to losses. I don't know why it was that month in particular, but that's when the whole claims pattern changed."

Kinvig's experience was fairly typical of the short-term industry. Peter Martin, MD of SA Eagle, recalls that the September 1993 figures shocked the industry.

"When I first saw them I thought someone made an error." But 18 months later and the short-term industry — as reflected by the six companies listed on the JSE — is looking desperate.

"This reflects the most recent underwriting results posted by them: with the exception of Cape-based Santam, all show underwriting losses, ranging from CU's relatively modest R13,6m loss to SA Eagle's numbing R134,7m.



Martin *. . . thought there was an error*

Santam's relatively better underwriting performance is partly a result of different year ends: to September instead of December, so avoiding the second half of 1994, one of the worst periods experienced by the industry. Santam is arguably the most underwriting profit-oriented of all the insurers.

The extent of the underwriting losses depends on how the individual players are able to handle the underwriting cycle and, significantly, on the make-up of their books. SA Eagle, for example, is big in vehicle insurance (58% of its total premiums), the area hardest hit by SA's high level of crime. CU's exposure to motor insurance is only about 35%. And it also has the comfort of a successful and growing life office to cushion the full impact of crime-related claims. Latest results show CU Life contributing close to half of group premium income of R1,31bn.

Underlying the current wave of underwriting losses is the sharp increase over the past two years in the crime rate. Rising crime-related claims, coupled with fraud and arson, have sent the industry into one of its periodic declines, reinforcing its boom-and-bust reputation.

At least, this is what the results suggest, but it's a view the market doesn't necessarily share. The last time the underwriting cycle plumbed the depths was in 1990 (see table). Reasons were very different then; a series of weather-related claims, exacerbated by an earlier rate war. But that wasn't reflected in share prices.

A few counters dipped slightly, most merely flattened until the cycle turned profitable again. The share price performances of Mutual & Federal and CU have been more stable than most, but are broadly representative.

When underwriting profits again began to surge from 1991 onwards share prices firmed strongly, most growing more than three times in value to present levels.

Of course, history doesn't always repeat itself, but short-term shares do seem to follow a pattern of remaining fairly insulated from underwriting losses. Profits, though, quickly translate to disproportionate share price appreciation.

One reason is that underwriting profits are not that important to longer term performance: growth in assets, investment income and dividend distribution are. As the table shows, with few exceptions, investment income growth has advanced steadily over the past seven years despite underwriting ups and downs. And it remains a much larger component of pre-tax profits than underwriting profits.

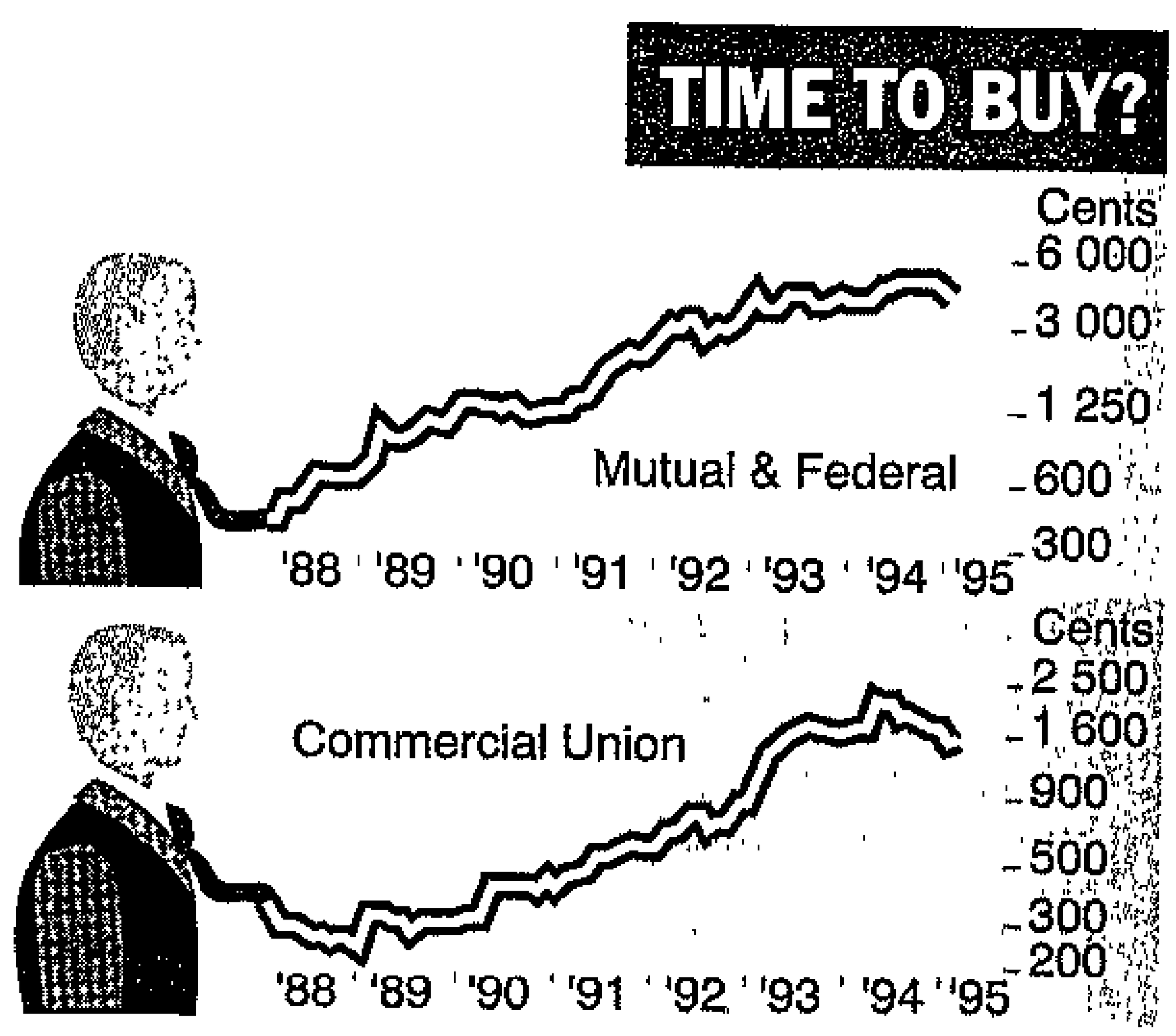
Investment performance, in turn, fuels asset growth. Increases in NAV's may in fact be the most important indicator of overall performance. And they have been remarkably strong. A company like Mutual & Federal (M&F), regarded as the industry leader, has boosted its NAV from 943c in 1988 to R64,91 when interim results were released last week.

MD Ken Saggers notes that though investment income was static due to reduced operational cash flows following M&F's interim underwriting loss of R15,1m (the first recorded in at least a decade), the company's investment strategy grew NAV by 21%. With the share now R46,25 — less than R10 off its high for the year — and trading at a discount to NAV, it's begging to be bought.

Listening to Saggers, though, one wouldn't think so. He says crime and general lawlessness have plunged the short-term industry into its worst crises in more than a decade, and he doesn't see any immediate improvement. He does admit, though, that many in the industry, and M&F in particular, appear to have far better control over the underwriting cycle.

Despite ongoing crime, and provided it does not continue to escalate as it has over the past two years, the current series of underwriting losses may have bottomed. It is even possible a company like M&F could show a small profit for its full financial year.

Carefully but continually raising premiums is an area in which the industry has been able to exercise greater control over underwriting results, keeping a fine balance between growing premium income through rate increases while not chasing away business. Kinvig believes underwriting is better managed, due to improved statistics and technology. "We look at the amount of claims on a weekly basis — it gives us a far better feel for where the trend in a particular type of business is going. Without this, our underwriting losses would have been far greater."



Fedsure group assets top R10-bn

(58) Star 17/3/95

BY JOHN SPIRA

Fedsure's life assurance subsidiary Fedlife has reported a massive 63% increase in net premium income to a record R2,1-billion for the year to December 1994.

The sterling performance was accompanied by a rise in marketing and administration expenses of only 5%, in the process further reducing Fedlife's expense ratio, which remains among the lowest in the industry.

Fedsure's group assets grew by more than 23% to exceed R10-billion for the first time. Net attributable income rose 24% to R66,4-million.

Earnings expanded 23% to 77c a share and a final dividend of 32,5c has been declared, lifting the total payout for the year by 23% to 54,75c.

Over the past five years Fedsure's assets have grown by more than 27% a year and earnings a share by more than 22% a year compound.

Chief executive Arnold Basserabie says 1994 saw several "significant" developments in line with Fedsure's strategic growth in the insurance and financial services industries, among them the creation of Safrican Insurance, together with a consortium of black organisations, to expand Fedlife's funeral insurance activites.

Specialisation

Since the close of the financial year, Fedsure had acquired a large interest in Technical Management Assignments to position itself in the specialised investment management services marketplace. And Fedsure Asset Management had been created to compete more aggressively for the management of corporate and institutional investment portfolios.

According to Basserabie: "Our strategic banking investments have performed well during the year and have contributed to our excellent returns. We continue to enhance these relationships and position ourselves for further developments."

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Fedgen, Fedsure's short term arm, was, along with its competitors, adversely affected by the substantial increase in criminal activity.

Basserabie describes the group's investment returns as "very satisfactory". Thus:

- The flagship Fedlink pensions portfolio was placed in the top 25% of all fund managers for the year.
- The property portfolio is performing well above the market averages, with occupancies maintained at around 97%.
- The Fedgro Growth Fund grew by 55% to R107-million and achieved a return of 28% for the year. Fedgro ranked sixth out of 26 funds in the three years to the end of 1994.

On Fedsure's outlook, Basserabie comments: "Fedsure's results for 1994 and the repositioning of the various business units in the group augur well for Fedsure's growth.

"This, together with South Africa's improving economic and political environment, will provide the platform for our continued expansion in the insurance and broader financial services environment."

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"By my reckoning they should be trading at between 1800c and 1900c versus the 1600c at which they are now changing hands. The increased dividend yields 3,4% — well above the average for the JSE insurance sector.

"The 23% increase in earnings is a noteworthy figure, bearing in mind that in 1993 the improvement was 21%."

McConnochie notes that Fedsure's strategic holdings (in particular, Investec) are sound and that the investment performance had been more than satisfactory.

"The financial statements will provide the market with a much better yardstick with which to evaluate the company, since for the first time Fedsure will be revealing the actuarial valuation of its reserves."

Bank delighted with rights subscription

(58) CT (BR) 22/3/95

By John Sherrocks

Staff Writer

New Republic Bank managing director Mac Mia regards the nearly 100 percent subscription of the bank's R31,6 million rights offer of ordinary shares and convertible debentures to be "excellent", considering the timing.

"Bearing in mind the abolition of the financial rand and the fact that institutional investors are not rushing into the market in the aftermath of the Mexico crisis, we think the outcome is excellent," said Mia.

He said the rights issue, which closed on March 10, would bring the primary share capital of the Durban-based bank to more than R130 million and increase its capital adequacy ratio to 11 percent.

In 1993 New Republic Bank had a share capital base of R39 million, which jumped to R92 million the following year.

Mia said the rights issue broadened the scale of opportunities of the bank and opened the way for growth in terms of the 8 percent statutory adequacy ratio requirement.

Subscriptions

Shareholders and debenture holders subscribed for 3 785 934 new ordinary shares of 50 cents each issued at 375 cents each and 37 641 906 new "C" debentures, issued at 410 cents each.

Excess applications and further commitments were received for 265 041 new shares and 389 109 new "C" debentures.

This represents a total of 97,5 percent of the 4 154 015 shares and 100 percent of the 4 154 015 "C" debentures issued.

The balance of 103 040 shares has been taken up by the underwriters.

The bank has shown encouraging results for the six months to September.

Income before tax was nearly R7,4 million, 20,6 percent up on September 1993.

Attributable earnings of R6,4 million represented an increase of 45,7 percent from the R4,4 million of the previous year.

STOCKS COMING DOWN

RETREAT ON WALL STREET *A trader watches prices fall at the New York Stock Exchange. Industrials pulled back yesterday and on Tuesday after setting records in three previous sessions.* PHOTO / AP

Competition spurs changes at Standard

By Charlotte Mathews

(58) CT(BR) 23/3/95

Increasing competition from international banks has spurred Standard Bank to become the first South African bank to create a single corporate and merchant banking entity, Standard Corporate and Merchant Bank (SCMB).

SCMB MD Jacko Maree announcing details of the merger at a press conference yesterday said Standard Bank's South African operations had been divided into retail and wholesale functions.

Their offshore activities were not affected. SCMB, the wholesale arm, will hold the group's corporate banking, international/Africa banking, project finance, treasury, securities activities and Standard Merchant Bank.

Maree said the rationale was that totally different skills were required for the operations and volumes of business in corporate banking and the types of transactions were different from retail banking.

The trend of separating retail and wholesale activities separation is being followed internationally.

The separation would eliminate client confusion, specifically for overseas clients. Some duplication of services and competition between the bank's two arms in certain areas would be eliminated

The merger was also a response to the skills shortage in South Africa, especially in derivatives and corporate finance.

SA first for Standard Bank

BY CHARLOTTE MATHEWS

Increasing competition from international banks has spurred Standard Bank to become the first South African bank to create a single corporate and merchant banking entity, Standard Corporate and Merchant Bank (SCMB).

SCMB MD Jacko Maree told a press conference yesterday to announce details of the merger that Standard Bank's South African operations had been divided into separate retail and wholesale functions to serve clients better.

The offshore activities are not affected by the transactions.

SCMB, the wholesale arm, will hold the group's corporate banking, international/Africa banking, project finance, treasury, securities activites and Standard Merchant Bank.

Maree said the rationale for the move was that totally different skills were needed for the operations and volumes of business in corporate banking and the types of transactions were different from retail banking.

The trend of separating retail and wholesale activities is being followed internationally.

The separation of the two businesses would eliminate client confusion, especially as far as overseas clients were concerned.

There had been some duplication of services and competition between the bank's two arms in certain areas, which would now be eliminated.

The merger was also a response to the shortage of skills in South Africa, especially in specialised areas such as derivatives and corporate finance.

Risk management would be centralised and decisions on gearing the balance sheet would be made centrally.

SCMB will have about 1 300 employees of which about 300 would come from Standard Merchant Bank.

Maree said care was being taken not to destroy the informal and innovative merchant banking culture or become a bureaucratic environment.

SCMB deputy MD Mark Barnes added another advantage of the reorganisation would be that it would give the corporate activities the backing of a stronger balance sheet, which was important when structuring more complex transactions with international entities.

Standard Merchant Bank's shareholders' funds were about R277 million, whereas SCMB would have the backing of the total shareholders' funds of the group of about R6 billion.

Asked whether there would be separate disclosure by Standard Bank's wholesale and financial arms, Maree said at present the group reported on an integrated basis.

But SCMB would be managed separately, and would have its own balance sheet and profit and loss account and in time it was possible it would be disclosed separately.

At present it appeared as if SCMB's pre-tax profit would be about R300 million compared to R92 million pre-tax for Standard Merchant Bank, but Maree stressed these figures were tentative because there would have to be agreement on transfer pricing.

(58)

Star 23/3/95

Standard merges corporate and merchant banking

(58)

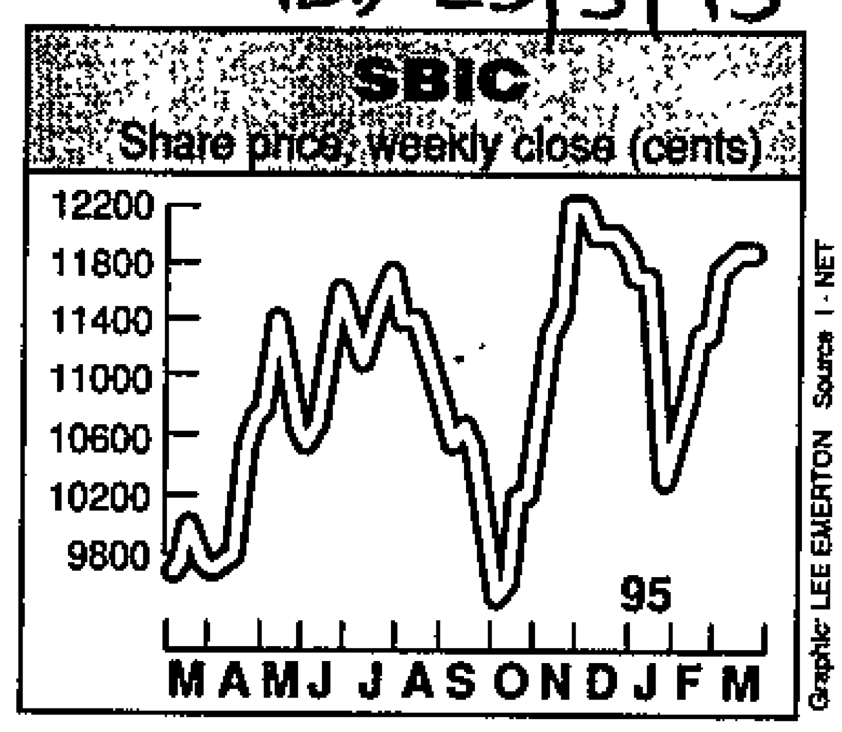
BD 23/3/95

ROBYN CHALMERS

STANDARD Bank yesterday became the first major local banking group to follow the lead of many large international banking groups in merging its corporate service and merchant banking operations.

The new Standard Corporate and Merchant Bank (SCMB) was officially launched yesterday, a move MD Jacko Maree said was motivated by several key national and international developments in banking and financial services.

Maree said large corporate clients were increasingly demanding an integrated approach and expected their bank to offer a full range of services. To accommodate these needs, the activities of Standard Merchant Bank (SMB) were merged with the corporate, treasury and international activities of Standard Bank of



SA (SBSA).

Internationally, the distinction between merchant and corporate banking was blurred, Maree said. Both kinds of service were increasingly being offered by one bank.

"SA's re-entry into world business means that banks in this country must be able to offer their customers at least the same, and preferably better, products and services than can be obtained internationally."

The merger would eliminate the duplication of services by the SBSA divisions and SMB as well as pool skills in derivatives and corporate finance, among others, which were becoming increasingly scarce in SA.

In a separate development, Standard Bank Investment Corporation released its 1994 annual report yesterday. Chairman Conrad Strauss said the group expected profit to improve in real terms for the current year in line with the expected economic upturn.

During the year ended December, the group increased attributable income significantly to R1,027bn against R843m previously, which translated into a 21,5% hike in earnings to 860c (708c) a share.

Strauss said the group was well capitalised with total capital at 12,9% of risk assets compared with the internationally accepted norm of 8% and had a well-covered dividend.

FM 24/3/95

PROPERTY FINANCE (58)

Tax threat to grey area

In his Budget speech, Finance Minister Chris Liebenberg spoke of the "misuse of the tax system through various tax avoidance schemes." His point is that though many are legal, "some militate against the general intention of the law and the national interest."

These schemes, he said, can be challenged in terms of the anti-avoidance provisions of the Income Tax Act. "But they are deliberately engineered in such a complex manner that detection is very difficult. Their success, as an avoidance measure, relies to a large extent on nondisclosure to the tax authorities."

It is, of course, up to legislators, not taxpayers, to ensure Inland Revenue gets its due. However, there is a grey area between avoidance and evasion and the Minister clearly places nondisclosure firmly in it.

He intends to act against those involved. "The Commissioner for Inland Revenue has been instructed to make resources available to detect and challenge these schemes and to apply all the sanctions in the law against the taxpayers involved and, where possible, the advisers. The Katz Commission has also been asked to investigate the possibility of introducing further anti-avoidance provisions and to make this a priority of the commission."

The schemes he referred to "involve, among others, fixed property acquisitions, convertible debenture issues, intellectual property and leasebacks."

There are two variations of the schemes in the property finance industry. They maximise interest and rental costs on the income statement, at the expense of capital outlays, because the former are tax deductible and capital outlays are not.

One tax expert argues Section 103 of the Tax Act could be used to attack those using it. However, at least three companies are always involved and each of their transactions, viewed individually, appears simply commercial.

In one version of the scheme, a developer purchases land and erects a building. He then leases the property for 10 years to an operating company which occupies the building for business. And he receives a single upfront rental payment.

His next step is to sell the property to a subsidiary of the operating company at current market value. Because the property will not derive any rent for the next 10 years, its value is low and it is sold at a loss. To illustrate with hypothetical figures, the building might have cost R5,5m to develop but the developer sells it for R1m after getting an upfront rent of R6m. This leaves R1,5m profit on which he pays tax.

The operating company and its subsidiary gain a tax benefit. In a routine transaction, the purchaser would have paid R7m for the building and this sum would not be tax deductible. By splitting the R7m purchase price between a R6m rental and a R1m purchase price, the group has disguised a major portion of the purchase price as rental and the operating company would get a considerable tax deduction.

There is a more complicated scheme. A company issues debentures to a bank for an amount greater than required, at a market related rate of interest. The excess is typically used by the company to repay a shareholder's loan. The borrower signs a series of promissory notes to cover the interest for the first 10 years.

The bank discounts these promissory notes in the money market and sells the debentures to the property company's holding company. Because no interest will be paid for 10 years, the debentures are sold at a low value. The holding company uses the cash received from its subsidiary to fund the purchase.

The borrowing group pays interest on the debentures but, because the holding company is buying back the debentures cheaply, the net effect is that the borrower is paying the same in interest it would pay in interest and capital to amortise a smaller loan. But, by paying more of the loan in the form of interest than in capital, it gets a tax deduction it would not otherwise have got.

One way to tackle the problem would be to introduce group taxation as has been done in the US and elsewhere.

If the practice can be eliminated, tax generation from it will be felt only over the period of the lease — typically 10 years — because of the way these schemes are structured. ■

❑ The US practice of establishing formal rules of "just and equitable trade" (possibly under a body such as the Financial Services Board) could be followed.

Where trading practices are seen to cast doubt on the market processes, firms may be prevented from continuing or prosecuted. This forces management of firms or institutions to establish proper controls within the organisation, because of the legal implications of not doing so;

❑ Organisations should require full disclosure of personal trades as a condition of employment, and make noncompliance a dismissable offence;

❑ Where possible, the surveillance functions of the exchanges (including the Bond Market Exchange when this is up and running) should be utilised; and

❑ Where an organisation prohibits personal account trading, a proper incentive scheme should be put in place. This may also serve as a useful control where such trading is allowed. ■

JAN ERASMUS — **IN MY OPINION**

Insurers are their own worst enemies

(58) FM 24/3/95

Jan Erasmus is the executive chairman of Prestasi Insurance Brokers

The insurance industry has not only survived the collapse of three insurance companies, over the past decade, it has weathered competition from banks and other capital-rich institutions. Now, because of its inherent strength and high level of innovation, the industry will withstand competition from foreign players.

Let us look at some interesting facts regarding our insurance companies:

❑ Using the *FM*'s Top Companies as our source, we see the top 10 insurance companies' total asset base grew from R1,9bn in 1985 to R9,7bn in 1994 — an annual compounded growth of 19,6%;

❑ Combined gross premium income grew from R1,9bn to R7,5bn — annual compound growth of 16,7%;

❑ Net profit before tax grew from R104m to R633m — annual compounded growth of an astounding 22%; and

❑ To put these figures into perspective we have only to compare them with the average annual increase in the consumer price index of about 14% over the past decade.

Short-term insurers, therefore, experienced substantial real growth in all three of these important aspects.

Senekal, Mouton & Kitshoff surveyed seven short-term insurers: Aegis, Commercial Union, Guardian, Mutual & Federal, Prosure, SA Eagle, and Santam between 1989 and 1993. The survey revealed:

❑ Short-term insurers on average are 55% invested in equities, largely funded by liabilities (45% of total assets) which carry a zero rate of interest. These liabilities are of course outstanding claims and unearned premiums;

❑ On average the underwriting result after tax contributes 6,8% only of the total increase in shareholders' wealth;

❑ Despite poor underwriting results in 1990, the insurers still achieved positive total profit numbers;

❑ On average 12,9% of premiums earned was paid as commission — a relatively low acquisition cost;

❑ Even by international standards the average management expenses of our industry are low at 11,4% of premiums earned;

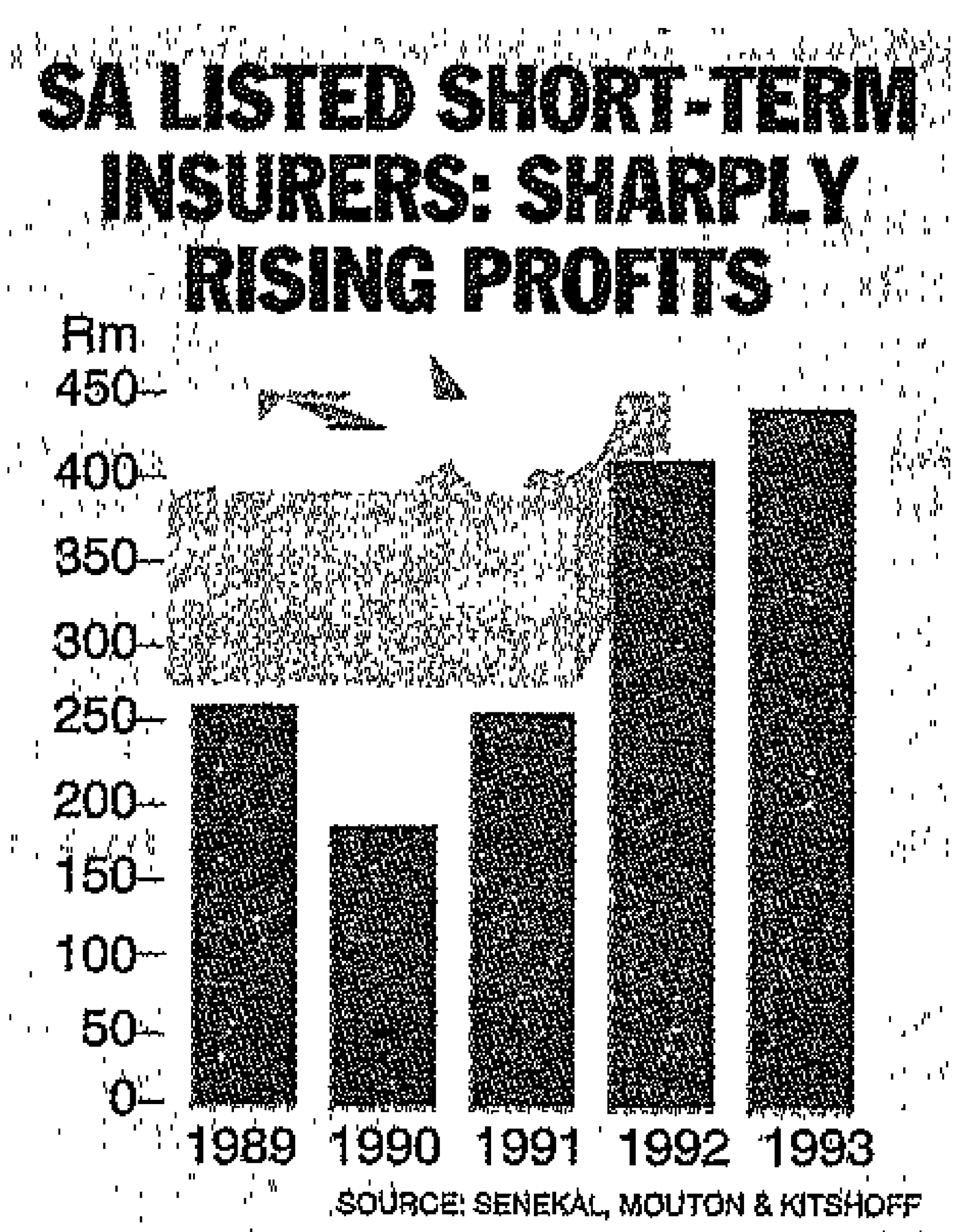
❑ Short-term insurers make acceptable underwriting profits. The seven companies produced a weighted average underwriting result of 2,7% of premiums earned — with Santam at 3,7% and Mutual & Federal at a massive 7,4%;

❑ The effective taxation rate of short-term insurers is low at 24,3% of income. This is because the largest source of income is tax-free dividends;

❑ The latest taxation changes will most probably increase the short-term insurers' profit by 5% as they do not pay secondary taxation on companies. No capital gains tax is payable on the capital appreciation of the substantial equity portfolios;

❑ With a weighted average solvency margin of 87,7% over the term, the insurers were highly capitalised by international standards perhaps over-capitalised; and

❑ Measuring growth in net asset values short-term insurers are better performers on average than banks and life assurers.



These facts speak for themselves. Yet we seem bent on creating an image of a struggling and nonprofitable industry — apparently to perpetually prepare our consumers for worse to come!

Let me present to you the perceptions that I believe our policyholders and investors have:

❑ Notwithstanding sound returns, short-term insurers are rated by investors well below banks and the life assurers;

❑ The investing public find the lack of transparency in dealings with insurance companies disconcerting. Fortunately the exemption from disclosure of secret reserves in terms of Schedule IV to the Companies Act is being phased out;

❑ Disclosures regarding claims ratios; claim costs and true expenses of some insurance companies have long been mistrusted by clients and the broking community.

Incorrect information on this score was produced mainly because of debilitated computer systems;

❑ Claimants are usually given only information they ask for and when they leave the insurer's office with a claims cheque in hand, still have unanswered queries; and

❑ The industry has been tardy about introducing a central claims register for personal lines. Though this concept was presented to the industry in a workable format more than two years ago, little progress has been made. My estimate is that the industry has lost about R500m in fraudulent claims which could have been prevented during the past two years if a proper claims system had been in place.

Something that sets us apart from the other two major components of the financial services industry is that we have respected members who do not flinch from dealing with unsavoury characters. To gain market share, they even give agency contracts to people with suspended sentences for theft and fraud. How can we claim any morality or expect our consumers not to steal from us if we commission such people to help us increase market share?

The insured public do not believe what insurance companies tell them.

The long-term solution to all our problems in the short-term insurance industry lies in the growth of an insurance morality. Insurance must be seen as something protecting the community — not as a way of self-enrichment at the cost of others.

New bank to fund furniture purchases

YURI THUMBRAN

FIRST National Bank would take over McCarthy Retail's full debtors' book, valued at more than R1bn, for an undisclosed sum to form a new bank to finance furniture purchases, the companies said yesterday.

The move follows a joint venture between the two five years ago, called Firstpref Retail Sales, which saw FNB take 75% of the debtors' book while McCarthy kept 25%. In terms of the new deal, Firstpref Retail Sales becomes a wholly owned subsidiary of FNB, providing the foundation for a new bank. (58)

The deal slashes R423m off McCarthy's interest-bearing debt.

FNB senior GM Peter Thompson said the takeover of McCarthy's furniture debtors' book, which includes all stores in the Beares group along with Bonus Building Supplies and Furniture Game, would give the new operation a "flying start". He hoped the deal would do for the furniture/appliance retail trade what "wheels banking" had done for the motor sector.

About 3 000 McCarthy Retail employees have been transferred to Firstpref without loss of benefits as part of the deal.

McCarthy Retail CE Terry Rosenberg said if the deal had been finalised on December 31, the end of the group's interim period, interest-bearing debt of R495m

□ To Page 2

New bank

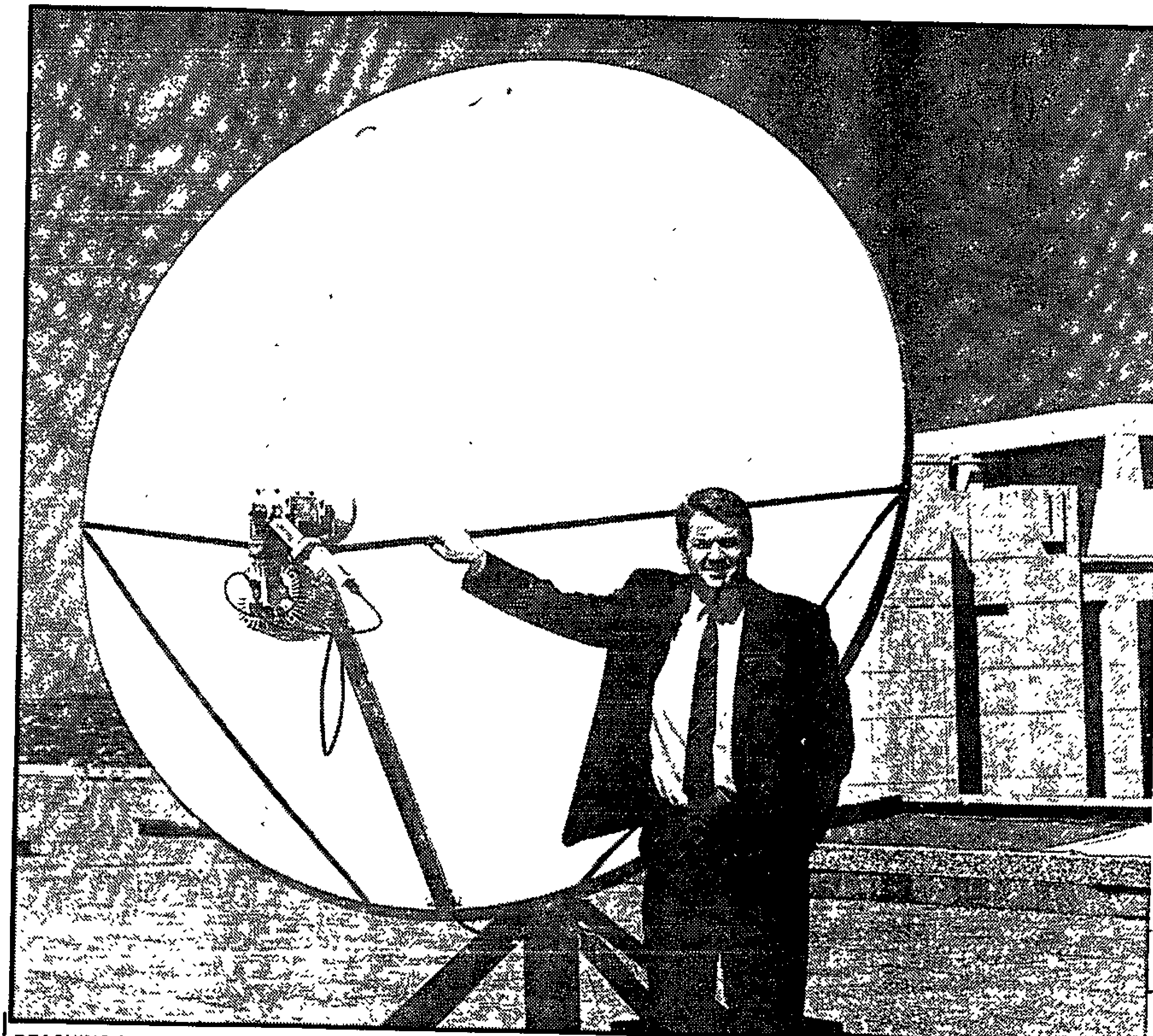
(58) BD 24/3/95

□ From Page 1

could have been trimmed by R423m, giving a debt/equity ratio of 5,5%.

Rosenberg said the creation of the bank provided virtually unlimited finance for increases in group sales of furniture, appliances and building supplies, and would create borrowing capacity for McCarthy Retail to take advantage of investment opportunities. In the short term it would have no adverse impact on profits while it would enhance profitability in the long run.

Hymie Sibul, executive chairman of McCarthy Retail's retail arm Prefcor, said credit would be granted by the new bank in terms of [illegible] agreed between the two parties so that the balance between the sales effort and the quality of the debtors' book would remain unchanged.



REACHING FOR THE SKY . . . Grant Kennedy, assistant general manager of Standard Bank's information systems Pic

(58) ST(BT) 26/3/95

FNB banks on furniture

By ZILLA EFRAT

THE foundations for a R1-billion "furniture bank" have been laid following a deal between First National Bank and McCarthy Retail.

In terms of the transaction announced on Thursday, FNB will take full control of Firstpref Retail Sales, a five-year-old joint initiative between McCarthy Retail and FNB.

Firstpref, formed in 1990 to finance McCarthy Re[illegible]'s debtors' book, will no[illegible] from which FNB will build a furniture bank.

It takes over the R1-billion-plus debtors' book of McCarthy Retail's 350-store furniture division. In addition, FNB also hopes to offer some of the 5 000 furniture retailers in South Africa furniture financing services.

Peter Thompson, senior general manager of FNB, says the venture will do for furniture and appliance retailing what "wheels" banking did for the motor sector.

The furniture industry, however, will need significantly more funding. Given the current emphasis on housing, the R10-billion furniture industry is likely to double by the year 2000.

"By far the greatest percentage of furniture finance is provided to previously less-advantaged communities. This form of financing will permit us to establish which of these customers displays the behavioural pattern that allows us to offer other banking services."

The deal, which has taken 12 months to negotiate, provides FNB a flying start into the furniture market.

Some 3 000 of McCarthy Retail's administration staff have already been tra[illegible]d to Firstpref Retail Sales.

[illegible] Rosenberg, McCarthy Retail's chief executive, says the deal is set to revolutionise furniture and domestic appliance retailing in South Africa.

In addition, it will eliminate R420-million of the R495-million interest bearing debt — some 85% — on McCarthy Retail's balance sheet as at December 31 1994. Mr Rosenberg says for every R1 in sales, the group incurred 70c in debt. As a result, the more sales grew, the worse its balance sheet looked.

BUSINESS REPORT, TUESDAY MARCH 28 1995

Call for inquiry into rural finances

(58) CT(BR) 28/3/95

The land affairs ministry has called for submissions to a commission of inquiry into the provision of financial services to rural areas, covering credit extension, savings and transmission instruments to farmers and small rural businesses.

According to an advertisement carried in weekend and regional newspapers, the commission, chaired by Standard Bank chairman Conrad Strauss, will make recommendations on policy, institutional and legislative measures to improve the access to financial services for rural households, farmers and other entrepreneurs. The closing date for written submissions is May 15.

Publications

Dec 93

Dec 94

Jan

Feb

454.20

25 344.63

3 465.20

8 308.47.

37 273.48.

Institutions create home loans bank

(58)

SAMANTHA SHARPE

THREE life offices — Southern, Metropolitan and Norwich Life — have banded together with the Eskom Pension Fund, Nedcor and the Independent Development Trust to create a new home loans bank, the Credit and Savings Help Bank (Cash Bank).

Cash Bank CE Christine Glover said the R64m bank, which was granted a provisional banking licence this month, would target the low-income home loans market through home loans provision to employer groups. Cash Bank would be offering fixed rates for loans for periods of up to five years. This translated to a range from 19,5% for smaller employers to 23% for larger employers.

BD 28/3/95

Traditional banks have yet to offer fixed-rate lending for low-income housing, with the issue still under debate.

The bank's creation flowed from the formation of the Group Credit Company two years ago, which offered home loan advances to employees against a cession of their provident fund benefits.

Glover said trading operations would begin on April 1, with the bank providing a fully fledged deposit-taking service. While focusing primarily on home loans, with security for the loans backed by employee retirement funds, general purpose loans would also be made available.

☐ To Page 2

Bank

BD 28/3/95

(58)

☐ From Page 1

She said Cash Bank would be tapping a market that was still beyond the strict credit criteria of the larger financial institutions, and could offer financing flexibility impossible for the larger banks.

Theta Securities, which was responsible for the bank's financial structuring, said the innovative financial model could unlock millions for low-income housing and give the reconstruction and development programme "a massive shot in the arm".

Theta MD Leon Kirkinis said that while the use of retirement fund benefits to finance low-cost housing was enjoying increased acceptance among employers and institutional investors, employers and employees had to beware of schemes which liquidated pension fund investments. "It is usually in the interests of fund investors that accumulated contributions underpin a loan rather than provide an instant cash injection into a housing scheme."

He said the bank's structuring would ensure that fund members who did not enjoy housing loans did not cross-subsidise members who did.

Life assurance 'not a funds source'

By Bruce Cameron

Somerset West — The Government has been warned not see the life assurance industry as a source of funds.

The warnings came from leading spokesman of the life industry at the Institute of Life and Pension Advisors annual conference.

Sanlam managing director Desmond Smith said the various levels of government were seeing the industry as a source of income.

Old Mutual assistant general manager Chris Newell said the Katz Commission recommendations to cap contributions to retirement funds would undermine the main savings base of the country.

Smith conceded that it was inevitable the whole question of retirement funding would have to be revisited.

He said potential Government interference was not limited to garnering income from the industry. There were suggestions that the right of the industry to carry out health checks, like checks on AIDS, should be limited.

(58) Star 28/3/95

Consumer legislation 'could hurt banks'

ERICA JANKOWITZ

BANKS and other private sector institutions could be adversely affected by consumer protection legislation should provincial legislatures exercise their constitutional right to enact such laws, Webber Wentzel Bowens partner Peter Leon said at a conference yesterday. (58)

Leon, who is also a Gauteng provincial legislature member, urged banks to lobby central government to enact some form of national legislation which would inhibit provinces from passing their own laws.

Pointing to the experience in the US, where federal consumer legislation imposes high costs on the banking industry, Leon said a pragmatic approach would not be to oppose any consumer protection, but to push for coherence through a central government policy. BD 29/3/95

To date, provincial legislatures had generated very little legislation.

But Leon said this could change as last year's constitutional changes gave them the competence to draw up and pass laws pertaining to many issues, including health, housing, education and — perhaps most importantly — consumer rights.

Leon acknowledged the existence of some forms of protection covered by the Usury and Credit Agreements Acts, but said this did little to correct the huge imbalance of power between individuals and institutions in negotiating contractual terms.

Something like the British unfair contract terms law should be considered by government to stop gaps in current consumer protection.

'Code and law required'

(58)

SAMANTHA SHARPE

IMPROVED financial services regulation would demand two legislative legs — one to govern the prudential requirements of financial institutions and the other to set standards for market conduct, the Life Offices' Association (LOA) said yesterday.

Legislation intended to increase consumer protection in the financial services sector is the subject of heated debate, with some of the larger financial institutions concerned about the high costs of overregulation and excessive disclosure.

At an LOA seminar, Old Mutual GM Garth Griffin said that while financial institutions' solvency requirements should be governed by law, the industry would have to set up a code of conduct to which all sector members would have to adhere.

The code should be based on self-regulation rather than "affirmative legislation", Griffin said. It should cover all aspects of the sector, including unit trusts and banking.

Financial services regulation demanded a pragmatic approach that allowed for market freedom and development of new products. A holistic approach was required.

Companies should be accountable "for the action of their immediate subordinates".

BD 29/3/95

Sanlam MD Desmond Smith said the LOA had commissioned a survey of policyholders to determine areas in which the life insurance industry might be expected to disclose information. The research had shown demand for information on the effect of commissions and policy expenses on overall benefits, and for the introduction of a "cooling off" system.

nesses. He should also try to address some of those weaknesses, including women's rights to land in our policy positions.

Mrs S M CAMERER: Mr Speaker, further arising from the Minister's reply, is it perhaps the position that these husbands are applying for the land because women do not have the right to acquire the land, and unless the husbands defend their right, as the Beijing Conference report indicates, this would be confiscated by the tribal authorities? Does th : Minister not think that perhaps the picture is being distorted, because women do not have th ·ight to acquire land, and the husbands have to d.. it for them?

The MINISTER OF LAND AFFAIRS: Mr Speaker, under this pr ·mme women do have the right to acquire la · ·nambiguously, but of course there will be communities acquiring the land. The programme does not dictate to communities how they should arrange their internal matters.

Dr E A SCHOEMAN: Mr Speaker, further arising from the Minister's reply, is the Minister aware of the dissatisfaction within the Portfolio Committee on Land Affairs in that they were not consulted beforehand as far as these pilot projects are concerned, and what is he going to do to ensure that this committee will in future be consulted for the sake of transparency?

The MINISTER OF LAND AFFAIRS: Mr Speaker, the answer to the question is no, I am not aware that the portfolio committee is dissatisfied; this has not been communicated to me. I would appreciate such a communication formally, and then we can address that problem. I should say that I believe my relationship with the portfolio committee is a very good one, certainly with its chairperson. We have a series of discussions lined up, including some about the pilot projects.

I believe a comprehensive ·riefing on the pilot programme was given to th· ortfolio committee for the second time yesterd We have various other topics identified b· ·n members, on which I or people identified ·me or requested by hon members will be con· ·d. Briefings will take place, and discussion· l be held with members of the portfolio committee. We appreciate the valuable inputs from members of the portfolio committee.

Dr E A SCHOEMAN: Mr Speaker, further arising from the Minister's reply, will he ensure that the portfolio committee is briefed beforehand, and that they do not hear of pilot projects being announced in the press, after which they are then briefed in the portfolio committee?

The MINISTER OF LAND AFFAIRS: Mr Speaker, I think a longer discussion will be necessary, involving myself and others about the respective roles of Ministers, the executive and the legislature. It is clear that the primary source of consultation and involvement was with the MECs, who then took this to their provincial cabinets. It is not always clear to me, nor to other Ministers, exactly where one draws the line with regard to the implementation of one's programme, the execution of one's work, and the legislative functions of Parliament.

Funding of SA delegation to World Conference on Women

*5. Mrs S M CAMERER asked the Minister of Foreign Affairs:

(1) Whether his Department will be responsible for sending all or part of the South African delegation to the World Conference on Women in Beijing from 4 to 5 September 1995; if not, why not; if so, (a) what amount has been set aside for funding this delegation and (b) how large will the delegation be;

(2) whether the said delegation will be fully representative of political parties across the political spectrum; if not, why not; if so, what are the relevant details?

N229E

The DEPUTY MINISTER OF FOREIGN AFFAIRS:

All visits abroad by Ministers and/or Deputy Ministers require the approval of the Office of the President, acting on the recommendation of the Minister of Foreign Affairs. According to international practice, only the Minister of Foreign Affairs may issue credentials in respect of official delegations representing the Government of the Republic of South Africa.

The Fourth World Conference on the Status of Women to be held in Beijing in September 1995 is of a multidisciplinary nature since it concerns all aspects of the empowerment of women. A Ministerial Meeting on 30 May

1994 transferred overall domestic reponsibility in respect of the empowerment of womer to the Office of the Minister Without Portfolio. The Deputy Minister for Welfare has been appointed Chairperson of the National Preparatory Committee in respect of preparations for the Beijing Conference.

Nominations on the part of Ministries/departments/administrations and political parties in respect of represenatatives to be considered for inclusion in the delegation to the Beijing Conference should be directed to the Chairperson of the National Preparatory Committee

(1) (a) In terms of State Expenditure Rulings, departments may only accept fin ancial responsibility for their own line-function activities. Read together with Treasury Regulations K3.12.6, K3.12.9, U2.1.2 and U2.1.3, which, inter alia, determine that all subsistence and other expenses incurred by delegates to these international conferences shall be met from the Vote from which that delegate's salary is paid, it is clear that the Department of Foreign Affairs can only fund its own officials.

Ministries/departments/administrations/political parties wishing to nominate delegates for inclusion in delegations to international conferences remain responsible for all costs relating to such attendances.

(2) The Department of Foreign Affairs is of the opinion that the Fourth World Conference on the Status of Women should be fully representative of political parties and NGOs in South Africa. The Department would like to use this opportunity to encourage political parties to submit nominations for consideration for inclusion in the delegation to the Beijing Conference to the Chairperson of the National Preparatory Committee, which is chaired by the Deputy Minister for Welfare.

The DEPUTY SPEAKER: Order! May I just ask from the Chair whether men would be eligible to form part of this delegation? [Laughter.]

The DEPUTY MINISTER OF FOREIGN AFFAIRS: Mr Speaker, the gender issue is also of concern to men, and therefore you can send your name in to the chairperson. [Laughter.]

Transfer of MMVAF to Minister of Finance

*6. Dr P J WELGEMOED asked the Minister of Transport: (58) Hansard 29/3/95

(1) Whether it is intended to transfer the Multilateral Motor Vehicle Accidents Fund to the Minister of Finance, if not, what is the position in this regard; if so, when;

(2) whether this fund currently has an actuarial deficit; if so,

(3) whether he or his Department has established whether the Minister of Finance will underwrite this deficit; if not, why not, if so, what are the relevant details?

N230E

The MINISTER OF LABOUR (*on behalf of the Minister of Transport*):

(1) No. The question whether the MMF should fall under the political control of the Minister of Finance or not will be addressed together with various other important fundamental policy issues regarding the workings of the Third Party Insurance Scheme by the Board of the MMF in conjunction with the Department of Finance.

(2) Yes.

(3) As indicated under (1), various fundamental policy issues are presently being dealt with by the Board of the MMF including the question of a state guarantee for the outstanding claims amount not actuarially formed to consider this issue of a state guarantee.

Problems experienced by school feeding scheme in Gauteng

*7. Dr W A ODENDAAL asked the Minister for Health: Hansard 29/3/95

(1) Whether, with reference to certain media reports, the school feeding scheme in Gauteng is experiencing problems resulting in large numbers of children not receiving any bread every day; if so, (a) what is causing these problems and (b) what steps are being taken to resolve the problems;

(2) whether problems with the school feeding scheme are also being experienced in other provinces; if so, in which provinces?

N231E

nesses. He should also try to address some of those weaknesses, including women's rights to land in our policy positions.

Mrs S M CAMERER: Mr Speaker, further arising from the Minister's reply, is it perhaps the position that these husbands are applying for the land because women do not have the right to acquire the land, and thus the husbands defend their right, as the Beijing Conference report indicates, this would be confiscated by the tribal authorities? Does the Minister not think that perhaps the picture is being distorted, because women do not have the right to acquire land, and the husbands have to do it for them?

The MINISTER OF LAND AFFAIRS: Mr Speaker, under this programme women do have the right to acquire land unambiguously, but of course there will be communities acquiring the land. The programme does not dictate to communities how they should arrange their internal matters.

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(3) As indicated under (1), various fundamental policy issues are presently being dealt with by the Board of the MMF including the question of a state guarantee for the outstanding claims amount not actuarially formed to consider this issue of a state guarantee.

Problems experienced by school feeding scheme in Gauteng

*7. Dr W A ODENDAAL asked the Minister for Health. Hansard 29/3/95

(1) Whether, with reference to certain media reports, the school feeding scheme in Gauteng is experiencing problems resulting in large numbers of children not receiving any bread every day; if so, (a) what is causing these problems and (b) what steps are being taken to resolve the problems;

(2) whether problems with the school feeding scheme are also being experienced in other provinces; if so, in which provinces?

N231E

Women 'new target' of life assurers

(58)

CT(BR) 29/3/95

By Maggie Rowley

Property Editor

Married women, soon to be flush with extra cash thanks to gender and marital equalisation in the Budget, will be prime targets for life assurers looking to write new business.

Addressing a Southern Life breakfast forum on women and finance in Cape Town, assistant general manager Martin Sweet said the new unitary tax table would put more money in the pockets of married women earning less than R100 000, with the total tax savings for this group amounting to at least R2 billion.

"This makes us very excited. About 78 percent of women have no life assurance and only 12 percent of women working in the formal sector own a retirement annuity. This provides the industry with tremendous opportunities for sales."

Sweet pointed out that married women could now effectively double their contributions to retirement annuity funds and claim tax relief on this. Previously they were limited to only 50 percent of the tax-deductible retirement annuity contributions available to other groups.

He said that according to life expectancy tables, women live longer than men and retire earlier.

Their chances of becoming a widow are great.

"Yet despite these statistics and the harsh reality that almost half of all marriages end in divorce, so few women make provisions for the future."

SOWETAN Thursday March 30 1995

Bank of 'new attitude' opens its doors

(58) Sowetan 30/3/95

FUTUREBANK was founded in 1992 to meet the needs of the emerging market in South Africa, providing for a need neglected in the lending structures of established banks.

During the late 1980s, the South African black taxi industry was booming and was hailed as the greatest black business success in South African history. This success was, in no small part, the result of the efforts of the South African Black Taxi Association, which had developed a very successful taxi financing scheme with the WesBank division of First National Bank Limited.

The success of SABTA gave impetus to the birth of the Foundation for African Business and Consumer Services, an umbrella body concerned with the development of black business on the sub-continent.

The taxi financing scheme with WesBank was so successful that it gave rise to the ideal of a new bank. This new bank will demonstrate a "new attitude" to banking in South Africa, an attitude which displays a willingness to assist the average South African to enter the mainstream of the economy. The bank will provide financial assistance to all sectors of the community, with particular emphasis on those economically disadvantaged by the previous political system.

On March 1 in 1992 the new bank, FutureBank opened its doors.

FutureBank is a unique joint venture in the highly sophisticated South African banking industry. It draws on the traditional skills of First National Bank through a long-term management contract, yet is majority black-owned by organisations with broad community representation.

Staff come from all population groups, matching the bank's market position as the first true "Bank for all South Africans". Because of this, it enjoys a clear advantage in being able to communicate and interact fluently with its broad customer base. Some seventy percent of the Bank's personnel come from disadvantaged communities.

The product range offered by FutureBank is currently restricted to the provision of medium term loans and the taking of investment deposits. As needs are identified, this range of services will be expanded in accordance with the bank's niche-marketing philosophy. FutureBank prides itself on being totally apolitical

Corporate mission

We will:

Achieve levels of growth and profit above the industry average by providing high quality loan and investment services to the individual, as well as to the informal and the formal business sector; Inspire and assist our people to reach their true potential. Competence, commitment and loyalty to the company will be the sole basis for staff advancement.

Barclays to focus on cross-border banking

SAMANTHA SHARPE

BARCLAYS Bank, which is set to return to SA after a nine-year absence, would focus its merchant banking business on cross-border banking, the MD of the bank's SA subsidiary Philip Howell said yesterday.

Howell said that while Barclays Bank of SA ultimately hoped to compete with local merchant banking players, it had no intention of muscling in on the local industry from day one. BD 31/3/95

Barclays SA, which is to operate as a wholly owned subsidiary with start-up capital of R50m, would concentrate on servicing its existing clients.

Many of these clients, Howell said, were multinationals which had interests in southern Africa. (58)

"While recognising the competitiveness of the SA market, our aim is to offer products and a standard of service which meet the expectations of the sophisticated corporate sector here.

"This is our challenge and we look forward to the opportunity of developing mutually profitable relationships with a wide range of companies," Howell said.

FRANCHISING

Bank's aid to small businesses

(58) sowetan 30/3/95

FUTUREBANK RECOGNISES THAT small and medium business undertakings are the cornerstone of free enterprise system.

It is these small businesses which can provide employment and entrepreneurial opportunities in the new South Africa at a time when there is an increasing need for self-sufficiency and job creation.

However, there are a number of problems facing the entrepreneur who is considering raising finance for the expansion or purchase of a business venture. Chief of which is the need of a well researched business plan and the provision of a suitable level of collateral security.

FutureBank uses support agencies to assist the entrepreneur overcome these obstacles and then looks beyond the facts and figures to the individual's spirit of enterprise.

Definition of a Small and Medium Enterprise (SAME)

FutureBank defines an SAME as an individual, partnership, close corporation, company or a co-operative with total assets not exceeding R2 million, which:

- Intends operating in the commercial, industrial, manufacturing or service sectors;
- Is likely to create additional employment opportunities; and
- Operates with the intention of making a profit.

FutureBank provides assistance to SMEs through a national network of FutureBank branches by providing medium term loan facilities.

Experience, knowledge, potential, management ability and entrepreneurship are qualities sought when evaluating applicants.

The Enterprise Division caters mainly for start up ventures and established businesses wishing to grow from an inadequate capital base.

The purpose of the loan is usually for one of the following reasons:

- Working Capital requirements;
- Acquisition of plant, vehicles or equipment;
- Acquisition of furniture and fitting;
- Purchase of a franchise; and
- Acquisition of land and buildings (exceptional)

Various loan instruments are used and include:

- Working capital term loan agreements;
- Instalment or suspensive sale agreement;
- Lease agreement; and
- Rental agreements.

Loan periods are usually restricted to a five-year term and are geared to the useful life of the items being purchased. Interest rates are subject to negotiation.

Criteria for considering a business loan application;

Management:

The applicant must show:

- The technical ability to create the planned business;
- The required management, financial and marketing knowledge to run the business (or have access to qualified expertise in those areas):
- Ownership of the business or the majority of the shares and be entitled to receive all or the bulk of its profits and;
- An acceptable credit record.

Viability

The applicant or business must:

- Show that the proposed or existing venture has the ability to repay the loan;
- Provide projected cash flow and income and expenditure statements for at least a 12-month period and;
- Have established that there was a ready market for its products and service at a competitive price.

It is essential that the applicant complete a realistic business plan: Specialist assistance is available through FutureBank's associates to make this possible.

Contribution

The applicant will be expected to provide a reasonable contribution towards the cost of the venture — which may be in the form of cash, fixed property or equipment.

Security

The applicant will be expected to provide an appropriate security which will be negotiated.

The assets being financed, as well as those reflected in the business and personal balance sheets, will be considered for this purpose. Assistance schemes are available.

Progress Tracking

Borrowers will need to regularly provide the bank with trading results to ensure that the assumptions upon which the lending decisions were made are still correct. Should deviations occur, corrective action can be taken before it is too late. It is important that proper financial records are maintained by the entrepreneur.

Assistance Schemes

Small Business Credit Guarantee Corporation Limited bank Indemnity Scheme

The Small Business Credit Guarantee Corporation Limited is an organisation which underwrites part of FutureBank's risk for ventures which meet the small business lending criteria but which cannot provide the required level of security. This is only available for new or established businesses where additional employment opportunities are being created.

USAID Loan Guarantee

This is a bank indemnity scheme assisting marg... ed entrepreneurs to obtain financ... for the establishment of a business ve...ure where the client is unable to pro... ide the required level of security for borrowings.

Investigat...n Fee

An investigation fee is levied for the structuring and processing of loans provided by the bank.

Franchises

Franchising presents an ideal opportunity for the entrepreneur to enter the small or medium business market and is especially attractive in the emerging black business market.

FutureBank is an affiliate member of the Franchise Association of Southern Africa and is business but there is no guarantee of the franchisee's success.

EU scheme banks to be named today

JOHN DLUDLU

THE European Union (EU) would today announce names of three SA banks which would administer the European Community Investment Partnership scheme on its behalf.

The scheme — which was extended to SA last year — is intended to promote joint ventures between European Community partners and companies from developing nations.

The programme provides "speedy, flexible" financial support.

Support comes through grants for feasibility studies, interest-free loans for preparation of projects, human resources development and equity loans for investments.

The focus of the programme, in which banks play a pivotal role, is largely on buoying small to medium-sized enterprises.

Although one bank, at most two, are selected to operate the scheme in many countries, the EU had selected three financial institutions, the union said at the weekend. (58)

The step reflected the union's confidence in SA's ability to "rapidly take advantage of this facility".

A training seminar for the three institutions would be held today.

An information seminar would also be held to familiarise the business community with the practical mechanisms of the programme and to encourage "rapid take-up of the opportunities" the scheme would present. BD 3/4/95

Delegates attending the seminars would be addressed by EU ambassador to SA Erwan Fouéré, European Community Investment Partnership scheme head Tom Roe and representatives of the three banks involved.

Since the scheme's inception, six joint ventures had been sponsored.

Network tests

OTTAWA — A Canadian communications firm has announced it started test runs of a global network which will let small businesses trade using personal computers and modems.

Ottawa-based Global Business Alliance said when its International Business Exchange Network (Ibex) became operational later this year, subscribers could enter their company profiles and the goods or services they sold or sought.

It was not known whether Ibex would eventually have local representation outside North America, but it would be accessible around the globe. — Sapa.

Manuel calls for credit bureau rethink

(58)
BD 3/4/95

DURBAN — A credit defaulter whose debts were unpaid because of circumstances which were beyond his control should be able to have his name delisted by credit bureaus, Industry Minister Trevor Manuel said on Friday.

This, said Manuel, would pave the way for the delisted debtor to gain access to finance.

Closing the week-long President's conference on small business, Manuel said there were cases in SA where people's livelihood had been destroyed by violence and their debts left unpaid.

The result was a credit bureau blacklisting, he said, and an inability to get finance.

"I cannot advocate widespread debt write-off, but the credit bureaus must be aware that there are people unjustifiably on its lists. SA cannot tolerate this type of discrimination."

He called on banks to "open their minds" to other less traditional forms of collateral, saying collateral could be head of cattle, for example, rather than fixed property.

Manuel dismissed the introduction of a small medium and microenterprise (SMME) development ministry.

NICOLA JENVEY

He said the responsibility lay with all government departments.

A decision on tourism, for example, should take SMME development into account.

He dismissed fears that the conference would degenerate into just another expensive talk-show by saying the process had only just begun and the White Paper must be considered "work in progress".

Deputy President Thabo Mbeki said departments had to be made aware of the conference's conclusions and apply that information to their policy formulations.

Mbeki said the success of policy implementation depended on the active participation of all SMME stakeholders. These included non-government organisations, big business with links to small entrepreneurs, professional organisations and SMMEs.

He said government's commitment to SMMEs was demonstrated by the doubling of the state allocation to their promotion in the Budget.

Although this figure was still insufficient, "a good beginning has been made".

Admission of banks to JSE a step closer

SAMANTHA SHARPE

THE Council of Southern African Bankers (Cosab) and the JSE are scheduled to sign today the agreement which will allow banks membership of the stock exchange from November. (58) BD 3/4/95

Cosab GM John Bestbier said at the weekend that the agreement would make the JSE more accessible to the small investor, with banks' large branch networks able to facilitate smaller deals.

FNB GM Viv Bartlett said commercial banks might eventually be able to trade — as agents or principals — through their extensive branch networks.

However, the possibility of negotiated commissions and reduced costs was unlikely for the smaller investor, whose bargaining power was marginal.

While FNB would be trading on the JSE after November, the bank had yet to decide how it would establish its JSE presence.

Absa group executive finance GM Frans du Toit said international deregulation of

☐ To Page 2

JSE access

☐ From Page 1

stock exchanges had led to greater access for the smaller investor. Retail banks had been able to use their branch networks to co-ordinate deals on a smaller scale with lower minimum costs.

Absa had not made any decisions on entering the JSE.

Standard Merchant Bank MD Jacko Maree said his bank had two options — to take a stake in an existing stockbroking firm or strike out on its own. Nothing had been finalised.

An automated trading system — which would eventually replace the current open outcry system — could reduce costs. But the overriding feature of the restructuring would be a system with an internationally competitive cost base which would stimulate foreign investment on the JSE.

● See Page 9

Healthy figures for Momentum subsidiary

(58) CT(BR) 3/4/95

By Charlotte Mathews

Investment Editor

A gleam appears in the eye of Laurie Dippenaar, the chairman of Momentum Life Assurers, when he mentions Momentum Health, the group's health insurance subsidiary.

Momentum Health, of which 70 percent is owned by Momentum Life, has a total annualised contribution income of R200 million and covers 5 000 companies. Its performance since it was launched in 1992, with capital of R10 million, has exceeded budget and it has reached profitable levels sooner than expected.

The company recently held a rights issue to raise a further R25 million and brought in Hollandia Re as a shareholder with 15 percent.

The company offers a medical aid replacement but has a more flexible product than most medical aids, from hospital cover to a fully comprehensive plan.

The fully comprehensive plan contains a medical savings account for discretionary costs up to a certain level — that means that for GP visits and certain other treatments the member meets the costs himself out of a special savings account.

Depending on the types of cover, the monthly contributions are between R300 and R1 400 a member.

The MD of Momentum Health, Adrian Gore, said in an interview last week that there had been a considerable shake-up in the medical aid industry in the past few years.

"I think the introduction of actuarially based products such as ours have had an impact on the way medical schemes are operating.

"We have overcome the problem of underfunding because we work on the principle that the member is empowered through financial incentives for day to day expenses, and that encourages members to be prudent. When a person knows he is spending his own money, it produces a dramatic shift in behaviour," he said.

MTN to defy ruling on ad slogan

By Ross Herbert

Staff Writer

MTN, one of two cellphone network operators in South Africa, said last week it would defy the Advertising Standards Authority's decision to ask all television and radio stations, newspapers, printers and outdoor advertisers to turn down MTN advertisements carrying the line "The Better Connection".

"The situation is untenable. If they try to enforce the decision we will interdict them," said Rob Reynolds, marketing manager for MTN.

In a statement released on Friday, MTN said it considered the ASA proceedings to be "fatally defective, and consequently of no effect in law".

It claimed the ASA had not given it a hear[illegible], and that the ASA tribunal had [illegible] constituted.

In a statement, the ASA said it stood by its decision and had afforded MTN "every opportunity of a fair hearing".

Nu-World in pursuit of expansion

By Charlotte Mathews

CT(BR) 3/4/95

Electrical appliance manufacturer and distributor Nu-World Holdings grew earnings a share by 48 percent to 10,8c in the six months to February this year.

Nu-World also announced its intention of raising a further R4 million of capital in the next three months to fund further expansion. Turnover was 53 percent up at R72,6 million while net operating income was 40,2 percent higher at R3,1 million.

The interest bill was up by about R500 000 but the tax rate was almost half what it was a year previously.

After-tax income grew by 64,5 percent to R1,5 million but because of a slightly higher number of shares in issue after the last capitalisation award, the percentage increase in earnings a share was lower.

The company's policy is not to declare an interim dividend.

EU appoints SA banks to help administer aid facility

JOHN DLUDLU

THE European Union yesterday appointed three SA banks — Nedbank, First National and Standard Bank — to assist in administering the European Community Investment Partners (ECIP) facility on the EU's behalf.

BD 4/4/95

The appointment of the three institutions has paved the way for SA companies to tap into this year's ECIP budget of about $50m.

The ECIP facility, which was extended to SA last year, is aimed at supporting joint ventures between European companies and partners from developing countries. It is designed to assist small and medium-sized enterprises

ECIP provides for grants for project identification, feasibility studies, capital finance and management assistance, taking up equity and providing equity loans for investment.

ECIP head Tom Roe said the union would take a hands-off approach to the administration of projects, but maintain a watchful eye on the banks through regular audits of their books and missions to evaluate projects.

Joint venture projects with SA to date had been granted finance of R5,3m.

The EU has indicated its willingness to increase funds for SA through a combination of various budget lines, including tapping into the EU's R550m aid package to SA.

Roe noted a high standard of quality in project preparation received from SA companies, in contrast to ECIP's experience in many other countries.

The scheme was currently being reviewed by the EU. One of the proposals was to establish a mechanism to facilitate privatisation, which could be of interest to SA, he said.

Banks might defy call to curb credit

BD 4/4/95 (58)

SAMANTHA SHARPE

SA's four major banks — Standard, First National, Absa and Nedcor — might be forced to defy the Reserve Bank's call for a 10% curb on growth in credit to the private sector, banking sources said yesterday.

The Bank's latest money supply figures showed 17,5% growth in credit extended to the domestic private sector in the year to January — way ahead of the 10% growth expected of banks this year.

They said the Reserve Bank's request for a clamp down on credit extension — part of its recently announced intention to tighten up on monetary policy — was unrealistic, given strong credit demand levels.

"Lending is not something you can turn on and off like a tap," one source said. Three of the four major banks expected growth in credit extension in excess of the Bank's guideline for this year.

Standard Bank retail and commercial banking MD Denzil Busse said it was too early in the year to forecast whether banks would be overshooting the guidelines set by the Bank.

While the commercial banks might heed the Bank's credit guidelines, it would be difficult to implement the credit ceilings.

Reuters reported Nedcor CE Richard Laubscher said in a letter to the Bank: "Although I understand the objectives of the governor's monetary policy I do believe that the practical implementation of the guidelines for credit extension will present all banks with major difficulties."

Absa declined to comment on the guidelines pending its year-end, when growth in its lending would be disclosed.

One spokesman said the restrictions could put established banks at a disadvantage to newly formed banks, which might have credit limits more lenient that those of existing institutions. This could become a serious bone of contention in the sector, he said.

Any bank that simply ignored the Reserve Bank's call for a credit clamp down — even if the call was non-compulsory — would be irresponsible, but it was likely that some banks would have to exceed the limit, he said.

While the Bank said its request was one of "moral suasion", banking sources said non-compliance could result in being rapped across the knuckles.

Mandatory measures in the form of tighter controls on hire purchase agreements or further interest rate increases making the cost of lending more expensive could follow, they warned.

Three SA banks to manage EU investment venture

(58)

JOHANNESBURG. — The European Union has appointed three South African banks to manage its developing country joint-venture investment mechanism.

"It's basically European Commission cash from Brussels through a network of institutions," head of the European Community Investment Partners, Tom Roe, said, "to encourage joint ventures in South Africa".

Addressing a seminar in Johannesburg, he said Standard Bank, First National Bank and Nedbank would assist the ECIP in administering the facility.

He said joint ventures, between companies from EU member states and South African entrepreneurs, in the small to medium enterprise sector would be prioritised.

Seven projects, totalling R5,3 million, have been funded in South Africa since the European Council extended the ECIP to the country in April last year.

EU ambassador to South Africa Erwan Fouere and senior managers of the three local banks signed the enabling agreements yesterday.

"It (the ECIP) is one of the most successful instruments of the EU in promoting business cooperation," he said.

ARG 4/4/95

The ECIP scheme has provided R4,6 million to the Thebe Investment Corporation-linked Msele Nedventure Limited Venture Capital Fund.

■ More access by Europe to South African markets would be a critical aspect of co-operation between the European Union and South Africa, a German government official has said.

Wolfgang Grobl, parliamentary state secretary at the German Food Ministry, told a trade fair in Johannesburg a draft document for long-term co-operation between South Africa and the EU would be discussed by an internal European Commission working group today. — Reuter.

Get Ahead sets its sights on becoming a bank

By Roy Cokayne

Pretoria Business Editor

(58)

The Get Ahead Foundation, the Pretoria-based organisation established in the apartheid era to help black business and private enterprise, has set its sights on becoming a bank.

Managing director Don MacRobert said the decision was in keeping with international trends as the lines of donor supplies to non-governmental organisations would dry up unless they showed they could be self-sufficient.

MacRobert estimated Get Ahead would need about R26 million extra capital in its first three years of operation: "We will need funding for running costs until we become self-sufficient. USAID (the United States Agency for International Development) has helped us to a large extent but we need capital and various applications are out — such as with the Development Bank of Southern Africa — which are under negotiation. The alternative to that is a USAID loan-guarantee programme," he said.

CT(BE) 4/4/95

MacRobert said the client profile of the bank would be no different from Get Ahead's current client profile and would still be the unbankable, the unemployed.

However, he stressed that the bank would be run along similar lines to the commercial banks.

MacRobert said the Cal Meadow Foundation, which had helped set up the Banco Sol in Bolivia, was helping Get Ahead in its transition.

Get Ahead had embarked on a programme in the middle of last year to make the organisation self-sufficient.

These measures, which will change Get Ahead's culture from a political development organisation to a far more financially aware and acute organisation, include the introduction of a tough delinquency policy with penalties against an entire group as soon as a payment is late (Get Ahead is still only involved in lending to groups of people — stokvels, not individuals), an incentive scheme for loans officers where the bias is in favour of repayment by the due date, and stringent management information systems.

'Mavundla's dream' gives hope to hawkers

(58) ([illegible]) CT(BR)4/4/95

BY SHIRLEY JONES

STAFF WRITER

The formal launch of the African Council of Hawkers and Informal Businesses' (Achib) mobile banking concept in Durban last week was an emotional celebration of South Africa's potential for economic revival.

"The freedom we achieved is meaningless unless it is interwoven with economic emancipation. The battle fields in South Africa have changed. We are no longer fighting apartheid. We are at the forefront of the struggle against poverty," said Jeff Radebe, minister of public works.

All agreed Achib has achieved far more than the provision of finance to people without collateral who had been ostracised by formal commercial institutions.

The banks, operating from used shipping containers in hawker communities, lend amounts of between R100 and R500 to informal traders at a 1 percent administration fee.

Founded by Achib president Lawrence Mavundla, representing black informal traders, and Peter Morrison, spokesman for corporate giant Richards Bay Minerals, it is tangible evidence of what can be achieved through the meeting of black and white, formal and informal business interests.

The fact that three of the eight operating banks have been funded by the North West government, expands this miracle into a union of the public and private sector.

Martin Kuscus, North West minister of finance said his provincial government had committed R40 000 to the Achib initiative.

"Many potential entrepreneurs lack collateral for obtaining loans as a result of the small quantity of housing stock in black hands and the undeveloped market for housing in black townships. In rural areas, the tribal land tenure system prevents farmers from borrowing against their land holdings, which cannot be sold," he pointed out.

He added that provincial governments had a blank cheque and could cancel out legislation of the past, replacing it with fair and appropriate laws for the informal sector.

As far as Achib's immediate achievements were concerned, Morrison said the banks were changing lives. "They give hope to people. For the first time, someone trusts them enough to lend them money."

A slightly longer-term vision from Mavundla is of the hawkers of today moving up to become the business sector of the future.

"It is a myth that if there was plentiful formal employment, hawkers would leave their stalls. These are people with dreams. They hope to reach the big business sector, to become the millionaires of tomorrow."

Radebe's view is more far reaching still. He said Mavundla, the charismatic father of the Achib banking concept whom colleagues say has unbounded energy and unbridled imagination, is both the country's biggest dreamer and a personification of the RDP.

Pointing out that the government did not envisage its role as that of a Father Christmas, Radebe said the initiative of people like Mavundla was what was need to give the RDP much needed punch.

His message was that the Achib initiative needed to be emulated in the new South Africa. "It is the responsibility of the Lawrence Mavundlas, private companies, government, our communities and labour to make our economy tick. That is why it is so important to reach consensus on key issues."

30 radioactive sites being cleaned up

(56)

RENEE GRAWITZKY

THIRTY radioactive sites in Gauteng and the Free State gold fields region were being decontaminated, the Council for Nuclear Safety said yesterday.

The council was responding to the tabling in Parliament of its 1993/94 annual report.

BD 5/4/95

Sapa reports that 105 sites were surveyed last year after the UK returned a consignment of contaminated stainless steel scrap exported by an SA company.

"On 15 sites there were contaminated items which required removal in a controlled manner." Although radiation levels at the sites were very low, precautions had been taken. Areas had been marked out for decontamination and rehabilitation.

A number of contaminated sites in the Phalaborwa area had been rehabilitated by the Palabora Mining Company.

The mining industry had made available R5m to investigate contamination and provide "short-term control measures".

Chamber of Mines consultant John Steward said a close working relationship had been established with the council "with a view to clarifying the nature of the problem, the best way of rehabilitating these sites and the costs involved".

Parliamentary minerals and energy subcommittee chairman Marcel Golding said: "Contaminated land is a major problem in the mining industry and it is important that the council is managing these areas properly."

DBSA gets R360m loan from Japan

S8

By Claire Gebhardt
Economics Editor

CT(BR) 5/4/95

The Export-Import Bank of Japan (JEXIM) has loaned 10 billion yen (about R360 million) to the Development Bank of South Africa for small business development, infrastructure and agricultural renewal projects.

The loan, signed in Tokyo yesterday, signals the first step in co-operation between the DBSA and JEXIM, and follows years of negotiations.

The loan is being extended at concessionary interest rates over 15 years with a five-year moratorium on capital repayments — the first falls due in October 2000. Disbursements can be made up to three years from conclusion of the loan.

The governor of JEXIM, Hiroshi Yasuda, said Japan was helping South Africa's development needs.

The acting chief executive of the DBSA, Nick Christodoulou, said the loan would underpin RDP projects and would help non-governmental institutions aimed at the emerging farming and business communities.

The Community Bank, which was attempting to draw the vast "unbanked" part of the South African community into commercial banking, was the largest project to benefit and had received a loan of R110 million from the DBSA.

BUSINESS Cosab and JSE finally reach agreement

(58)

You will be able to buy shares at banks

Sowetan 6/4/95

By Mzimkulu Malunga

LOOKING AHEAD Agreement to broaden stock market ownership:

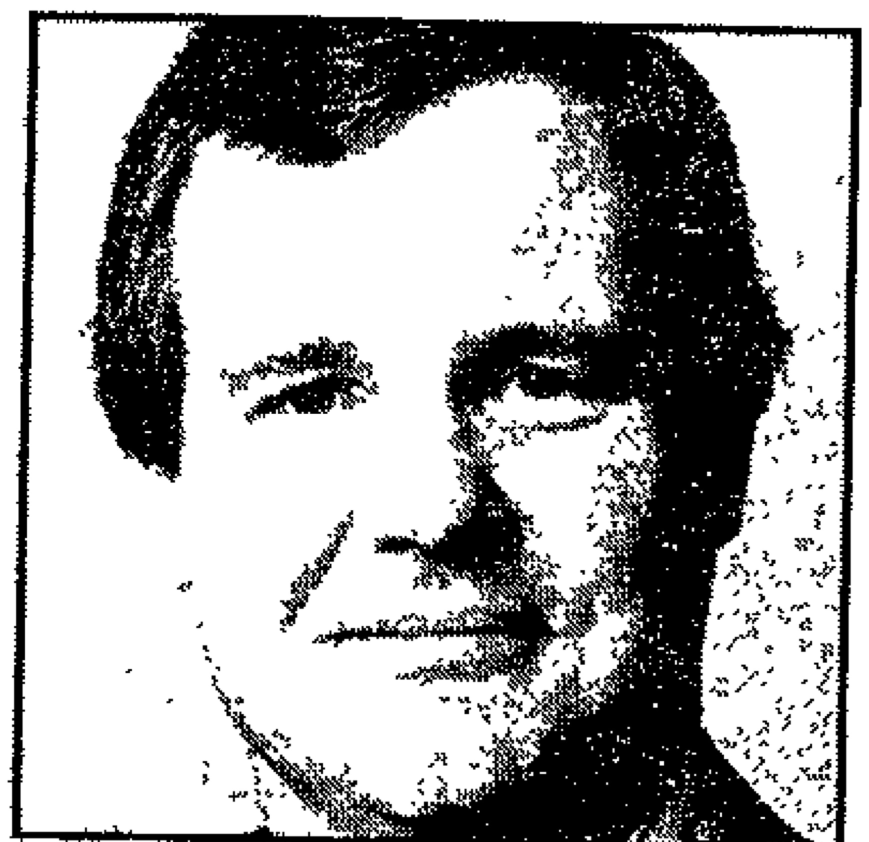
IN ABOUT A YEAR AND HALF FROM NOW it is going to be possible to buy shares from a branch of any established bank. This is the implication of this week's agreeent between the Council of Southern African Bankers and Johannesburg Stock Exchange.

After intensive debates and massive consultation, the two parties finally agreed that the ownership of the stock market be broadened, allowing banks to become members of the JSE. This allows banks to be share dealers as well.

The agreement has been described by both the Cosab and the JSE as a vision of how the stock market should look like in future.

Currently only stock brokers can buy and sell shares on behalf of clients — whether they be institutions or private individuals.

But once Parliament has passed the necessary legislation and the agreement becomes operational, those who see shares as a good investment option could go to any bank to purchase shares.



Mr Roy Andersen ... there are still opportunities for small brokers.

By that time, says Cosab general manager Mr John Bestbier, the banking system will be geared towards meeting requests to facilitate share deals.

While small investors are going to benefit from the agreement, the situation is not so rosy for small stock brokers who are likely be marginalised by entrance of banks onto the market.

However, JSE president Mr Roy Andersen says systems have been put in place to ensure that small brokers can still become members of the JSE.

Such systems, he says, include ensuring that it is not prohibitively expensive to become a member of the JSE. The possibility of the emergence of black stock brokers in future was among factors that prompted the JSE committee into making sure the stock market did not become out of bounds for small brokers.

This week's agreement also brings to conclusion heated debates on whether stock brokers should act only on behalf of clients who want to participate in the share market or should also get involved in share dealership for their own benefit — commonly known as dual capacity.

The JSE has given in to banks' demand that dual capacity be introduced on the stock market. Those who advocate the introduction of dual capacity say it is in keeping with international trends.

BUSINESS Aimed at private sector

Sowetan 6/4/95

(58)

Banks to manage EU funded projects

By Patrick Wadula

SOUTH African banking institutions will not run any risk when they take up projects funded through the European Community Investment Partners.

Nedbank's Dr Brennan Nelson said the First National Bank, Standard Bank and Nedbank would administer the ECIP scheme on behalf of the European Union. He said an initial agreement had been reached and the formal agreement would be signed in May.

Project ideas

He said although companies and organisations would present their project ideas to the banks for analysis, they would retain complete control of the running of the projects.

FNB senior manager in sovereign relations Mr Henri Joubert said the scheme was greatly appealing because it was aimed at the private sector and would promote joint ventures between South Africa and the European Union.

He said the projects from the manufacturing sector might enjoy preference.

Joint venture

One of the first joint venture projects to be funded through the ECIP facility was the Msele Nedventure Capital Fund, which had raised R22 million with 66 percent of the funding coming from the European Union partners.

Mr Litha Nyhonyha of Msele Finance said the funding, targeting entrepreneurs from disadvantaged communities, was the first of its kind to be set up after the country's first democratic elections.

Supported by Nedcor, DEG, Proparco and the Swiss Confederation, the Msele Nedventure anticipates being fully operational between June and July.

Industrial Fund shining brightly at Old Mutual

BD 7/4/95 (58)

SAMANTHA SHARPE

OLD Mutual's Industrial Fund was the star performer in its unit trust stable, with a 26,2% return in the year to March compared with the JSE industrial index's 19,9% growth.

The Growth and Top Companies Funds posted returns of 24%, while the Mining Fund outperformed the mining board's 5% decline with a 16% return.

The Gold Fund beat the gold index by 6% over the year and the more broadly based Investor's Fund showed a return of 15% — well ahead of the JSE's all share index.

The newly launched Gilt Fund declared a quarterly distribution of 1,74c, while the company's Income Fund distributed 11,16c a unit for the year to March.

Old Mutual reduced the liquidity of its Sentinel Fund to 50% from 54,7% during the quarter, beating the JSE performance with a 16% return.

Old Mutual Unit Trusts MD Selwyn Feldman said the funds' ongoing strong performance was the result of superior share selection.

"We picked winners during the past 12 months such as Transsun, NBS, Tiger, CMI, Bidvest, Didata and also McCarthy."

Credit bureaus adopt code

68

STEPHANE BOTHMA

PRETORIA — A code of conduct for credit bureaus which to a large extent removes the secrecy surrounding credit investigators was released yesterday.

The code, released by the Business Practices Committee and the Association of Credit Bureaus, requires that consumers be given access to their records, that mistakes be rectified speedily and information be updated without delay.

It also says consumers may file statements about the reasons behind default information in their records.

However, members of the public and their attorneys may no longer demand information about the content of credit records over the telephone. Only information relating to the credit and business dealings of consumers may be kept on file.

Information of a personal nature may be recorded only where necessary for evaluation and correlation. BD 7/4/95

The code requires bureaus to disclose to consumers all information on their files and the source of it. If consumers dispute data, bureaus must reinvestigate the data unless there is reason to believe the grounds for dispute are irrelevant.

Should the consumer be correct, information must be deleted and relevant subscribers notified. "Where the consumer does not dispute the information but does have a reasonable explanation for the occurrence, the bureau may place a brief explanation on the file," the code says.

Association of Credit Bureaus president Rowan Haarhoff welcomed the code, saying the credit bureau industry would prefer to operate under a public code as it removed the element of secrecy surrounding these companies. Most other countries had some form of bureau legislation. SA might follow suit, but in the meantime the code was an adequate substitute.

Sage offer snapped up

CT (BR) 7/4/95 (58)

FROM REUTERS

The Sage Group said yesterday that its R122,8 million rights offer had been oversubscribed.

It said in a statement that subscriptions and applications for additional ordinary shares totalled 10 837 154 or 101,5 percent of the shares offered.

Subscriptions from shareholders and/or debenture holders and their renouncees were equivalent to 98,5 percent of the number offered and applications for additional ordinary shares totalled 321 527.

The rights offer, made on a 10 for 100 basis at R11,50 a share, was the initial step in a new phase of development and expansion for the Sage Group, both domestically and abroad, it said.

The rights offer proceeds would supplement the group's existing substantial financial resources, effectively eliminate interest-bearing debt, and enable the group to pursue its domestic development from a position of strength.

The group said it planned to embark on an expansionary phase abroad in the financial services sector, specifically in the United States.

This would encompass raising additional capital abroad and an intended listing of the company's shares by way of a depository receipt programme.

Mintek develops new alloys

BY ROSS HERBERT
STAFF WRITER

Researchers at the Council for Mineral Technology (Mintek) have reported promising results in the production of new corrosion resistant alloys using the mineral ruthenium, a by-product of platinum refining available in ample supply in South Africa.

The alloys offer price and corrosion advantages important for special oil and petrochemical uses. An alloy of titanium and ruthenium, investigated by Western Platinum and Mintek, was found to boost corrosion resistance in severely corrosive environments, such as geothermal tubes, seabed pipes and deep-water drilling.

The American firm, RMI Titanium, bought 18 000 ounces of ruthenium and will develop the alloy further. In a joint venture with Stolt Comex Seaway, RMI has targeted three oil company projects for the alloy.

Ruthenium also improved the corrosion resistance of high-chromium ferritic alloys tested by Mintek.

Mintek reported that the alloy outperforms much more costly nickel-based alloys and type 316 stainless steel in a variety of highly acidic environments, or those with high levels of chloride and fluoride.

"Ruthenium is widely available in South Africa, but few people have focused on finding uses for it, said Herman Steyn, director of Mintek's physical metallurgy division. "A new application for it is very significant."

unemployment rate dropped ... the months of rapid ...
said yesterday, but analysts forecast that ... seasonally adjusted

A new look for Teba

(58) FM 7/4/95

Anthony Fleischer is the former adviser to the Chamber of Mines

The annual wage bill of the mining industry is about R10bn. Almost 10% of this reaches the dependants of mineworkers in their home areas. The amount represents 55% of Lesotho's GNP and 50% of Mozambique's, despite decreasing numbers of Shangaans employed. (see box).

The conduit is Teba (The Employment Bureau of Africa), once a "native recruiting corporation" but now a major regional development organisation. Operating as a convenience banking system for mineworkers, it processed 18m transactions valued at R9bn last year. At this rate, it could become the Enterprise Bank of Africa.

Of actual cash payments at mine outlets, over R66m was through automatic teller machines. Use of ATMs is expanding. Smart cards, satellite services, will make convenience banking even more convenient and, therefore, in greater demand in southern Africa. This service should now be made available to any citizen in need of a banking link between work and home.

The link can become a vital part of community development. An expanded Teba could become an agent of that development within SA.

Lesotho and Mozambique, currently the two main beneficiaries of the Teba service, will remain labour exporting countries for some years. Today, by intergovernment agreement, 60% of rands earned by citizens of those two countries is "deferred" — paid back home in malutis and meticals. This compulsory aspect of deferred pay must be negotiated out of the system.

SA should now arrange, with both Lesotho and Mozambique, a system more in keeping with our open society and market-driven economics. Migrant labour quotas may be necessary and revised foreign exchange arrangements, but there should be no compulsion.

Taxation on arguable scales is a necessary part of even open societies, but other government coercion as to the disposal of hard-earned wages should not be acceptable in the region. An open SA, promoting personal savings and, therefore, local capital generation through competitive banking systems, should be able to encourage neighbours to follow suit.

What needs to be negotiated now is the right of a private sector entity to operate Teba cash throughout southern Africa. More open, more readily available services will be used by more people. The flow of resource to rural communities can be increased through expanded convenience banking services.

TEBA PAYMENTS: 1994

Area	Total R
Botswana	17 092 152
Lesotho	329 139 775
Malawi	1 325 226
Mozambique	190 554 517
Swaziland	26 222 269
North West	37 213 517
KwaZulu-Natal	17 487 437
OFS	10 535 358
Eastern Cape	169 039 604
Northern Tvl	8 764 917
Carletonville	1 527 713
Johannesburg	1 411 477
Klerksdorp	1 567 225
Welkom	6 451 393
Total:	818 332 581

Examine the figures in the box. Internally, the Eastern Cape is the greatest supplier of mineworkers and last year they returned R169m to their homes — North West R37m, KwaZulu R17m. This reflects only the savings of mineworkers: consider the possible increased flow to such areas from the employees of other industries voluntarily using a convenient service?

I submit that the Chamber of Mines of SA should now accept that the Teba operation does not belong with an employers' organisation. A formula for a private sector takeover needs to be agreed as a matter of some urgency.

There should be many suitors — Standard Corporate and Merchant Bank are Teba's existing bankers — and the successful suitor would need to agree a shareholding formula to include the NUM, the mines and mineworkers themselves. The regional potential calls for careful corporate structuring, possibly to include our neighbours, but under whatever negotiated arrangement, the new entity should be private-sector driven.

To achieve such a restructuring, the original Teba Trust Deed will need to be revised. I drafted that Trust Deed, with its substantial fiduciary responsibility, and I was a trustee and signatory. This gives me some authority to become personally involved, to raise the issue now, to negotiate with the appropriate authorities and to ask the *FM* to monitor developments.

SACP (58) wants new role for bank

7/4/95

By Joe Mdhlela
Political Reporter

THE South African Communist Party was committed to the democratisation of the SA Reserve Bank, SACP secretary-general Mr Charles Nqakula said yesterday.

Nqakula, who was speaking at the opening of the party's congress at Chris Hani Hall at Nasrec in Johannesburg, said the democratisation of the bank was consistent with changes taking place in the country. "We have consistently campaigned around the democratisation of the Reserve Bank over the past year and have already made inputs into the relevant Constitutional Assembly theme committee about this issue," Nqakula said.

Sowetan

The SACP was determined to pursue socialism, but would not do so blindly. Socialism was the reason for the SACP's independent existence, but even on this score the party would ensure it maintained links with other broad-based democratic movements. He said the party's campaigns would always enjoy the support of the African National Congress and the SACP would be an active component of the ANC during the local government elections.

Despite predictions that SACP would disappear from the political scene, the party had shown phenomenal growth.

"When we emerged from 40 years of illegality in 1990 our party had just over 2 000 members. In December 1991 at our eighth congress we had grown more than ten-fold with some 25 000 members. Today we have trebled that number to 75 000 members," he said.

Code for bureaus

(68)

By Joshua Raboroko

Sowetan 7/4/95

THE Business Practices Committee yesterday approved a consumer code for credit bureaus detailing aspects that will benefit consumers in the future.

The code covers a range of requirements, including giving consumers access to their records, updating information and rectifying mistakes.

At a Press conference in Pretoria yesterday, the president of the Association of Credit Bureaus, Mr Rowan Haarhof, said credit bureaus were unpopular institutions to most people who felt they were blacklisted. However, the bureaus were an essential part of the economy.

"The code is basically the formalisation of the set of rules the bureaus practised, but were not legalised," he said.

In terms of the code the public and lawyers, for instance, can no longer demand information over the telephone about the content of credit records.

Haarhof said consumers had the right to complain to the Business Practices Committee if they were ill-treated by the bureaus.

Bureaus must ensure, taking into account cyclical economic trends, that sufficient time elapsed before deleting essential credit information.

The bureaus must keep trained staff, charge reasonable fees to allow consumers to inspect any information and advise them on resolving disputes.

New black player for money markets

(58) BD 10/4/95

SAMANTHA SHARPE

MSELE Finance Holdings and Firstcorp merchant bank have joined forces to create a new black empowerment player in the money and capital markets — Msele FirstCorp Capital Markets (MFCM).

The new company's undisclosed equity would be provided on an equal basis by FirstCorp and wholly-owned Thebe Investment subsidiary Msele Finance.

FirstCorp MD David Lawrence said the nature of the company, which would primarily be that of a facilitator of capital market transactions, had not required a large capital injection.

MFCM executive director Raymond Kruger, who is former FirstCorp vice-president public finance, said MFCM had a challenging task to create acceptable channels for the funding of public sector projects. "MFCM will strive to produce alternative forms of financing and reduce the borrowing costs of issuers in the public sector by using innovative instruments."

The company would transact on clearing and over-the-counter markets, with primary capital market services including bond issues for long-term finance, consolidating existing loans in the capital market and arranging international bond issues.

Kruger said creating MFCM was an important step in FirstCorp's bid to "proactively empower black business". Thebe GM Litha Nyhonyha said the partnership was in line with Thebe's commitment to "African economic empowerment".

THE CAPE

Low income home loans available soon

(58)

'Normalised lending in five years'

ARG 11/4/95

JOSEPH ARANES
Municipal Staff

FROM early in June banks and financial institutions will start lending money to accredited mortgage lenders at the lower end of the housing market.

In terms of the October 1994 Botshabelo housing agreement signed between the Housing Ministry and the Association of Mortgage Lenders, financial institutions agreed to lend money for low income housing on condition the state guaranteed repayment.

A Mortgage Indemnity Fund was formed which signalled the return of major banks to the lower end of the housing market.

The fund will administer the Mortgage Indemnity Scheme (MIS) and will indemnify an accredited mortgage lender on a defaulted loan when it has been proven beyond doubt that the State has failed in its duty to maintain the due process of the law.

The role and function of the fund are in line with the objectives of the white paper on housing to normalise the lending environment and to mobilise credit for low-income housing.

Fund chairman Johan de Ridder said: "With the MIS, government puts its money into the belief that it can lead South Africa to a normalised lending situation within five years.

"The full commercial risk on mortgage lending will however be carried by the participating lenders and financial cover to all mortgage lenders will be provided by the beginning of June."

SA Eagle maintains solvency margin

SAMANTHA SHARPE

SHORT-TERM insurer SA Eagle maintained a 100% solvency margin in 1994 despite its worst underwriting loss yet, the company said in its annual report.

SA Eagle chairman Clive Coates said the solvency margin, based on the international standard, was a level not many companies in the world managed to achieve.

"This strength is supported by SA Eagle being able to draw on the technical expertise of its principal shareholder, Eagle Star Insurance Company, as well as ... its two major ultimate shareholders, BAT Industries (UK) and Anglo American."

SA Eagle's gross premium income grew to R1,31bn in the year to December compared with R1,02bn in December 1993.

But crime-induced underwriting losses slashed pre-tax income to R5,6m — R68,2m down on the previous year.

The company's earnings plummeted to 292,6c a share (468,8c), but it declared an unchanged dividend of 200c a share for the second year in a row. (58)

Coates said management had taken remedial action to rectify the large underwriting loss. BD 12/4/95

KwaZulu finance corporation ups budget 41%

(58) CT(BR) 12/4/95

By John Sherrocks

KwaZulu Natal Business Editor

The burgeoning KwaZulu Finance and Investment Corporation (KFC) has added a hefty 41 percent to its capital expenditure programme, pushing this year's budget to R273 million.

An ambitious three-year financial plan, which envisages a capital investment target of R311,7 million for 1996/97, jumping to R360,8 million the following financial year, has also been launched.

Of these amounts, R160,4 million and R180,1 million respectively will be spent on small business development, rural development and housing — earmarked as vital for rejuvenating South Africa's economy.

Last month the KFC announced a major internal shakeup, which besides severing any unwanted political connections was aimed at remoulding it into the region's major development agency.

The KwaZulu Natal government has allocated R71,8 million in share capital to the KFC, accounting for about 30 percent of its funding.

The balance is made up by the KFC reducing its cash reserves, mobilising the funds of small-scale savers, and borrowings on the commercial markets and the private sector. It also derives funds from loan and interest repayments, and rentals on properties.

KFC's executive director, Dr Marius Spies, said yesterday the KFC had always been hampered from performing its duties fully by "severe financial constraints ... largely as a result of 'disproportionate' government funding".

"The increased emphasis now being placed on meeting development needs, particularly in KwaZulu-Natal, had resulted in the KFC being able to flex its financial muscle at last," he said.

"But our role remains primarily that of financier and as such we expect to approve almost 3 000 new rural development loans this year — a rate of more than eight new loans every day."

This would involve almost R20 million.

Bank grants loans

Sowetan 12/4/95 (58)

By Joshua Raboroko

THE Community Bank has granted 320 loans to people in the low-income bracket to build homes in Gauteng townships.

The loans of between R30 000 and R65 000 represented the first batch of mortgage bonds granted by the bank up to March this year. CB's public affairs manager Mrs Lauren Richer said their branches were processing hundreds of bond applications monthly.

Statistics on national loans granted were not easily available, she said.

The first bond was granted to Mr and Mrs Cyril and Ellen Bhila of Protea Glen, Soweto. The couple moved into their new two-bedroomed house last Wednesday.

African bank in acquisition drive

Sowetan 2/4/95

(58)

■ REAL DEALS R269-m used to give Meridien control of network of branches:

TROUBLED PAN-AFRICAN bank Meridien BIAO will intensify its drive for acquisitions in Ivory Coast and Benin despite cash problems elsewhere in Africa, a senior bank official said this week. West Africa manager Jean-Louis Ekra told *Reuters* Meridien was anxious to conclude a deal to buy Banque Real, a unit of Brazil's Banco Real now owned by the Ivorian state.

Meridien had also deposited R8 million in capital for 22 branches of the liquidated Banque Internationale pour l'Afrique d'Occidentale (BIAO) in Benin.

"We are in talks with local private investors in both countries, but obviously there may be some delays now because of our current problems," Ekra said.

He said Meridien BIAO's Greek Cypriot-Zambian chairman, Andrew Sardanis, was currently in New York talking to emerging markets fund managers and investment bankers to win capital for Meridien BIAO, which operates in 20 African countries.

The planned acquisitions could pave the way for a reorganisation of the Africa network following problems with regulators in Kenya, Tanzania, Swaziland.

The Zambian government is now involved in managing the local Meridien after a substantial cash bailout in February.

"We would like to create a sub-holding which will either take over West African and central African Francophone countries and one for operations in English-speaking Africa," Ekra said.

Sardanis confirmed the restructuring plan in an interview published in Britain's *Financial Times* on Monday and said his bank would survive the present crisis.

"I do not believe it is the end of the road for us. We need to restructure but we will come out all right," he said, adding "I believe our problem has always been a shortage of capital."

Meridien bought the majority interests of France's Banque Nationale de Paris (BNP) in BIAO in 1991.

Luxembourg-based holding company Meridien BIAO SA, which owns 74 percent of Meridien BIAO, financed the R269 million recapitalisation giving Meridien control of BIAO's network of branches in Francophone West Africa except in Ivory Coast, Senegal, Benin and Cameroon.

"We have not abandoned the idea of buying in Ivory Coast because you can't do a bank network in West Africa without Ivory Coast for strategic reasons," Ekra said.

But Meridien was more interested in Banque Real which the Ivorian government took over through its BIAO holdings.

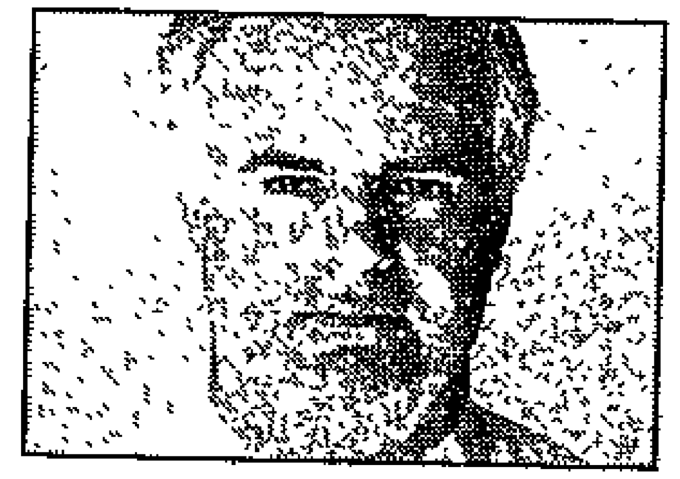
"We are more interested in Real because the government has been open about selling it," Ekra said.

Ekra defended Meridien's strategy of expanding in Francophone Africa in the face of a crisis of confidence in the bank elsewhere, saying most franc-zone countries were enjoying a marked economic upturn after a 50 percent devaluation of the French-backed CFA franc in January 1994. — *Sapa-Reuter.*

Life industry can't afford to be smug

(58) CT(BR) 13/4/95

LIFE WITH CAMERON



BY BRUCE CAMERON

Many of the problems that beset life assurance overseas could also surface in South Africa

Business Report introduces a new column today on one of the country's foremost industries — life assurance. The industry is a critical part of the economy, collecting premiums totalling more than 10 percent of GDP every year. The column, by Business Report assistant editor, Bruce Cameron, who has been reporting on the industry for a number of years, will be published every second Friday.

The investigation into the regulation of the financial services industry needs to ensure that nothing is done to undermine the life assurance industry as the guardian of a large chunk of the nation's savings.

The industry, utilising the savings, is one of the main vehicles providing the capital investment required to create jobs, apart from its task of insuring people against life's disasters.

Similar investigations in Britain and Australia have damaged the life industries in those countries, with the regulators imposing strict statutory control and pushing up costs.

Among the consequences were that people opted out of contractual savings into optional savings in areas such as unit trusts, which were perceived to provide a better return.

There is more than one lesson in what happened in Britain and Australia. Their life industries, impressed by their own size, became arrogant in their treatment of policyholders, presuming they were the best judges of what was good for them.

They dragged their feet in implementing reforms; there was increased publicity about incidents where policyholders felt aggrieved and politicians stepped in demanding greater controls.

The industry should not be singled out for special regulation

Much the same could happen here unless the life companies improve.

They are wont to accuse the media of playing up what goes wrong within the industry, but at the same time they have often done the minimum to put matters right.

For example, some years ago, facing increasingly bad publicity, they appointed an ombudsman. The incumbent, Judge Gie Kotze, has done some good work but his powers are limited: He cannot make decisions binding on the life offices and cannot initiate wider investigations into principles.

The industry, now under threat of greater regulation, is starting to do something about the problems, but its actions tend to be reactive. Some companies continue to treat policyholders almost with contempt.

To illustrate, one of the major listed companies recently issued its results to shareholders. In newspaper advertisements, it provided great detail about how it was performing as a company, but only a few paragraphs on what it was doing for policyholders.

A few weeks later, without even a media release, policyholders with smoothed contracts were told, without explanation, they would be receiving a bonus or growth rate of 10,06 percent — well below the industry average.

One of the criticisms made by the Monitor Company in its investigation (on behalf of the now defunct National Economic Forum) into the lack of competitiveness in South Africa and whose results were released last week, was the lack of data provided by industry organisations.

The organisations, Monitor Company said, acted as lobby groups rather than as information providers. Companies did not like to divulge information in South Africa because they saw it as giving away their competitive advantage.

However, proper data was important if there was to be healthy competition, Monitor said.

The criticism is particularly valid in the case of the life industry, with most data about the industry coming not from the Life Offices Association, but from the industry regulators.

This lack of information and the virtual inability to make comparisons on performance and costs between the different companies damages, rather than enhances, their cause.

This is not to say that everything is all bad in the industry. On the whole it is well run, is fairly well regulated, and provides an absolutely essential service which should not be unfairly undermined.

The industry is also correct in saying that it should not be singled out for special attention when it comes to regulation of the financial services industry. It is also correct in saying it has done more to ensure self-discipline than most others.

But it certainly cannot afford to be smug. It receives more attention, because unlike many other investment aven-ues, it draws the savings of ordinary people.

In the current regulation debate, the industry says more attention should be given to institutional risk rather than the risk of individuals, because that is where greater disasters can occur.

This is correct, but it makes no difference to an individual who has been cheated or badly advised by a sales person.

The recent opinion survey undertaken by the industry shows that blacks are more guarded and feel they have been cheated more often by the industry and its representatives.

If, because timely action is not taken to redress shortcomings, a perception begins to build among black people that the life industry cannot be trusted, their political clout will be felt and as a result the industry may very likely face tough statutory regulation.

MOTOR INSURANCE

(58) FM 14/4/95

The great uncovered market

An estimated 4m vehicles in SA — more than two-thirds of the total — carry no insurance, apart from the compulsory third party cover bought at the petrol pump. The proportion is steadily rising as insurance costs soar.

Cape Town insurance bureau Compuquote says vehicle insurance premiums have risen 29% in the past year, 40% since 1993. This is driving more motorists to self-insurance.

Allan Mansfield, MD of Glenrand Brokers, which deals mainly with A-B income groups, says the company's premium flow on motor lines is static, "therefore, diminishing in real terms." He suspects many, if not most, vehicles bought for private use remain insured only while they are bank-owned, that is, when comprehensive insurance is a condition of finance.

Mutual & Federal MD Ken Saggers confirms the trend to personal risk management and the rise in premium rates.

Fraudulent claims and the incidence of commercial and domestic arson claims affected last year's underwriting results for most insurers but motor theft above all left them no choice but to increase premiums.

Saggers says it is not merely the quantum of claims — "vehicle prices outstrip inflation, the cost of spare parts for repairs far exceeds expectations because the currency has weakened and the number of accidents on the roads increased by 8% last year."

The result: in a road accident, the injured party has recourse to the MMF for personal injuries only. For material damage, in two out of three cases, there will be no effective recourse because the party to be sued will be made from straw.

Compuquote's David Hersch gives a range of insurer's quotes for a bottom-of-the-range BMW316i, comprehensive, for a 40-year-old driver, private use. Among a sample of leading insurers, monthly premiums quoted range from R1 373 (Mutual & Federal) to R1 019 (Commercial Union). When queried, one insurer retorted: "BMW has a conviction that their anti-theft devices are impregnable. They are not."

On a Camry SEi A/T the range, monthly, was R2 160-R1 459. Excess, the amount carried by the insured before a claim is paid, varied: from R750 (or 5% of the claim) at M&F to R3 750 (or 5%) at Allianz, where the monthly premium was R700 lower than M&F's.

Hersch disputes the contention that thieves target only high-priced vehicles (see table). The ratio of thefts is broadly in line with market share, though it appears a Mazda is more vulnerable than a Mercedes or a BMW.

Even so, the premiums quoted paint a horrific view. Taken on average, an insurer expects to pay out 70c in the premium rand to settle claims. At an annual premium of R23 000 for a R157 000 vehicle, the insurer expects to pay out R16 100 on that policy, annually. Translated to insurers' books: nearly 11% of the motor risk is paid out annually.

The emergence of more Lloyd's underwriting firms has countered some of the upward pressure.

And published premiums are not cast in granite. Some brokers can negotiate better deals with underwriting companies than their competitors are able to arrange. The "supported" premium, where the motor premium is accompanied by a premium for other domestic risks, has become a bargaining chip.

There's no doubt most underwriters took a beating last year on their private motor accounts, though Auto & General was able to buck the trend. And it remains a fact that an innocent motorist whose vehicle is damaged is likely — in two-thirds of cases — to foot the bill himself. One answer would be to extend compulsory third party insurance so that a certificate showing cover for balance of third party damage is as mandatory as the production of a driver's licence. Insurers would welcome it — not least for the increased premium flow.

But the cost, of course, would be paid at the petrol pump. There is no short cut to normality.

Bryan Deans

FAVOURED CARS

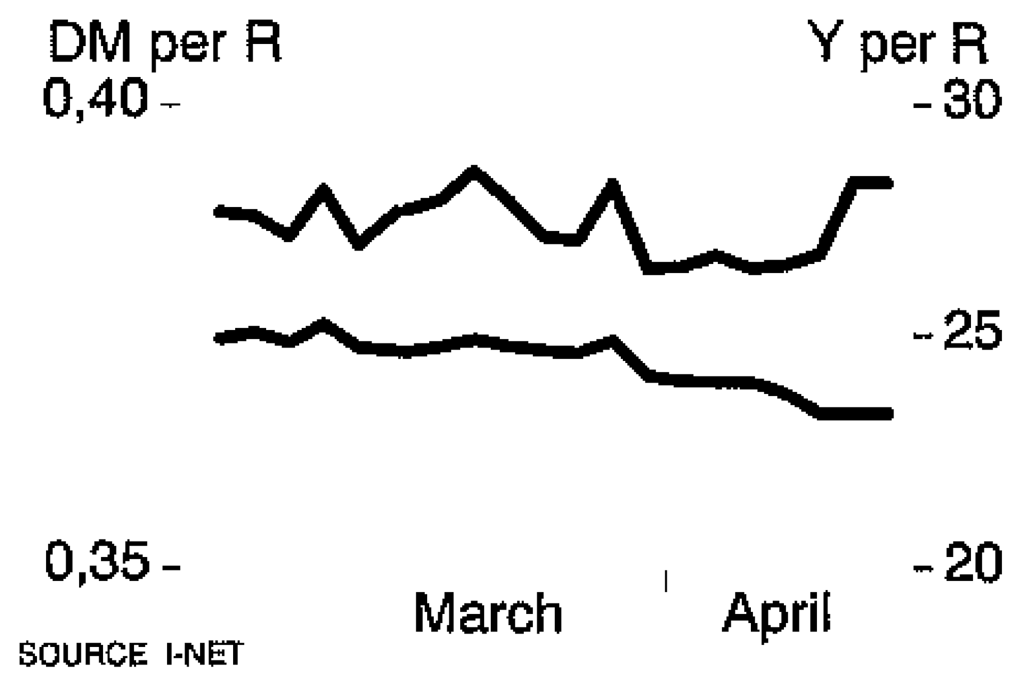
	Market Share %	Theft Share %	Ratio
Nissan	17	13	0,8
Delta	10	6	0,6
Toyota	30	36	1,2
Ford	8	10	1,3
Mazda	8	11	1,4
Mercedes	3	3	1,0
Honda	4	2	0,5
VW	14	13	0,9
BMW	6	6	1,0

THE RAND

Stable start

In the month following the abolition of the financial rand, the new unitary currency has stayed stable against the weak US dollar,

THE RAND: DIVERGING PATHS



SOURCE I-NET

locked into a range of R3,59 to R3,60.

It's been volatile against the cross currencies, in line with the US unit's fluctuations:

- Against the D-mark, it first depreciated, from DM0,3885 on March 13 to DM0,3826 on April 3. It had climbed to DM0,3916 by Tuesday afternoon;
- Against sterling it weakened, from £0,1749 on March 13 to £0,1724 at the beginning of April. It gained ground to £0,1739; and
- Against the Japanese yen, the unit has weakened considerably, in line with the US dollar, from Y24,95 on March 13 to Y23,32.

Figures from the Reserve Bank show gross gold and foreign exchange reserves declined US$86,5m in March, or R341,5m, to $3,4bn (R12,4bn). ■

FORWARD COVER

Two tiers again

The first phase of the Reserve Bank's retreat from the forward cover market will favour importers over exporters. To start with, the Bank intends to treat primary and secondary transactions differently.

Primary transactions include all deals of a long-term capital or financing nature, so they will continue to qualify for forward cover at existing, preferential rates.

This will mean borrowers will still be subsidised to the extent of their country risk in offshore markets.

But secondary transactions, mainly trade-based, will be left to the market, with cover priced according to market risk. Though the Bank won't leave the market entirely, it will enter only at prevailing rates (*Economy & Finance* April 7).

This system, say some bankers, fails to take into account the difference between exports and imports.

Because exports tend to be of a short-term nature, and imports of a long-term, capital nature, importers, such as the large utilities, will benefit. Exporters, the major part of the banks' client base, will be penalised.

There are other criticisms of the two-tier treatment. Banks say it places an administrative burden on them because they have to check the transactions involved. Secondly, it leaves the way open for abuse: for instance by importers who get cover in the primary market and sell it on in the secondary market. And it increases the incentive for importers to have their transactions reclassified.

However, Willie Potgieter, foreign exchange director at Standard Corporate & Merchant Bank's treasury, points out the Bank's priority is to build reserves. To encourage local importers and exporters to use offshore finance facilities, it is trying to keep the forward cover cost of borrowings in line with domestic facilities.

First National group treasurer Peter Carroll says withdrawing from the forward market will mean passing on the Bank's open positions to the banks. The banks' portion of the US$70bn forward market is held by the banking sector, though on a neutral exposure basis. But the central bank book is uncovered and subject to exchange rate movements.

"Banks and corporates will be able to cover only by buying foreign currency and holding it offshore. This obviously has huge implications for exchange control and could also undermine the current strength of the rand," he says.

Eskom head of finance Willem Kok sees merit in the two-tier system. By adjusting the price of its cover for primary transactions, the Bank can give signals to the market about policy intentions.

But the arguments against any form of subsidy of forward cover are overwhelming. There is a pressing need to cut the State deficit before borrowing without increasing tax rates. And the cost of subsidised forward cover has to be seen in this context. Moreover, when the rand falls, the effects of providing artificially cheap cover for finance are inflationary.

The rand's relative stability against currencies other than the dollar, since the financial rand's abolition last month, shows the authorities may well have succeeded with a bolder approach to forward cover. ■

NONTRANSFERABLE CHEQUES

A wrong decision

The liability of a bank which pays out against a stolen cheque endorsed "not transferable" has been upheld in the case of *Holscher v Absa Bank and Another* in the Transvaal Provincial Division of the Supreme Court. However, the court did not award the full amount — on grounds that have been criticised by Unisa mercantile law senior lecturer Kathleen van der Linde.

It concluded an amount potentially recoverable from the insolvent broking company that had misappropriated the cheque had to be deducted in calculating the amount of the damages due by the collecting bank.

Writing in the latest issue of *Juta's Business Law*, Van der Linde says the case involved a cheque (reflecting the proceeds of a lump sum pension payment) which the plaintiff wished to invest with the Old Mutual. His insurance broker asked the pension fund to draw the cheque in favour of the Mutual and send it to the broker's company. This the pension fund did, crossing the cheque and marking it not transferable. Instead of forwarding the cheque to the Mutual, the broker deposited it into his company's bank account.

Absa Bank collected payment on the broking company's behalf and credited its account. The company was liquidated before paying the amount to the Mutual.

The plaintiff sued Absa Bank for negligence, based on the principle accepted in the leading Appellate Division case of *Indac Electronics v Volkskas Bank* reported in 1992.

Van der Linde argues it is irrelevant that the plaintiff could have sued the broking company for misappropriating the cheque. She points out that, in a claim against joint wrongdoers in negligence, all of them are jointly and severally liable. This means a plaintiff has the option of recovering his damages in full from any one of the wrongdoers, who in turn has a right to recover a proportionate share from his fellow wrongdoers.

As it happened, the plaintiff had not lodged a claim against the broking company in good time and the court held he was negligent in not doing so. It therefore deducted the amount he would have recovered from the award against the bank.

Not only was the decision to sue the collecting bank rather than an insolvent broking company logical, but the plaintiff, in Van der Linde's view, had every legal right to do so and to claim from it the full amount of damages.

So the decision is wrong in holding the collecting bank could deduct what the plaintiff might have recovered from other wrongdoers. It should not be followed as a legal precedent by other courts.

Van der Linde raises some further, possibly difficult issues about the extent of the right of the collecting bank to recover a proportion of its loss from the brokering company in these circumstances. She suggests the law might need to be changed to give the collecting bank in these circumstances a right to recover its loss (or part of its loss) from the recipient of the money. But this cannot affect the claim against the bank itself. ■

PPI EDGES UP ON LOCAL PRICE RISES

Imported producer inflation subsided in February — a month in which the rand was relatively stable.

Central Statistical Service reports a year-on-year rise of 8,5% in imported prices, against 9,3% in January. In the month, the imported component of the producer price index fell 0,1%.

Old Mutual economist Johann Els says the fall can be attributed to a lower oil price. "There was a monthly decline of 1% in the imported component of the category described as 'other mining & quarrying.' This includes oil." Over the year it rose 23,2%.

Pressure came from local prices, which rose 11,1% over 12 months, compared with 10,7% in January. In the month, they were up 1,4%.

The effect on the total index was a 10,6% 12-month rise, compared with 10,5% in January. The rise in the month was 1,2%.

A breakdown shows sharpest increases in the month were in:

- Agricultural products 0,9%;
- Fishery products 2,1%;
- Alcoholic and non-alcoholic beverages 2,7%;
- Rubber and plastic products 3,5%;
- Nonmetallic mineral products 3,6%;
- Base metals 2,2%;
- Metal products 3,1%;
- Nonelectrical machinery 1,4%;
- Electrical machinery 2,9%;
- Transport equipment 2,5%;
- Other manufactures 6,3%; and
- Electricity 3%.

Food, with the heaviest weighting in the index, rose too. Manufactures, with a weighting of 12,9%, were up 0,7% while food (agriculture), with a weighting of 8,64%, was up 1,3%. These are mainly drought-related movements. ■

HEALTH 14/4/95

Free-for-all

Government plans for a National Health Scheme are expected to be unveiled later this month. The likely model is "free" primary health care, putting the onus mainly on employers to provide secondary and tertiary levels of care for employees.

The committee investigating a health model — justifying the campaign slogan "free health for all" — is due to report by April 23. After that, the matter goes to

Norwich Life 'inspired' as asset margins improve (58)

CT (BR) 18/4/95

By Charlotte Mathews
INVESTMENT EDITOR

Unlisted Norwich Life's margin of assets over liabilities — at 15,74 percent at the end of December 1994 from 16,20 percent the year before — compares favourably with the margins shown by other life insurance companies, Norwich Life chairman Ronald Napier said in the group's latest annual report.

Sixty-three percent of Norwich Life is owned by policyholders through a policyholders' trust, 30 percent by NBS Holdings and 7 percent by two employee incentive schemes.

Napier said 1994 was an "inspiring year" for the company. After consolidating the good growth of previous years in 1993, the returns achieved in 1994 in the form of investment returns, new business production and containing management expenses were gratifying, he said.

Total group income rose to R2,0 billion from R1,2 billion and total assets rose by 54 percent to R6 billion from R3,9 billion.

The ratio of management expenses to the sum of recurring premiums plus 10 percent of single premiums was tightened to 14,8 percent from 16,9 percent.

Napier said the future held great promise but added that there were demanding challenges ahead.

Besides national issues of reconstruction and job creation, the company also had to influence industry issues such as the capping of retirement funding, provision of affordable health care and various tax issues, he said.

The association with NBS was mutually beneficial and joint business exercises had been productive, Napier said.

Foreign banks 'have unfair tax break'

BD 20/4/95 (58)

SAMANTHA SHARPE

FOREIGN banks opening SA branches could pose a threat to local financial institutions because they were not subject to secondary tax on companies (STC), banking sources warned yesterday.

Foreign banks — which like other offshore companies operating through a branch were not subject to the 25% STC — would be able to price themselves more attractively in the wholesale market.

Several foreign banks had opened SA branches and could put pressure on local banks' already stretched margins. The offshore players were likely to focus on the corporate market, they said.

The Reserve Bank, which drafted the legislation governing foreign banks' SA branches, said it had been criticised by the local banking industry over the discriminatory tax environment.

The legislation was recently gazetted.

A Bank banking supervision department spokesman said the criticism had been passed on to the Finance Ministry, as tax legislation fell outside the ambit of the Reserve Bank.

Council of Southern African Bankers (Cosab) CE Piet Liebenberg said Cosab was discussing the issue with the Finance Ministry. "At worst, however, the advantage enjoyed by the foreign players could only be temporary."

Liebenberg said Finance Minister Chris Liebenberg had committed himself to levelling the playing fields between local and foreign players. Legislative changes could not be far away.

Any foreign institution opening a branch under the assumption that it had a guaranteed competitive edge should be warned that the tax advantage would be short-lived, he said.

Standard Bank GM Henry Shaw said not only local banks were disadvantaged by the tax. The STC anomaly was applicable to any local company competing with a foreign player's SA branch.

Shaw said the regulations could put local banks at a disadvantage in the short term. However, the authorities were sure to address the situation as soon as possible, probably through changes to the Income Tax Act this year or next.

An Absa spokesman said the foreign advantage was "a little annoying". Most of SA's four major banks had used capitalisation issues in place of dividends to help alleviate the STC burden.

This would have brought down their effective tax rates and would probably help put local players on a more equal footing with their offshore competitors.

BANKING

FM 21/4/95 (58)

Tax edge for foreign branches

Several controversial issues arise from regulations gazetted this month, which allow foreign banks to open branches in SA. And they relate once again to the vexed question of allowing financial institutions to compete on equal terms.

After years of wrangling and changes to legislation, many of the disputes between banks and the life offices have been resolved. And those between banks and the former building societies have disappeared under umbrella legislation. Now the entry of foreign banks is once again turning playing fields into a battle ground.

Previously, foreign banks could establish capitalised subsidiaries, subject to the same requirements as domestic banks. Alternatively they could open representative offices — which are not subject to the statutory requirements but are restricted to lending funds and providing services relating to the activity of their parents. This meant they couldn't solicit deposits in the domestic market.

Local bankers fear the new legislation will give them the best of both worlds. As branches, they will be able to raise funds in the domestic market, which paves the way for commercial banking operations. And they will operate at a pricing advantage, unless the Income Tax Act is amended.

Under this Act, domestic branches of foreign companies are not subject to the 25% secondary tax on companies and the 0,75% levy on financial services.

Because foreign banks will operate largely in the wholesale market, where margins are paper thin, the impact will give them a significant pricing advantage in the corporate sector.

Banks Registrar Christo Wiese agrees there is an anomaly but explains "it is not within the ambit of banking legislation to correct."

Standard Bank's Keith Gill says the issue of secondary tax is not confined to the banking sector but applies to any business. "The Katz Commission has proposed tax legislation be amended."

But, with the new banking regulations already gazetted, banks fear there will be much leeway to be made up before changes can be made to the Income Tax Act — probably only in 1996.

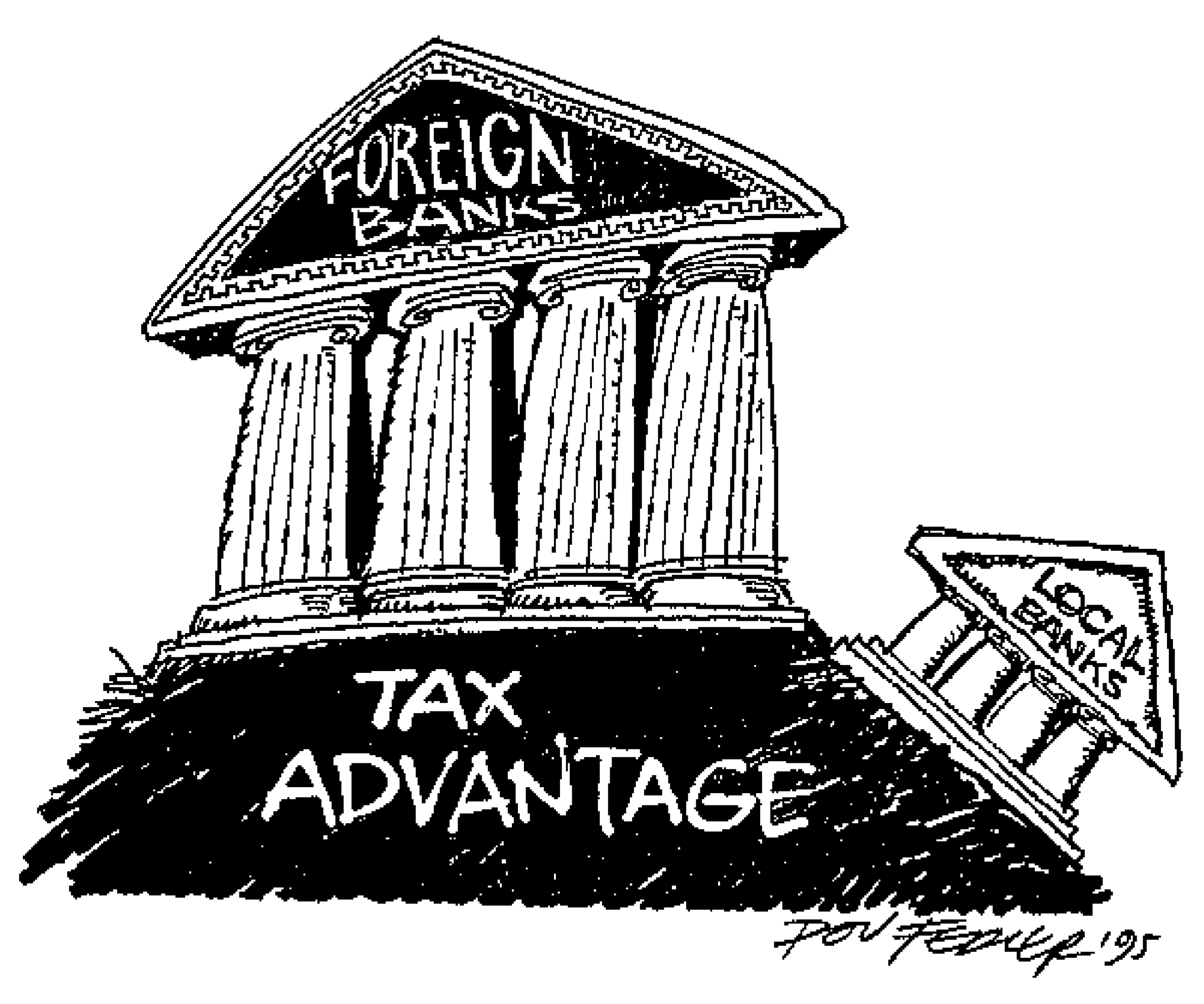
There is a further problem which relates to foreign subsidiaries. Domestic bankers fear the new legislation may leave loopholes for transfer pricing, through interest payments to the foreign parent. Nedcor Bank's Rick Tudhope, who is on the tax committee of the Council of SA Bankers, says: "SA law has provisions and precedents to prevent excessive interest payments and profit distribution disguised as interest payments. But the practice can be missed because it requires skill to identify."

This raises the question of the structure of endowment capital. If it is interest bearing, it will provide a mechanism for the repatriation of profits which would be free of withholding tax and would not attract secondary tax on companies.

A related issue, raised by the Katz Commission, is whether the newcomers will be adequately capitalised. Tudhope supports the recommendation that foreign banks be limited to an 8:1 debt:equity ratio.

Foreign participation in SA's banking sector has increased substantially since the elections a year ago, with a number of banks opening representative offices. Most are US investment banks and UK merchant banks which do not need to raise deposits in the domestic market.

Citibank, which left SA in 1987, selling its subsidiary to the then Barclays Bank, has announced plans to open a branch. Paul Bigler, who heads the representative office in Johannesburg, says: "I don't think foreign banks will have any overly unique advantages.



"We are bringing a certain expertise and international knowledge base which will benefit the SA marketplace in general. Tax is a small aspect of the entire issue and to focus on that is to miss the full picture."

An analyst points out that banks have (limited) opportunity to get tax relief on certain types of assets. "It will take the foreign branches time to build up portfolios of assets which offer some tax relief. So they will pay the full 35% company tax rate."

Bankers say this is irrelevant. "You are looking at a particular sector of the market and products within that sector that are significantly influenced by these tax advantages."

Tudhope points out that matters of principle are at stake. "We need to get structural issues resolved at this point."

Standard Bank's Henry Shaw stresses: "We welcome the entry of foreign banks but only on a completely level playing-field basis." ■

CURRENCIES

No bottom

The Bank of Japan finally shot its long-awaited bolt in the battle against the yen's disastrous rise but failed to persuade financial markets to stop selling the dollar. The discount rate was cut by 75 basis points to a new record low of 1% late last week when intervention was needed to lift the dollar out of a new depth of Y80.1 — a full 20% decline this year

The cut was combined with the now familiar package designed to boost Japanese consumption and growth and chip away at the bulging current account surplus. But the surplus is running at US$127bn for the past 12 months.

So the hard facts outweighed promises of more government spending, promotion of imports, faster deregulation and encouraging the use of the yen as a reserve currency (it accounts for less than 10% of international forex holdings now).

The dollar did rally to Y84, a move echoed by a four-pfennig climb to DM1,41 and similar rises against other currencies. But it was soon under pressure again.

A weekend meeting of the 18 member countries of the Asia-Pacific Economic Cooperation (Apec) group at the Indonesian resort of Sanur produced a mini-summit between US Treasury Secretary Robert Rubin and Japan's Finance Minister Masayoshi Takemura — and the usual rhetoric about the desirability of stable exchange rates. However, it was not the forum for action. That is up to the Group of Seven and the US showed no signs of changing its wait-and-see stance.

After the two swapped complaints — Japan about US inaction to bolster the dollar and the Americans over footdragging in shrinking the Japanese external surplus — the foreign exchanges went back to the usual business of selling the dollar after the Easter weekend. By Tuesday afternoon, the dollar had lost over two yen to Y81,35 and was cascading down against all the other main currencies. ■

ZIMBABWE FM 21/4/95

Economically apathetic

After Zanu-PF's landslide fourth successive election victory in Zimbabwe's parliamentary elections, many Zimbabweans appear indifferent to economic issues.

Their attitude is summed up in the State-owned *Herald* newspaper's editorial on Zimbabwe's 15th anniversary of independence this week. Pouring scorn on those who "put a dollar value" on independence, the newspaper says the country's 11m people should celebrate independence and a fourth term in government for Zanu-PF "regardless of the state of the economy."

Even the *Herald* admits all is far from well economically, though, characteristically, the blame for this, it argues, rests with external factors and not with government policies.

About 82% of those who voted supported Zanu-PF. President Robert Mugabe's party won 118 of the 120 elected seats — one more than in 1990 — and, with the 10 seats nominated by traditional chiefs and the 20 appointed by the President, has 148 of the 150 seats in the new parliament.

The surprise was the higher-than-expected turnout of 54% of the registered voters in the 65 contested constituencies. More voted in rural than urban areas and the opposition did marginally better in the cities where disgruntled black professionals and a handful of whites supported independent candidates or former Chief Justice Enock Dumbetshena's Forum Party.

Mugabe made little use of his nomination powers to bring in new blood, preferring to select those who, like Vice-President Joshua Nkomo, had refused to fight a constituency, and others, such as Health Minister Timothy Stamps who had lost out in the primaries.

Some analysts predict that the future will be little different from the past, especially over the next 12 months, when another election — this time for the presidency — will be held.

Others in business are confident that decision-making in two vital Ministries — Finance and Trade & Industry — must improve with the appointment of substantive Ministers replacing acting incumbents who have been in charge for the past year or longer.

One issue stands out above all others — the budget deficit. The new Cabinet must square its many electoral promises to spend more to improve living standards and tackle rapidly rising unemployment with a fiscal reality of a budget deficit running at more than 10% of GDP.

Mugabe's parliamentary victory and the *Herald*'s argument that economics does not matter should encourage him to grasp the fiscal nettle in the budget in July. ■

THE RAND

The rand improved against the dollar after the Easter weekend — following an extended period in which it had merely tracked the US currency.

It remained weak against the third currencies. Since the financial rand's abolition on March 10, it has gained only 1,4% against the dollar, compared with gains of 3,5% by the D-mark and 12% by the yen.

This is a familiar pattern: when the US dollar is strong, the rand tends to strengthen or stabilise against the others; when the dollar is weak, the rand falls with it. But the rand should have shown more resilience, if only because it lost 2,7% against the dollar in the six weeks before the currencies were unified.

TAX LEAGUE TABLE

Where stands SA?

How heavily are South Africans taxed? It's difficult to compare domestic taxpayers with their counterparts living or running businesses in major industrial countries because so much depends on the income level at which maximum marginal rates of tax are attained.

The comparison is further bedevilled by fluctuations in the exchange rate. Should the current rate be applied to after-tax incomes? Or would some measure of purchasing power parity (*The Economist*'s famous MacDonald's hamburger test, perhaps) be more appropriate?

Also complicating the process is the extent to which taxpayers receive social welfare benefits from the State. Taxes provide better value in Germany, for instance, than they do in SA.

Given these caveats, Anglo American tax consultant Marius van Blerck provides some insights in the September 1994 issue of *SA Tax Review*.

Between 1980-1990, there were sharp declines in maximum marginal rates of personal tax in the US and the UK. SA reduced the rate more modestly (see table). In 1993, it was 43% compared with 40% in the UK and 37,9% in the US (slightly up from 35,2% in 1990). The 1993 rate in Germany was 56% and in Japan 65%. Since then, of course, SA's rate has risen to 45%.

SA's nominal company tax rate (now cleansed of the transitional levy) is 35%.

To this must be added 25% secondary tax for distributed earnings, making the total rate on distributed earnings 48%. In 1993, Britain's was 33%, the US's 40,6%, Germany's 56% and Japan's 65%. These are the rates for distributed earnings, including provincial and local taxes.

Van Blerck warns that using a single tax rate for comparisons can be simplistic because different tax rates may be levied for distributed and undistributed income, income of widely held and closely held companies, companies with a defined minimum foreign shareholding, favoured forms of economic activity and different categories of income.

So the analysis should be supplemented by an analysis of withholding tax rates on dividends paid to foreign investors.

A comparison of Vat rates is complicated by variable rates applied, says Chris Beneke, tax partner at Deloitte & Touche (Cape). SA has a standard rate of Vat of 14%. Zero-rated are: exports and export-related services, certain basics foodstuffs, petrol and fuel oil and gold coins. (Of course, petrol is separately and fairly heavily taxed.) Exempt from Vat are: certain financial services, educational services and public-sector medical services, public transport by road and rail and the letting of residential accommodation.

Where an item is zero-rated, it is excluded from the Vat base; so the fiscus effectively receives no Vat from the economic activity leading to the sale to the final consumer. If it is exempt, this means that no Vat is charged on the sale to the final consumer but the seller is not entitled to reclaim Vat on inputs (purchases and other expenses). Therefore, only the profit margin of the seller to the final consumer is excluded from the Vat base.

At end-1994, SA's tax take was split in half between direct and indirect taxes.

UCT law professor Brian Kantor says the most significant distinction in our tax base from those of advanced industrial countries is the absence of a real counterpart to their major payroll taxes for social benefits. In the US, for example, these total as much as 15% of personal income.

Kantor argues that the most important guide is the proportion of GDP taken by the State. Using this criterion, SA is heavily taxed compared with the standards of other countries at the same stage of development. According to the Reserve Bank, in 1994, government took 24,3% of GDP in taxes — close to the 25% which Kantor regards as the acceptable ceiling.

The UK has a standard rate of 17,5%, with an 8% rate for fuel and power for use in residential buildings Zero-rated are: food, books, public transport, buildings for domestic or charitable use, children's clothing and exports. Exemptions include insurance, financial services, education and health.

Germany has a standard rate of 15% with a lower rate of 7% applicable to agricultural goods, food and printed material. Exports and export-related services are zero-rated; exemptions include banking and financial

Bank takeover deal

MERCANTILE BANK has acquired the Bank of Lisbon from shareholder Banco Naçional Ultramarino (BNU), but not without suspensive conditions.

Mercantile managing director Derek Cohen says: "The negotiations have had several objectives." BNU wishes to retain its presence in South Africa to serve the former Portuguese colonies of Angola and Mozambique and to serve the 800 000-strong Portuguese community in South Africa.

Mercantile's objective was to obtain a link with a major European bank.

In addition, the agreement is in line with Mercantile's strategy of niche marketing. "The Portuguese community is a well-defined niche," says Cohen. (58)

Mercantile has already taken management control of the Bank of Lisbon, which will become a wholly-owned subsidiary of Mercantile as soon as the suspensive conditions of the agreement have been met. These relate to regulatory and governmental permissions in South Africa and Portugal. WM 21-27/4/95

"Mercantile will obtain 100 percent of the Bank, While BNU will acquire 22,7 percent of Mercantile with the issue of new shares," says Cohen. (BM)

WEEKLY MAIL & GUARDIAN April 21 to 27 1995

Assurance not a dirty business

WM (BM) 21-27/4/95 (58)

Liberty Life vice-chairman **Dorian Wharton-Hood** replies to criticism of the life assurance industry

Wharton-Hood: Strongly anti-Marx

GEORGE MARX doesn't understand the lapse figures contained in the Registrar's report yet he saw fit to use them to castigate the industry in the speech summarised in *Weekly Mail & Guardian* last week.

Marx said in his address at the Life Assurance Conference the amount of annualised premiums reported as lapses and surrenders constituted money wasted by policy-holders.

Firstly, money invested in policies subsequently surrended can by no stretch of the imagination be regarded as wasted. Many policies are surrended for cash after many years of premiums have been paid and these surrender values often constitute more than reasonable investments to the policy holders.

When a policy-holder's needs change and he, for example, no longer needs life cover, the surrender value inherent in the policy is usually a valuable benefit. The longer the policy has run the more valuable the surrender value becomes.

It is simply incorrect to express the annualised premiums of lapsed policies as "money wasted". For example, if a policy is sold for a monthly premium of R100 this is reported as R1 200 of annualised premium income. If the policy lapses after, say, one month the lapse figure is reported as R1 200 of lapsed annualised premium income although the policy-holder will only have paid R100. Often even the amount actually paid will not have been entirely wasted because it would have bought life cover during the period premiums were paid. Marx should know better than to mistake such a statistic by referring to the entire annualised premium on lapses and surrenders as "wasted money".

Marx states new business premiums for 1993 were R4-billion and terminations R1-billion. He says: "Crudely speaking this says 25% of new business is terminated". This is entirely wrong because new business premiums refer to new business written in one year whereas lapses reflect policies discontinued over a two year period and surrenders reflect annual premiums for policies which may have been in force for perhaps 30 or more years.

If we assume that surrender values represent fair value for money to policy-holders and furthermore that the average duration of lapsed policies is five months (Liberty Life's statistics) and that the cost of life cover on lapsed policies is 15% of premiums actually paid, we can calculate the amount that could be described as "wasted".

For 1993 this was 85% of five-twelfths of R677-million which was R240-million. This represents a mere 0,65% of total premiums paid to life assurance during 1993 (R36,7-billion) or 1,5% of annual premiums paid on individual life and disability business during the year (R15,5-billion).

This is a far cry from Marx's alleged "wastage" factor of 25%. In fact, I wonder if any other industry has better wastage figures?

Marx makes some sweeping statements and subjective judgements. For example, he says: "The public does not have a good opinion of the industry. Clients are being cheated and their money is wasted. Insurers are not willing to rectify matters and as an industry are inefficient. Intermediaries entice clients into transactions and act in unethical misleading and negligent ways."

I would like to know where Marx obtained the information to make the allegations. By world standards the South African life assurance industry is extremely efficient.

No one who has been in the life assurance industry for any length of time would ever claim the industry is blameless or that all intermediaries are ethical and professional. However, I do not believe for one moment that the life assurance industry deserves to be singled out to the extent that Marx has.

The LOA recently commissioned some independent research into the life assurance industry and the findings will soon be made public.

All of the statements attributed to Marx will be refuted by this objective survey. The findings present the life assurance industry in an even better light than many of us expected.

Marx makes a series of allegations which are sometimes incomprehensible and in some cases totally untrue. For example, "... the insurance industry ... seems to be very reluctant to protect the policy holder against the risk and instead hides behind the principle of *caveat emptor*." The life assurance industry would not have been as successful as it has been if we were reluctant to protect policy-holders or provide for their needs.

He also criticises the commission system which is without doubt the most efficient way of marketing life assurance products. He even comments that commission is not disclosed to the client. The commission payable on life assurance products is common knowledge as it is limited by regulation. Marx does not suggest why commission should be further disclosed to the client. Commission is only one of the cost elements of a life assurance contract.

> By world standards the South African life assurance industry is extremely efficient

Marx makes numerous comments detrimental to intermediaries and insurers. Some intermediaries are less professional and less well-trained than others and some insurers do operate better than others. It is most unfair to generalise.

For example, Liberty Life has a comprehensive and sophisticated training programme and we do penalise agents and brokers financially if their lapse rates are below standard. I have no doubt the same applies to other reputable life assurers.

Marx says: "The driving discipline should be profits and not premium income." This is facile to say the least. I do not know of any life assurer which strives simply for premium income growth. All life assurers, to the best of my knowledge, attempt to achieve profitable growth and many have succeeded.

He makes comments about medical expenses insurance policies and concludes these were not developed to meet clients' needs. The success of Liberty Life's range of medical lifestyle contracts, among many others, is proof he is wrong and I have no doubt other life assurers could produce evidence which would also support a contrary view.

There should be disclosure of early termination values. The LOA supports this and has proposed it be part of law, like the other "increased regulations" outlined by Marx. None are original.

Marx went out of his way to be controversial, presumably because he enjoys having his name in the headlines. He should study the subject more carefully and when he knows the true state of affairs and can base his judgements on facts rather than opinions he could perhaps make a constructive contribution to the industry.

This is an edited version of the response to George Marx's article carried in the WM&G last week.

LIBERTY LIFE

FM 21/4/95 (58)

Growing international profile

Activities: *Insurance, financial services and property interests in SA and abroad.*
Control: *Liberty Holdings 53%. Ultimate control rests jointly with Liberty Investors and Standard Bank Investment Corp.*
Chairman: *D Gordon. MD: A Romanis.*
Capital structure: *238m ords. Market capitalisation: R22,4bn.*
Share market: *Price: R94,25. Yields: 2,2% on dividend; 3,4% on earnings; p:e ratio, 29,2; cover, 1,2. 12-month high, R100; low, R79. Trading volume last quarter, 2,6m shares.*

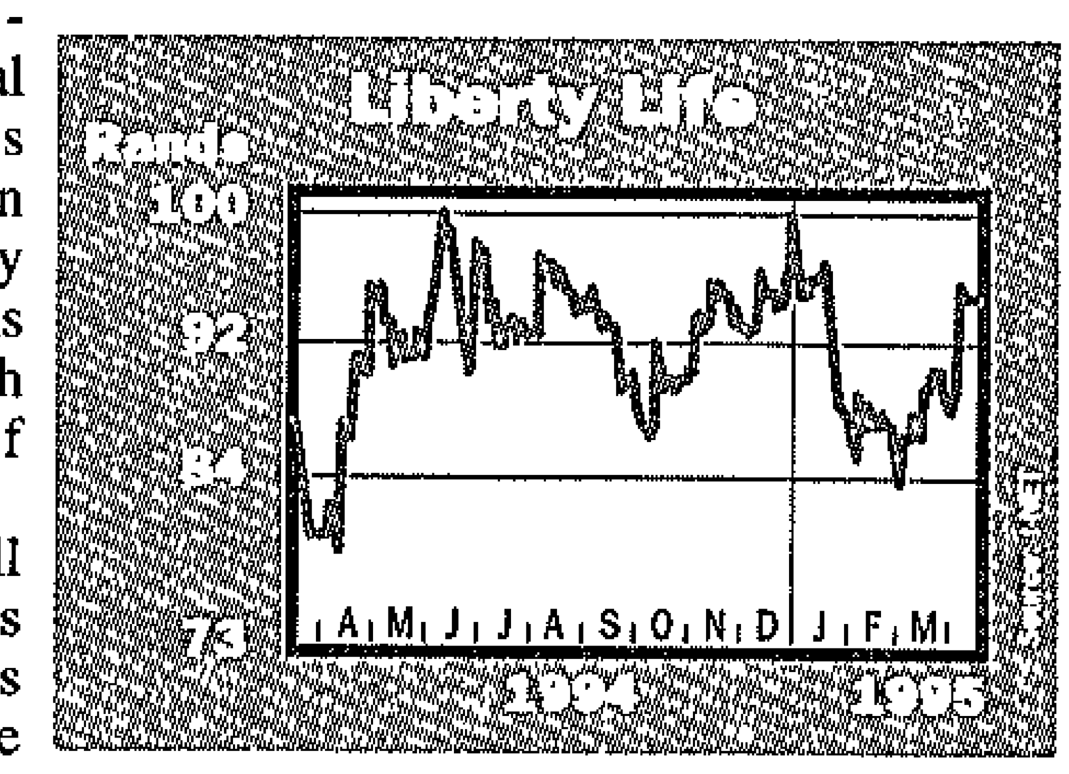
Year to December 31	'91	'92	'93	'94
Total assets (Rbn) ...	34,5	61,6	86,8	100,8
Net prem income (Rbn)	2,3	7,4	10,6	11,5
Invest income (Rbn) .	1,9	3,6	3,9	4,8
Total income (Rbn) ...	4,2	11,0	14,5	16,3
Life funds (Rbn)	20,8	48,4	69,2	78,3
Investments (Rbn) ...	31,2	58,6	83,5	95,4
Attributable (Rm)† ...	275	353	442	565
Earnings (c)†	127	155	192	240
Dividends (c)‡	108	132	164	204

† Excluding equity accounted earnings. ‡ Cash equivalent.

The Liberty Life group is increasingly becoming an international organisation. That was highlighted in the previous financial year when, for the first time, Liberty's 50% interest in UK assurer Sun Life Corp Plc was proportionately consolidated, with SA moving towards international accounting standards relating to joint ventures.

The effect on Liberty Life's income statement and balance sheet was dramatic, pushing total assets over the R80bn mark and premium income to more than R10bn. Over financial 1994 assets grew another 16% to pass R100bn, net premium income rose 7,7% to R11,5bn.

Chairman Donald Gordon says the R14bn advance in assets was the highlight of the results. "In global terms this is a landmark achievement for any financial institution and has been done in less than 37 years since Liberty Life started operations in October 1958 with total assets of R100 000."



Gordon can be well pleased with Liberty's impressive progress since he founded the company, and with its international thrust, something which seems to occupy an increasing amount of his time.

It's hard to fault his strategy of global diversification, but with it comes the growing influence of international business trends and world markets. These could be telling on the future performance of Liberty Life, the SA-based assurance heart of the group. The numbers are not significant and don't detract from Liberty's solid performance over 1994, but the accounts show the potential effect of overseas interests.

Half the assets, R50,1bn, are in the UK. These grew, at 17,5%, marginally faster than Liberty's SA assets. What would happen to Liberty Life's asset value if the UK insurance industry — which is not having a happy time — and property market went into serious decline?

Gordon . . . *refining acquisition targets in the US*

Probably not much, says a director of Liberty Holdings (Liberty Life's 53% holding company). "It would take a massive crack in UK property and equity markets for any material impact on Liberty's asset base." In his review Gordon argues that UK accounting rules materially understate the NAV of TransAtlantic Holdings (the UK-listed vehicle through which Liberty Life, by its direct 21% interest and 44% interest in JSE-listed First International Trust, holds the UK insurance and property interests).

Still, the effect of Liberty Life's 50% interest in Sun Life, though small, can be seen on the income statement. Growth of nearly 30% in Liberty's premium income, to more than R5bn, was muted by Sun Life's 5,7% decline in its 50% contribution. At R6,2bn, Sun Life accounts for 54% of Liberty's net premium income, which grew by a more modest 7,7% to R11,5bn.

On the balance sheet, a decline in investment surpluses and reserves from R8,5bn to R7,2bn is directly attributable to Sun Life. Liberty Life grew its portion by about 15% to R4,8bn; that attributable to Sun Life nearly halved to R2,3bn.

This is almost entirely because of the poor performance of UK equities. Gordon notes the London Stock Exchange, measured by the FTSE-100, dropped 10% over 1994, with worse returns on long bonds.

While the overall effect on Liberty's life funds of R78,3bn (R69,2bn) is perhaps negligible, a decline of about R2bn in investment surpluses and reserves is significant. It shows the influence of the UK interests now they are proportionately consolidated.

It seems the group will continue to work on its international reputation this year. Directors will soon be embarking on a global road show, not to raise capital but to communicate with shareholders. These tours are becoming a regular event since Liberty Life had its first international issue of 12m shares, which raised US$143m, in 1991.

Last year's Euroconvertible bond issue, which an analyst says is attracting lively trade in London, raised $320m and helped to establish Liberty's presence abroad. There is also the American Depository Receipt programme launched late last year, sponsored by the Bank of New York.

The additional capital has beefed up Liberty's already strong capital base (total capital resources and the expected conversion of bonds amounts to more than R16bn), leaving it well placed for a substantial acquisition. For some time the market has been expecting Gordon to move into the US insurance market — he says targets have been refined down to six US companies, but that there is no hurry.

At centre, Liberty Life's performance was at the top end of market expectations. Bottom line growth remains remarkably consistent. New annualised recurring premiums increased 23% to R919m; management costs rose just 14,8% to R357,9m, which Gordon says is satisfactory regarding the growth in business.

Since the annual report was reviewed a year ago Liberty Life's share has gained 18% — out of line with the 25% growth in EPS. After the strong appreciation of more than 40% in the previous period (when the p:e ratio was 41,7), the share is settling at a more realistic level. A p:e of 29,2 and dividend yield of 2,2%, while much higher than the sector average, must represent value, particularly as Gordon expects 1994's momentum to continue. *Shaun Harris*

Standard eyes Meridien branch

SAMANTHA SHARPE

THE Standard Bank group was looking to establish a presence in Tanzania through the acquisition of the Tanzanian branch of besieged pan-African banking group Meridien Biao, sources said at the weekend.

They were unable to name a price.

Standard Bank group CE Eddie Theron said that while negotiations were under way with Meridien, no final decision had been taken. He declined to comment further on the deal. (58)

Reuter quoted Tanzanian Central Bank Governor Idris Rashid as saying proposals for the buyout of the branch, which the Central Bank took over earlier this month, were being finalised. These would be presented to government and the Stanbic board soon. BD 24/4/95

Rashid said Stanbic had agreed to retain most of the Meridien staff, with the new-look bank opening to the public by May 2. "Meridien Biao clients will be at liberty to draw or deposit any amount of money under normal banking procedures."

The battered Meridien group recently served as a means of expansion for FNB, which took over its Swaziland operations earlier this month. The Swazi collapse followed the downfall of sister operations in Kenya, Zambia and Tanzania.

While Standard's recent African expansion last year was limited to the acquisition of Barclays Bank's Lesotho banking operations, which became Stanbic Bank Lesotho in February, it announced further plans for African expansion in its 1994 annual report, particularly into Tanzania, Mozambique and Angola.

The earlier acquisition of the African branch network of ANZ Grindlay has already helped the group establish a strong presence in Zimbabwe, Zambia, Zaire Botswana, Kenya and Uganda, as well as Ghana and Nigeria.

Local banks get favourable report

LONDON — Lehman Bros has rated SA banks Absa and First National Bank Holdings as market performers and Nedcor and Standard Bank Investment Corporation (Stanbic) as outperformers. (58)

"The banks appear soundly regulated, profitable and well capitalised, and are closely regulated by the Reserve Bank," Lehman said in a research report. The four banks account for 80% of the country's banking assets. BD 24/4/95

"Our fundamental preference lies with Nedcor and Stanbic, which are both rated 2-M," Lehman said.

Banking sector shares rose 30% in 1994 and although they may be vulnerable to "some short-term profit-taking", Lehman believes that in the longer-term "the strength of the local banks and their expansion opportunities are likely to be of interest to international investors".

Absa is trading on a price earnings ratio of 8,3 times, FNB on 11,5 times, Nedcor on 11,7 times and Stanbic on 12 times. — Reuter.

Gauteng will not support abolition of school posts

BD 24/4/95

DEBORAH FINE

THE simultaneous abolition of all teaching posts in SA would be administratively and educationally unsound and any proposal in this regard would not be supported by the Gauteng education department, education minister Mary Metcalfe said yesterday.

She was responding to a Sunday Times report yesterday which indicated Education Minister Sibusiso Bengu had proposed abolishing all 360 000 government teaching posts, leaving it to the nine provinces to recreate posts in their regions and rehire as many teachers as they could afford.

The report said teachers would have to reapply for their positions once the new posts were created. The report said teachers who were not rehired within six months would then be retrenched.

Metcalfe said she had no knowledge of the proposal because no mention of any such approach had been made in the full report given to provincial ministers at the Council of Education Ministers meeting on April 21. She said all educators in Gauteng schools and colleges were employed by the Gauteng Education Department and would continue in their posts.

Mxolisi Nkosi, assistant secretary-general of the SA Teachers' Democratic Union, said yesterday he understood the proposal to mean the employment of teachers was to be transferred from the government to each of the provinces, in accordance with the interim constitution.

The proposal encompassed the absorption of all teaching posts into provincial departments. Once accomplished, the various departments could then examine the redeployment of teachers into schools with low pupil/teacher ratios.

He warned that Bengu and provincial MECs would face "the full wrath of SADTU" if the process was "abused" to retrench teachers.

SADTU general-secretary Palesa Popi said she needed more details about the proposal before she could make any comment.

She said, however, the simultaneous retrenchment of teachers could seriously disrupt the culture of learning.

She also raised the concern that many teachers, not certain of re-employment, could opt for retirement or seek alternative work outside the education sphere.

National Professional Teachers' Organisation of SA vice-president Henry Hendricks said yesterday he believed the proposal, if implemented, was a means of "downsizing" the public service.

But rationalising the education sector through the retrenchment of teachers was "unthinkable", he said.

He said he could not really comment until he had received confirmation of the proposal.

Democratic Party education spokesman Mike Ellis said any proposal to retrench teachers was "ridiculous, unworkable and totally unfair" and would only serve to further demoralise an already demoralised teaching profession.

Sports Bank would aim at greater participation

(51)

TIM COHEN

CAPE TOWN — A recognition of the need for "elite sport" combined with the need to address the skewed participation in SA sports, has led the drafters of the sports White Paper to propose the creation of an overarching "sports bank".

The White Paper proposes that the Sports Bank, essentially a trust fund, should finance the expansion of sports participants from the current 28,5% to above 35% of SA's population.

BD 24/4/95

The bank will be funded by government, by the major profitable sports and from funds raised from a percentage of the income generated by lotteries and gambling.

The White Paper suggests that the private sector would also contribute to the trust because participating companies would be granted incentives "to ensure that the funding of sports programmes is less of a problem than at present".

The White Paper criticises sports organisations for "misusing their non-profit status" to accumulate funds in the form of investments. The bodies are to be given the option of plowing their profits back into sport or paying tax like all companies.

The report also implies that the proposed dedicated sports TV channel would contribute to the trust.

The trust would afford sport the opportunity to allocate funds to the programmes of "Cinderella sports" that battle to find sponsorship.

The trust would also enable sport to provide training "particularly at the bottom end of the spectrum", the White Paper st[illegible]

The creation of the trust also plays a role in the White Paper's recommendation that the first priority should be to streamline the responsibilities of stake holders to ensure coordination and economies of scale.

The second priority is the creation of funds for the creation and upgrading of basic multipurpose sports facilities in disadvantaged areas.

US 'worried Iran seeking SA aid'

Own Correspondent

LONDON — There was growing concern in the US that Iran might be seeking SA aid for its nuclear development programme, The Sunday Times said yesterday.

It said US officials believed that Energy Minister Pik Botha's visit to Tehran last month included talks on nuclear co-operation.

One official told the paper: "We have warned our allies and we are doing what we can to stop it."

It is known that the Islamic state has attempted to buy nuclear technology from Russia and China. Intelligence sources believe SA has not yet contributed nuclear know-how to Iran, but has the expertise to do so.

The report said the matter would be discussed in Washington this week between SA and US officials.

But with post-apartheid SA eager to boost its arms exports, the talks may not succeed in persuading the government to cut ties with Iran.

The US had warned President Nelson Mandela that SA ties with Iran could affect US aid, the report said.

Move into health insurance no remedy for Metlife share prices

(38)

SAMANTHA SHARPE

INSURANCE group Metlife surprised analysts with a 4% slip in share price to R33,50 in the last month, despite an aggressive move into the health insurance market.

Metlife's recently established subsidiary, Metlife Health Services, was the first step towards bringing health care cover to its target market. That was followed by a revamp of its health insurance line.

Analysts were unable to explain the recent decline in the group's share price, which closed at R33,50 yesterday — R4 off its annual high in January and marginally up from its October R29,25 low.

One analyst said the fall in the share price was a strange quirk, with the share fairly valued at about R44.

"Most life companies' shares traded at a premium to their underlying net asset value, but Metlife traded at a discount.

"Since November Metlife has outperformed most other life companies."

The group posted a 22% increase in earnings to 128c a share and 24% growth in dividend to 83c for the year to September.

But another analyst said the share had "run up too high" in recent months, with the current price reflecting a correction in the market to more realistic levels.

Metlife GM Mike Lewis attributed the anomaly in the share price to a small group of illiquid investors cashing in on their shares.

BD 25/4/95

FutureBank's fortunes linked to taxi industry

(51) SAMANTHA SHARPE

FUTUREBANK — established as a joint venture between First National Bank and the Foundation for African Business and Consumer Services (Fabcos) — had suffered from a fall in taxi financing business, the bank said in its annual report.

FutureBank MD Neville Watchurst said new taxi financing business had "all but ceased". This was compounded by a high default factor in existing taxi business.

This had inhibited the bank's ability to increase its assets, despite the volume of other new business written.

FutureBank, which posted a slide in profit to R727 000 for the year to September compared with R2,03m at the same period in 1993, showed an accumulated loss of R622 000 at the start of the year, an improvement on the 1993 loss of R2,65m. BD 25/4/95

Watchurst said the bank had continued to trade profitably, despite the cost of establishing new branches in Cape Town, Nelspruit and Pietermaritzburg, which affected the 1994 financial results.

He said it was encouraging that the bank, which offers short-term instalment credit for motor vehicle finance, affordable housing, business finance and personal loans, had made progress in expanding its customer base

"This year we have been most successful in attracting a wide spread of depositors."

He said recent agreements with USAid, the Small Business Credit Guarantee Corporation and the Independent Development Trust Finance Corporation had helped limited risk exposure.

Nedcor to launch black-run Peoples' Bank

ARG 25/4/95 (58)

Business Staff

A NEW, black-run bank is to be launched by financial giant Nedcor, which is to split its Perm operation in two to create the new institution.

Peoples' Bank, a personal bank with its own corporate identity, will be headed by Junior Potloane, former general manager of the Development Bank of Southern Africa.

"The establishment of Peoples' Bank was born out of a clear recognition of a very particular set of wants and needs from a broad spectrum of the South African community," said Nedcor chief executive Richard Laubscher.

"Nedcor is reaffirming its commitment to the provision of easy-to-use, affordable and accessible banking to a wider range of South Africans."

The new bank is to be launched with more than 100 branches, mostly revamped Perm branches.

Service in most branches will be primarily from automated teller machines, but staff will be on hand to respond to customer queries.

Peoples' Bank will offer off-the-shelf products and services and will focus on transactional banking.

The remaining 200 Perm branches will fall under a renamed Permanent Bank, headed by present Perm chief Hugh Maclachlan.

"With the introduction of Permanent Bank, the needs of clients who require full-spectrum banking services will be better addressed," Mr Laubscher said.

"Many of the existing products will be enhanced to meet client needs."

Nedcor's latest move marked the group's desire to take part in the process of change in South Africa, Mr Laubscher said.

NYSE FUND LEAGUE

	NET ASSET Value ($) end-Feb 1995	RETURN* IN % AT END-FEB OVER: 1 month	since Dec 31	12 months	ASSETS end-1994 ($million)
TOP 15 PERFORMERS					
Southern Africa Fund	16,13	4,88	-8,51	25,54	105,9
Taiwan Fund	23,51	4,12	-6,01	23,71	289,5
ROC Taiwan Fund	11,98	2,04,	-8,62	20,89	365,3
Bergstrom Capital	101,47	4,35	7,31	18,05	114,7
Germany Fund	13,46	6,83	4,42	17,31	173,9
First Financial Fund	10,87	7,20	9,02	17,30	161,3
Future Germany Fund	19,20	6,73	4,63	17,02	219,0
Southeastern Thrift Bank	22,32	6,79	12,44	15,63	39,5
New Germany Fund	15,05	4,81	3,51	12,07	472,6
Gabelli Equity Trust	9,85	3,03	4,12	10,74	825,2
Central Securities Corp	17,82	6,07	5,95	9,46	216,9
Naic Growth Fund	12,16	3,84	5,74	8,63	8,3
Royce OTC Micro-Cap Fund	7,81	3,03	*3,03	6,89	82,5
Chile Fund	48,44	-3,49	-7,75	6,51	367,0
Korea Fund	19,23	-2,39	-6,88	6,51	610,0
AVERAGE		**06,2**	**-3,18**	**-7,43**	**8,92**
NUMBER OF FUNDS		152	151	134	75
BOTTOM 10 PERFORMERS					
Emerging Mexico Fund	5,71	-20,58	-44,99	-67,77	93,0
Mexico Fund	12,06	-19,97	-41,26	-65,59	765,6
Mexico Equity Income	8,28	-18,02	-30,65	-52,32	103,0
Latin American Discovery	11,75	-17,95	-31,53	-42,89	135,3
Argentina Fund	9,20	-16,06	-21,64	-36,14	108,1
Turkish Investment Fund	4,45	7,23	-6,32	-35,60	33,5
Indonesia Fund	8,32	0,97	-9,37	-33,07	42,3
Jardine Fleming China	11,77	5,94	-6,44	-31,93	114,5
European Warrant Fund	8,05	2,03	-3,36	-31,74	67,2
First Israel Fund	9,83	-8,22	-8,30	-31,07	53,7

* Change in NAV with reinvested dividends and capital gain
Source: Lipper Analytical

SA Fund hits top spot on NYSE

The South African Fund, a joint endeavour by Sanlam and Investec, celebrates its first birthday with 25,5 percent return

CT(BR) 26/4/95 (68)

BY JOHN SPIRA
GAUTENG BUSINESS EDITOR

The Southern African Fund, a joint endeavour by Sanlam and Investec, has celebrated its first birthday with a return of 25,5 percent, making it the top performer of the 134 closed-end equity investment funds listed on the New York Stock Exchange.

The fund's number one status emerged in a comparative analysis as at February 28 published by the Wall Street Journal.

The South African Fund (SAF) was floated on February 25, 1994, as the first investment company registered in the US concentrating its investments in southern Africa. Sanlam and Investec act as investment advisers for Alliance Capital, the manager of the fund.

The analysis was done on the basis of the investment funds' increase in asset value — the norm generally applied to gauge investment expertise.

SAF led the field with its return of 25,5 percent. The Taiwan Fund was second with 23,7 percent, while the average return of the 134 funds was a negative 7,4 percent.

SAF's five biggest holdings are SA Breweries, Murray & Roberts, Iscor, Sappi and Gencor.

In a separate but similar analysis, New York-based stockbroking firm Lynch, Jones & Ryan also has SAF top of its list of 152 closed-end US equity funds in the 12 months to February this year.

It notes: "For those who continue to confuse South Africa with Mexico, the table shown here may help clarify the difference."

While extolling SAF's performance — during a period when South Africa's share market and currency largely shrugged off ructions in other emerging economies — Lynch, Jones & Ryan also points out that in the second week of March alone, SAF's asset value jumped another 5 percent.

"In sharp contrast, the three leading Mexico funds did worst of all the closed-end funds, losing between half and three-quarters of their asset values. Any questions?"

Nedcor to launch new retail banks

The People's Bank and the Permanent Bank will be built on infrastruture already provided by the Perm

(58) CT(BR) 26/4/95

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

Nedcor Bank plans to launch two new retail banks this year, the People's Bank and the Permanent Bank, out of the existing Perm branch network and infrastructure, Nedcor's chief executive, Richard Laubscher, announced yesterday.

He said the costs of the restructuring would be "very material indeed", but did not mention a total figure.

A hundred People's Bank branches and 200 Permanent Bank branches would be refurbished at a cost of between R500 000 and R750 000 each.

Added to that are substantial costs incurred over the past 18 months researching customer needs and developing new products, and on information technology and advertising.

Indications are that the project will cost considerably more than R150 million.

"We would not undertake this cost unless we believed that these businesses are right for South Africa," Laubscher said.

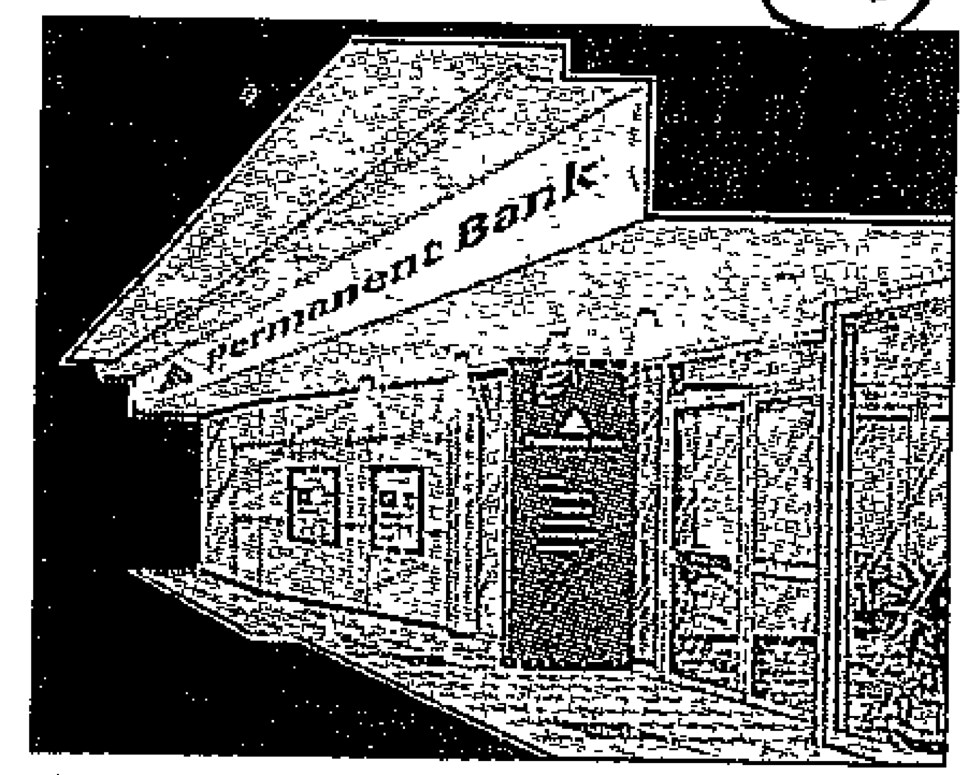
The process of restructuring Nedcor, which had begun four years ago, was based on the conviction that banks are in financial retailing, that customers do not choose their products on demographic characteristics but according to their aspirations, and that brands are important, he said.

The launch of the two banks recognises that there are different markets with different needs and that a large number of South Africans have been excluded from financial services. Of the 22 million adult South Africans identified during last year's election, only 10 percent had cheque accounts, 15 percent carried credit cards and 40 percent had savings accounts.

This suggested the huge potential of taking banking to that customer base and that banking structures were inappropriate for the needs of most South Africans.

Nedcor Bank's divisional director, Mike Leeming, said the Perm's infrastructure would provide an immediate network of branches, many of them in prime sites, for the two banks.

Perm customers could choose to move either to the People's Bank or the Permanent Bank.



Artist's impression of new Permanent Bank

Both banks would focus entirely on banking services for the individual and would not offer commercial or corporate banking services, he said.

According to Junior Potloane, the general manager of People's Bank, the organisation would offer a handful of products, such as home finance, investment and savings accounts, which would give customers immediate access to their money. The smart card, which Nedcor is testing in Pretoria with Edgars customers, would be a key product in this market.

The divisional director of Perm, Hugh Maclachlan, said the Permanent Bank would provide a full range of services for personal needs.

The two banks are expected to be launched before the end of the year, but Nedcor executives declined to name a date.

Laubscher said Nedcor was "keeping its options open" on whether to list the banks separately, but that was not the purpose of the exercise. Nedcor would allocate the necessary capital, but the banks would have to grow to provide an appropriate return on capital.

Nedcor to split Perm into two banks

(58)

SAMANTHA SHARPE

NEDCOR announced yesterday it would split the Perm into two banks — the People's Bank and the Permanent Bank — as part of an initiative to bring affordable banking to a wider range of South Africans.

Nedcor CE Richard Laubscher said the new banks, which were distinctly different personal banking institutions, arose from the restructuring of the Perm.

The existing Perm branch network and infrastructure would provide the core, with the allocation of a branch as either a People's Bank or Permanent Bank, dependent on existing clients' requirements.

Laubscher said the launch of the two institutions had involved "substantial" investment in terms of market research and launch costs. These had been included in the banking group's budget and had not put undue strain on Nedcor.

Nedcor Bank was the group's major capital vehicle, and would allocate capital requirements and bear the brunt of capital costs for both institutions, which were expected to break even in "the shortest possible time".

BD 26/4/95

He said People's Bank would be

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Perm

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☐ From Page 1

launched with more than 100 branches and assets of about R1bn. He expected the size of the bank to quadruple. It would be supported strongly by the launch of new products, including the smart card. The bank was not targeting the low-income earner or black consumer exclusively.

The Permanent Bank, which would start with more than 200 branches nationwide, was the final chapter in the Perm's evolution from building society to bank and would provide a full spectrum of banking services. "Focusing our business in this way, which also happens to be consistent with the way retailers approach the market, enables us to bring banking closer to the real needs of the market," he said.

While the purpose of the new banks was not to create listing vehicles for Nedcor, the possibility of separate listings for the two banks some time later could not be excluded, he said.

BANKING

FM 28/4/95 (58)

Setting out directors' ground rules

There has been a hiatus in legislation relating to the responsibilities of bank directors. A change in relevant banking regulations pre-empted the findings of the King Report on corporate governance.

Gazetted at the end of 1993, Regulation 37(5) of the Banks Act required directors to report annually on the effectiveness "of the system of internal controls of the bank, relating to financial and regulatory reporting and compliance with the Act and regulations."

The regulation was based on the findings of the Cadbury report on corporate governance in the UK and on an interpretation of an American requirement that directors express an opinion on internal control.

Organisations representing SA banks argued the regulation was premature in view of the evolving framework for assessment of internal controls, especially in relation to banking control systems, which are particularly complex.

The difficulty for directors was determining the required scope of their responsibilities in the online, realtime banking environment. And they suggested the requirement be left in abeyance until the report of the King Committee, under former judge Mervyn King, was finalised.

Publication of the King report confirmed the Cadbury findings, with allowances for the SA business environment.

Even before publication of this report in December, Regulation 37(5) was being redrafted to take into account the complexities that directors of banks are expected to deal with.

The Cadbury report findings were initially published in December 1992, while guidelines relating to directors' responsiblities for internal control were only issued in December 1994 — an indication of the problems that had to be resolved.

The regulation is intended to ensure that directors are satisfied the internal controls of the bank on whose board they sit are adequate. This means they must be reasonably sure of the integrity and reliability of the financial statements. And they must be satisfied that the policies and procedures of the bank are monitored by its employees to maintain the highest ethical standards and safeguard the bank's assets.

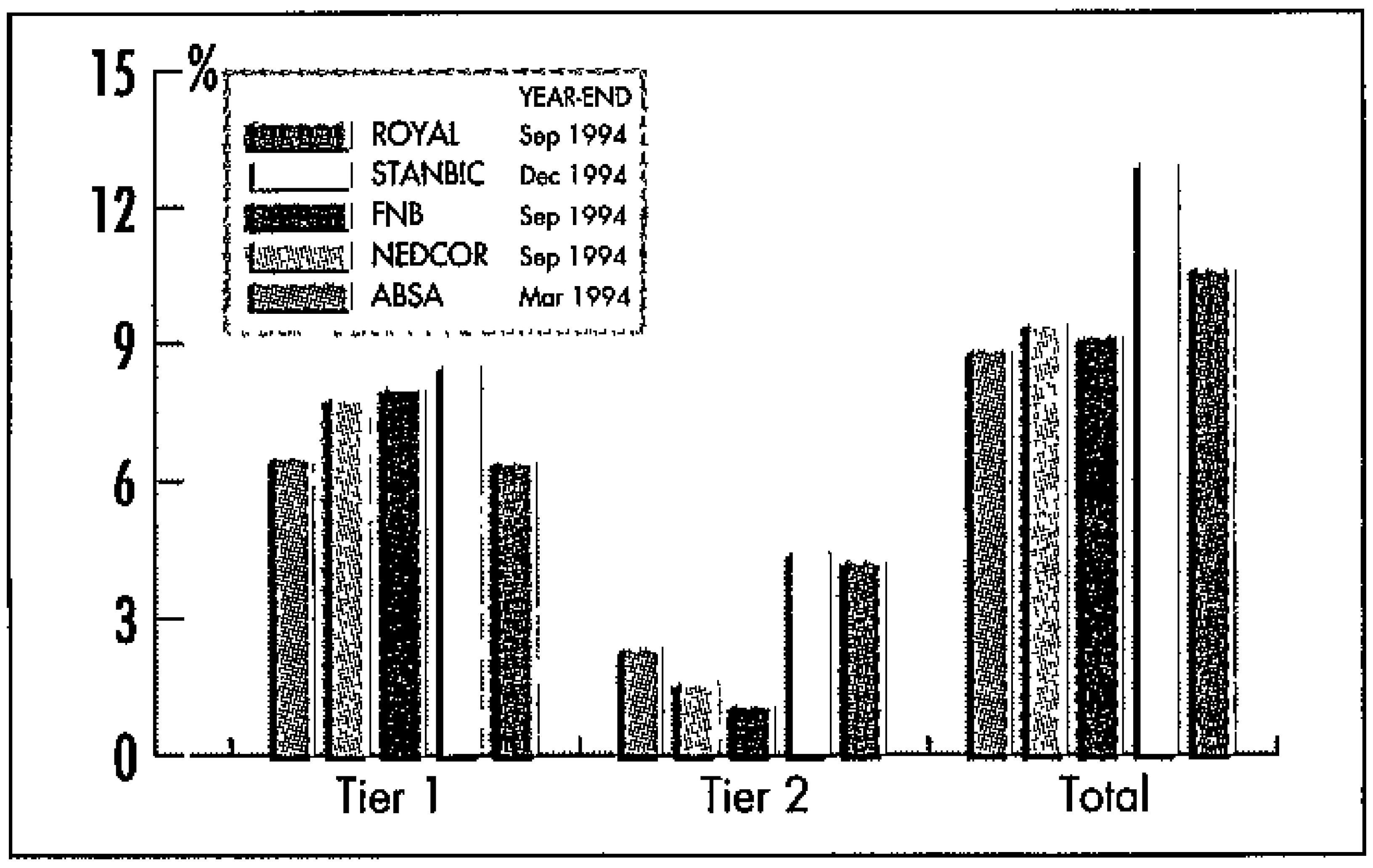
Directors will have to report on the going concern concept. This means they must state unequivocally that they are satisfied there is no reason to believe the business will not continue as a going concern in the financial year.

The SA Institute of Chartered Accountants is working on guidelines for directors and others "in respect of compliance with the King Committee recommendations," says Saica's Monica Singer.

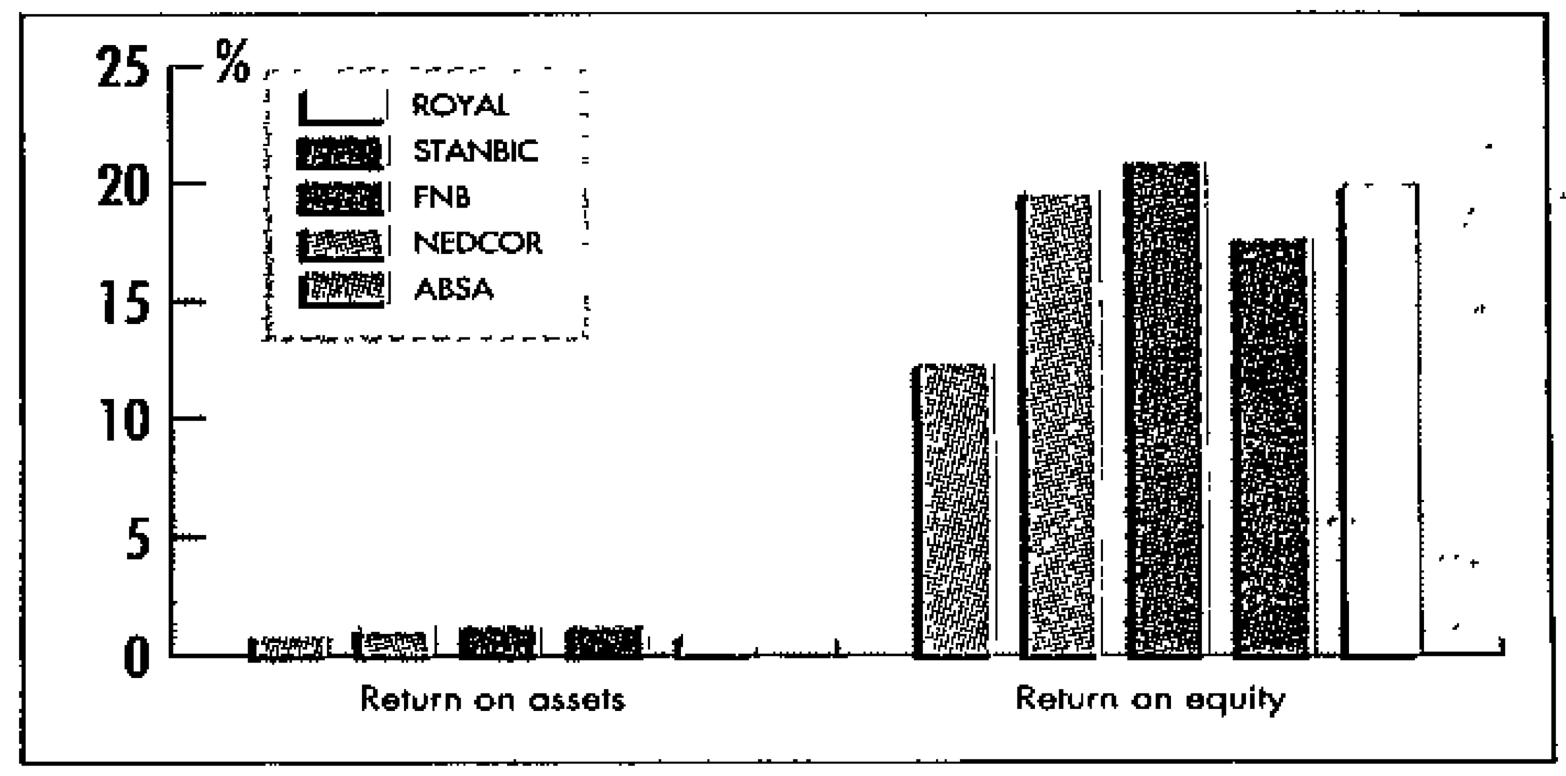
The increasing emphasis on directors' responsibility is the logical consequence of the financial regulators' shift from prescribing banks' business to requiring banks to manage their risk. ■

The Royal Bank of Scotland uses more Tier 2 capital, which is secondary capital including loan capital, while the South African banks have a higher proportion of Tier 1 capital, represented by issued share capital, share premium and reserves. Only Stanbic is using these resources efficiently

Capital adequacy



Profitability



Nedcor and First National Bank are the most profitable of South Africa's four big banks and compare favourably with the Royal Bank of Scotland, whose lower return on assets is explained by the UK's milder inflation rate.

Banking's 'Big Four' must face four big challenges

CT (BR) 28/4/95 (58)

Significant challenges await banks, not least of which is catering for the emerging mass market

By Charlotte Mathews
Investment Editor

The bank which most successfully straddles the gap between the First and Third World sectors of the economy is likely to emerge as the market leader and will offer superior investment returns.

This is the view of analyst Brian Feldtman, of stockbrokers EW Balderson, published in a recent report on "Banking's Big 4".

The Big 4 — Absa, First National Bank (FNB), Nedcor and Stanbic — will experience difficulty in the next few months in maintaining the sound performances of the last year in view of expected interest rate hikes and increased statutory cash reserve requirements.

Those banks that have a heavy exposure to the instalment finance market will be particularly vulnerable, while those that have focused on non-interest income in the form of fees, commissions, trading and exchange income, will benefit.

Besides the credit squeeze, the banks face three even greater challenges. The emerging mass market will have to be catered for efficiently, probably through smart card technology. South Africa's return to the international arena will create new competitive pressures from overseas banks and require compliance with internationally accepted ratios and trends. Finally, the Big 4 face an electronic revolution in retailing that has enabled some retailers to bypass the banks with their own private label cards.

After analysing current progress on smart card technology, Feldtman concluded that although all four were involved in the smart card pilot project at Alberton Shopping Centre, FNB and Stanbic had the credit card base to surge ahead once the universal smart card was launched.

Feldtman has compared the Big 4 to the Royal Bank of Scotland, with the qualification that a strict comparison is not meaningful because of different country-risk and accounting methods.

But in some respects a comparison is valid because South African banks have modelled themselves on British banks, they have to align themselves with internationally accepted norms and because Royal has successfully managed to diversify its earnings' base by focusing on non-interest income such as insurance. Each of the Big 4 has announced intentions of focusing on the non-interest income side and insurance is an important source of this income.

> *South African banks will face the stiffest competition in the area of productivity*

The Big 4 have an average price/earnings ratio of 13,5 compared with Royal's 9,8 and the British banking industry's 7,5, reflecting the higher growth prospects for the local banking industry as well as Royal's faster growth in insurance compared to banking earnings.

In the critical area of bad debt provisions, none of the local banks can compare with Royal, whose bad debt provision is only 0,44 percent of average assets, against Stanbic's 0,53 percent, the best ratio of the four local big banks. But as the political and internal situation improves, local bad debt ratios are expected to come down further.

One area where South African banks will face the stiffest competition is in staff productivity, which does not come even close to that of Royal. Nedcor is well ahead locally, but its R3,5 million of assets per staff member is only about a third of Royal's at £1,7 million or R9,9 million.

Feldtman was most bullish about FNB because it provides competitive banking products that meet the needs of the emerging markets and still accommodates its existing markets It has major growth opportunities in insurance, home loans, funds management, smart cards and private label cards.

Nedcor is also recommended because it is going "all-out" for additional non-interest income while Absa at a share price of R11,40 (it has moved up to R13,15 since the report was written) was considered to have the best return on investment prospects.

Stanbic, with its excellent track record, should also be in all diversified portfolios, Feldtman said.

Focus on Business

Township housing concerns

Sowetan 28/4/95 123 58

■ LOAN PROBLEM Banks deny loan limits despite past losses:

By Mzimkulu Malunga

BANKS HAVE DENIED any discriminatory practices when it comes to lending money for houses in the townships.

This follows accusations in the Press that banks have set certain limits on the value of loans which may be granted to someone living in a township irrespective of whether the person is able to repay the loan.

While banks agree that there is a very little activity by banks in the townships at the moment, bankers deny that there are racial motives behind the inactivity.

"We do not single out an area and say, we are not operating there, but if there have been problems in the past in relation to non-payment or problems in reselling the house, such things can influence the bank's decision," says Standard Bank's Topie van Honschooten, who is also the chairman of the working group coordinating the implementation of the Housing Accord.

In terms of the accord which was signed in the Free State township of Botshabelo last year, it was agreed that all discriminatory practices such as redlining certain areas should stop.

The government also agreed to the establishment of a fund from which banks can claim if they are unable to repossess a house or sell it after repossessing it.

However, the accord has yet to be implemented and in the meantime it seems that old considerations still prevail.

It is hoped that the implementation process for the Housing Accord will take shape in June this year.

Van Honschooten says banks are cautious when it comes to lending in the townships because of the large sums of money they have lost in the past.

It estimated that the banking industry lost in the region of about R700 million as result of defaulting or inability to resell repossessed houses.

He sees the implementation of the Housing Accord, coupled with job creation and economic growth as likely to bring about a lasting solution.

Absa Bank's assistant general manager, Lee Bartlett, says there is no normal housing market in the townships at the moment which makes it difficult for banks to risk depositors' money. He also denies that there is any policy to refuse township people housing loans simply because they live in a black area.

Good results forecast for life assurer

AMANDA VERMEULEN

LIFE assurer African Life was expected to produce good results in line with previous years when it published its year to March figures next week, analysts said at the weekend.

CE Bill Jack said the company's trend in increasing premium income over the last three years off the back of an average 44% increase in new business over the past decade indicated that growth over the next few years was likely to be consistent.

By the turn of the century, providing the growth trend continued, Aflife should be a significant player in the insurance sector, and could match Metropolitan Life in size in just more than a decade.

The company had identified a number of growth areas, including a rapidly growing market provided by continued urbanisation. The number of people flocking to the cities was leaving the extended family unit in shreds, creating a need for extended family benefits, Jack said.

The company's solid growth in past years left it well positioned to expand. One area Aflife had been investigating was sub-Saharan Africa, where life insurance comprised only 3% of total spend on insurance.

Jack said that if the company moved into other markets excluding SA and its neighbours, it would look at forming strategic joint ventures, combining Aflife's expertise and the local partner's knowledge of its market conditions.

In addition, the change in Aflife's major shareholder, from Southern to Real Africa, offered other expansion opportunities within Real Africa's existing and future investments.

Analysts said the results were likely to be consistent with previous years, with earnings a share and dividends increasing over 20%. Although it was a small company, the investment community rated it as well operated with a good understanding of its market.

(58)

One analyst said Aflife could be contemplating a move into the group benefits market.

BD 2/5/95

Standard buys Tanzanian bank

AMANDA VERMEULEN

STANDARD Bank had acquired the Tanzanian operations of pan-African banking group Meridien BIAO for an undisclosed sum, Standard said yesterday.

Meridien's operations in Tanzania were placed under administration by the Bank of Tanzania on April 1. The bank would open today as Stanbic Bank Tanzania.

Standard Bank media relations manager Erik Larsen said the agreement was signed on April 28 by representatives of the Bank of Tanzania and the Standard Bank group. The necessary approvals had been obtained from the regulatory authorities in Tanzania and SA. BD 2/5/95

Stanbic Bank Tanzania would continue to operate three branches of Meridien — two in Dar es Salaam and the other in Arusha. Most of Meridien's staff would be retained. The new bank's customers would not be financially disadvantaged because of their relationship with Meridien BIAO Bank Tanzania. (58)

Standard Corporate & Merchant Bank international division director Graeme Bell said the group's entry to Tanzania would complete its East African network expansion programme.

"Stanbic Bank Tanzania will introduce the group's technology into its operations and will be able to facilitate trade world-

☐ To Page 2

Standard

(58) BD 2/5/95 ☐ From Page 1

wide through its representative offices in the major financial capitals," he said.

The latest acquisition took to 14 the number of African countries beyond SA's borders in which Standard had operations.

Meridien's Swaziland operation was acquired by First National Bank last month. The Swazi bank folded after sister operations in Kenya, Zambia and Tanzania collapsed.

The Financial Times reported from London that the crisis at Meridien BIAO deepened at the weekend when the African Development Bank withdrew its representative from the network's interim management committee.

The news came as the group confirmed that central bank authorities in Niger had closed down Meridien BIAO there because of liquidity problems. Meridien BIAO Bank in Cameroon, the largest in the network, was also said to be experiencing problems.

SA awaits answers from African bank

JOHN DLUDLU (58)

SA WOULD not join the Abidjan-based African Development Bank until certain concerns about membership had been resolved, the Finance Department said yesterday.

The department's chief director for international financial relations Elias Links — who is heading SA's negotiating team — said these concerns had been raised at talks in February, but a number of queries remained unanswered.

Concerns included clarification on whether SA, as a member of the bank, would be liable for past debts incurred by the bank should there be a call on its shareholders.

"To date, replies to many of these issues are still outstanding." BD 4/5/95

Links said the lack of clarity on these queries precluded SA becoming a member of the bank in time for this year's annual meetings, which are scheduled to take place in Nigeria from May 24 to 26.

Another difficulty was that membership of the bank would have to be ratified by both the Cabinet and Parliament.

Links said government was anxious to conclude its membership talks with the bank as quickly as possible.

SA wished to secure full participation in the bank's operations and management.

This would allow the country's private sector to bid for the bank's projects in Africa. Only businesses from member countries are permitted to tender for such projects.

SA would be sending an official delegation of observers to the bank's annual meetings, in line with government's intention to join the bank, Links said.

African Bank restructuring for own betterment

Sowetan 4/5/95 (58)

■ **JSE BOUND** African Bank to ensure black domination before listing:

By Mzimkulu Malunga

AFRICAN BANK IS TO EMBARK on a restructuring programme to prepare itself to enter the mainstream of the banking industry.

The first step in this direction, says chairman Sam Motsuenyane, is to increase the company's share capital and upgrade management skills.

Once the process is complete, the bank may even consider listing on the Johannesburg Stock Exchange.

Motsuenyane says the African Bank shunned the JSE in the past particularly because the directors feared that white institutions could quietly end up swallowing the bank.

Now the plan is to make the bank big enough so that when the time for listing comes, the necessary controls to retain black domination in the institution are in place. The process of expanding the share capital received a major boost at the beginning of April when New Africa Investments Limited (Nail) injected to buy R4 million to 24 percent of African Bank.

Life assurer Metropolitan Life and the "*maimai*" giant National Sorghum Breweries have 15 and 10 percent respectively.

Standard Bank, Nedbank, Trust Bank, Volkskas Bank and First National Bank each have a 1,6 percent stake in African Bank. Initially, their shareholding was higher but has been reduced gradually.

An undisclosed number of shares will also be sold to the black public as part of a programme to increase the share capital in the bank, says Motsuenyane.

He says African Bank should start playing a role in the empowerment of black people — a role similar to that played by Volkskas Bank as the Afrikaners intensified their quest for economic power. The first step in the restructuring process started with the programme of computerising the bank's 36 branches nationally.

The next step, says Motsuenyane, will be the installation of automatic teller machines at strategic branches.

The bank's management is still working on identifying which branches will be the first to have ATMs.

After a shaky start, African Bank bounced back in the past few years and it is now rated among the fastest growing banks in the country.

The bank is now valued at R31 million and has assets worth R680 million.

'The first step in the restructuring process started with the programme of computerising the bank's 36 branches nationally'

Nail's chairman Dr Nthato Motlana receives a share certificate from his African Bank counterpart Sam Motsuenyane.

Nedcor lifts net interim income 24% to R335m

CT(BR) 6/5/95 (58)

CEO Richard Laubscher reports good growth in all divisions with net interest income up 17% and non-interest revenue up 16%

By Charlotte Mathews
Investment Editor

Banking group Nedcor, whose operating companies include Nedbank, UAL, Syfrets and Cape of Good Hope Bank, lifted net income by 24 percent in the six months to March to R335 million, compared to last year's interims.

According to figures released yesterday, net interest income rose 17 percent to R1,1 billion while non-interest revenue was 16 percent better at R770 million.

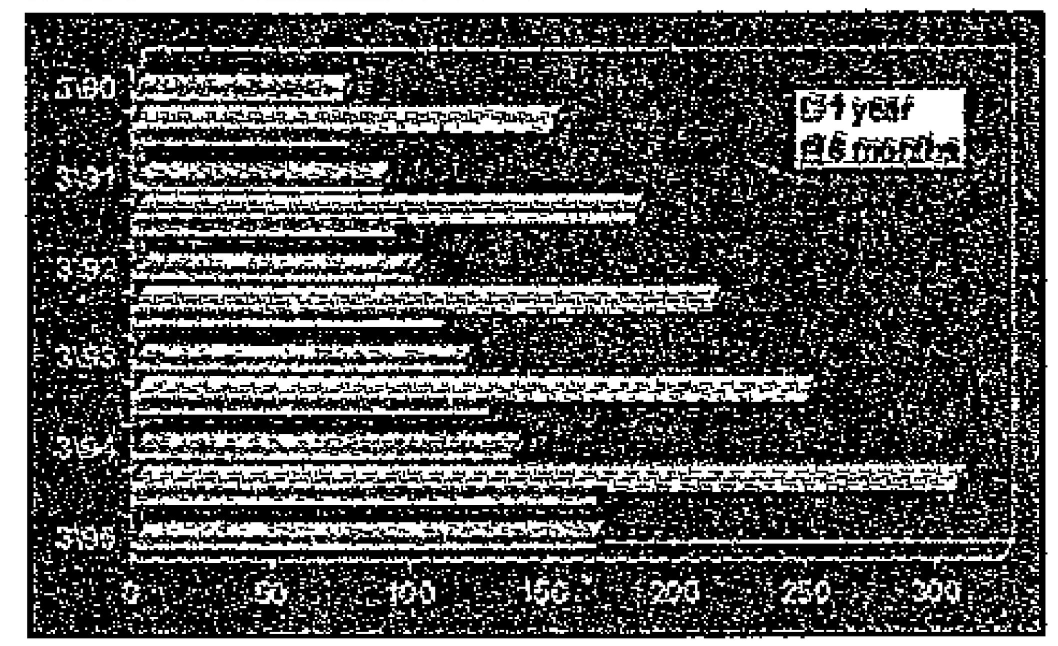
Richard Laubscher, group chief executive, says the growth is acceptable, with advances growing 15,4 percent and the group maintaining market share.

The group is preparing for higher interest rates and has re-shaped its balance sheet by selling fixed rate assets.

The growth in non-interest revenue was constrained by a decision to exert tighter control over securities dealing, but it was boosted by higher income from short-term insurance, financial planning services and ATM services.

Specific and general risk provisions went up 12 percent to R115 million. Laubscher said the group's bad debt experience suggested that it could have been less conservative in its provision, but traditionally there was a surge in bad debts in the first half of an economic upturn.

Nedcor's EPS history



Group expenses were 17 percent higher at R1,3 billion, but consumption expenditure was only 13 percent more. The rest represented new projects.

The group's tax rate declined because of its decision to award capitalisation shares, the lower transitional levy and lower corporate tax rate.

Earnings a share, up 22 percent to 170c, were diluted slightly by the capitalisation award at the end of the last financial year. Capitalisation shares, or an interim dividend of 36c, are again being offered.

Nedcor's return on equity rose slightly to 20,13 percent from 20,12 percent a year, but was diluted by the increase in the capital base. Shareholders' funds were 24 percent higher at R3,5 billion.

Laubscher said the star performer of the operating divisions was Syfrets, which raised its contribution 75 percent to R30 million. Cape of Good Hope Bank also performed well, lifting profit 44 percent to R13 million.

Nedcor will make presentations to international investors in the next two weeks and is considering offering global depositary receipts.

WEEKLY MAIL & GUARDIAN
May 5 to 11 1995

Banks get power to trade on JSE

WM(BM) 5-11/5/95 (SE)

An agreement has been signed which allows banks to enter the inner stockbrokers' circle. **Jacques Magliolo** reports on this and other changes at the stock exchange

Roy Andersen: Compromised little

CHAOS was averted at the Johannesburg Stock Exchange last month, but not completely eliminated. The JSE and the Council of South African Banks (Cosab) reached an agreement to provide institutions with trading powers from November, thereby preventing banks' threats of setting up an alternative exchange.

However, while these threats have now been eliminated, a question mark still hangs over the future of banking-stockbroking in this country and signifies an uncharted role for the exchange.

In addition, JSE executive president Roy Andersen — backed by the JSE committee — knew, before signing the agreement, that stockbrokers would not easily give up their privileged position as having sole right to trade shares.

Yet over the past year Andersen has compromised little and has shown a strength seldom displayed by previous exchange leaders. He has not strayed from his intention of retaining the ideals of the exchange, while still showing willingness to adopt a policy of aligning the exchange to that of international stock markets.

> ❝ Banks' ability to trade for themselves could strengthen their stranglehold over the exchange and further reduce liquidity in an already illiquid market ❞

His attitude is displayed by permitting banks into the inner stockbrokers' circle, but simultaneously enforcing a unified system for all members. This includes a single surveillance system for all trades and one mechanism for trading shares.

It took a year to debate and finalise the Cosab agreement, which outlines criteria and timing for the admission of banks as members of the JSE. As part of the negotiated agreement, the JSE was able to obtain an undertaking from Cosab to co-operate on the restructuring of both the JSE and the settlement system for equity transactions.

Initial thoughts that Andersen had capitulated and sold out stockbrokers were not correct. He has also been able to push through, for stockbrokers, a dual trading system. This will permit all members of the exchange to trade for both their clients and their own book. Another benefit negotiated for stockbrokers is a limited liability clause to protect personal assets against company losses.

Dual trading will take place after non-stockbroking firms become full corporate members in November and after shares are traded via computer in 1996. This is, however, subject to approval by members of the exchange, and to the necessary Act being passed by Parliament.

Andersen says: "This timeframe is to enable non-stockbrokers (both local and foreign) to purchase up to 30 percent of member firms from July and for this percentage to increase to 100 percent on November 8. This should provide companies, which are wholly owned by non-stockbrokers, with time to become members of the JSE.

"The proposed changes are expected to be in line with developments in international exchanges, which aim to benefit investors, listed companies and stockbroking firms and should ease access to the market by prospective stockbrokers," says Andersen.

Have the proposed changes achieved this? Only to a certain extent, in that the JSE's agreement with Cosab means that it can now concentrate on other potentially explosive issues.

The bottom line is that signed agreements do not mean the end of potential chaos. Accepting change in theory and in practice are two extremely polar events. There are two main problems facing the JSE hierarchy:

● If banks trade for themselves, stockbrokers' revenue could diminish. The JSE has no plans nor any policy to help stockbrokers adjust; it doesn't even have a considered opinion on how they can offset reduced income.

Stockbrokers have a number of options. They could sell a portion of their firms to local or foreign institutions, streamline operations through a rationalisation programme, or sell research directly for cash or for a portion of institutional funds which they can invest.

They could become "managers" of deals for institutions, thus taking orders to buy and sell (broker deals) for institutions or they could trade for both themselves and for clients in a dual-capacity system.

● Banks' ability to trade for themselves could strengthen their stranglehold over the exchange and further reduce liquidity in an already illiquid market.

In addition, banks have not shown any willingness to accept the King Report recommendations, which provide for greater disclosure and transparency by all listed companies.

The JSE's total market capitalisation is about R830-billion, yet the four largest banks' ownership of shares grew by 31 percent last year to R175,3-billion. This represents an astounding 21 percent control over all listed companies.

Banks' ability to wield such powers over share prices would surely be unacceptable under Andersen's leadership, particularly if these banks refuse to abide by greater levels of transparency.

The JSE still has some way to go before problems are ironed out and the transition to a fully automated, more transparent system has been accomplished.

African Life raises income by 72%

(58)

CT (BT) 8/5/95

A record year for the Real Africa Investments subsidiary should ease any doubts

BY JOHN SPIRA
GAUTENG BUSINESS EDITOR

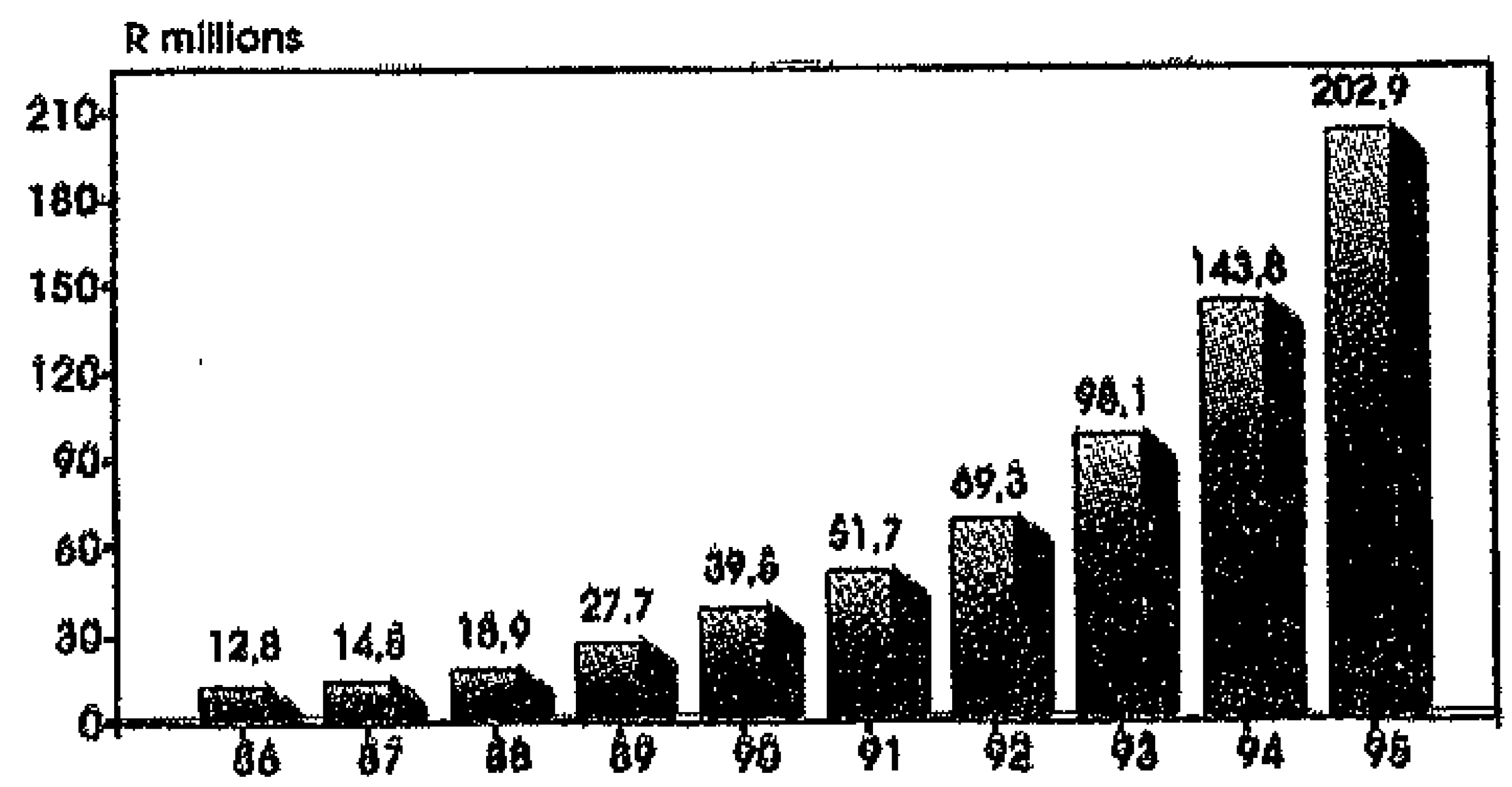
The market hasn't been sure whether or not it was going to get another set of sparkling results from African Life — to judge from the manner in which the shares have lagged those of the other life assurers.

In the event, it has no cause for concern. In another record year (to March 1995), the 51 percent-owned Real Africa Investments subsidiary reports total income up 72 percent to R328,7 million, a marked improvement on the 51 percent gain recorded at the interim stage.

African Life's income advance lifts its compound annual growth rate to 37,6 percent over the past nine years.

The results also show substantial improvements in recurring premium income (up by 41 percent to R202,9 million), single premium income (a 3,7-fold increase to R92,3 million) and investment income (46 percent to R33,5 million).

African Life: Recurring Premium Income



Total assets rose by 30 percent to R554,3 million, while new business advanced by 71 percent, much of it, says chief executive Bill Jack, at the expense of its life industry competitors.

The company is offering capitalisation dividends with a cash alternative of 13,4c, raising the total for the year to 22,4c — 24,4 percent up on last year and in line with the the gain achieved at the per share earnings level.

Jack believes African Life can sustain this rate of growth for the next year at least. He expects recurring premium income to expand by a minimum of 25 percent a year over the next two years.

"African Life is perfectly positioned in the fastest growing market segment in the life insurance industry: low to middle-income earners with rising discretionary incomes.

"The relationship with Real Africa has opened new doors of opportunity for African Life."

In spite of a growth record superior to most other life companies, African Life shares are currently being accorded an inferior JSE rating. Clearly, scope exists for the gap to narrow, if not close .

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Bank plans new facilities

By Audrey D'Angelo

Cape Business Editor

The Cape of Good Hope Bank, which lifted net income after tax by an impressive 44 percent in the six months to March 31, plans to offer cheque facilities and credit cards to clients later this year.

Mike Thompson, the bank's managing director, said yesterday that increased market penetration, organic growth and effective cost containment had enabled the bank to achieve returns of 23,5 percent on shareholders' funds.

This was "well above the norm for the banking industry, coming as it does from a medium-sized lending and investment bank".

The bank's asset book had increased ahead of budget. Net income after tax had risen to R13 million compared with R9 million in the first half of the previous year.

Thompson said buoyant lending volumes reflected improved economic conditions in the Western Cape.

"All lending divisions contributed well and showed strong growth. This was a particularly satisfying performance since our focus is on the Western Cape and we are primarily involved with capital investment in businesses and property development."

Thompson added that the bank was concentrating on improving its non-interest income through the introduction of new products and services associated with its traditional lending operations.

CT (BR) 8/5/95

Cape bank signs major foreign deal

(58) ARG 8/5/95

Deputy Business Editor

MALAYSIAN company Landmarks Berhad is to inject R273 million into the Cape's Boland Bank.

In a deal announced today, Landmarks will acquire a 27 percent stake in Boland Bank through an investment in Landmarks Berhad SA, which is controlled by retail tycoon Christo Wiese.

Mr Wiese, who is chairman of Pepkor, will remain the controlling shareholder in Boland Bank.

The deal is part of a complex restructuring of Boland Bank which involves a rights offer to shareholders to raise R383 million.

Boland Bank, which has assets of R4,5 billion, announced a 31 percent increase in shareholders' profits to R32,4 million in the financial year which ended in March.

Newly appointed managing director Michiel le Roux said the restructuring of the bank opened up exciting opportunities.

- In another announcement today, Pepkor is to increase its stake in Cape-based stationery holding company Walhold from 30 percent to 44 percent, giving the retail group control of Walhold, which in turn controls Waltons Stationery.

Life insurance industry 'faces new competition'

ARG 8/5/95 (58)

Deputy Business Editor

THE life insurance industry will have to look beyond traditional markets for growth, according to Old Mutual chairman Mike Levett.

Speaking at the Insurance Institute conference in Somerset West today, he said spending by South Africans on life assurance premiums was equal in 1992 to 10,3 percent of growth domestic product (GDP) — the highest level in the world.

Further growth could come only from the "emerging market" and from markets beyond South Africa's borders.

The industry also faced stronger competition in future, both from players in other sectors and from foreign competition.

Once exchange control was abolished, South Africans would have many new savings options.

"The industry will need to respond with products and services which meet the asset diversification needs of local clients.

"We will need to compete for their business with hundreds of sophisticated international operators.

"We can also expect an increasing number of overseas investors operating on South African markets and increased investment flows in both directions," he said.

African Life has a good financial year

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BD 8/5/95

AMANDA VERMEULEN

SIGNIFICANT growth in single premium income helped assurer African Life boost total income 72% to R328,7m in the year to March, CE Bill Jack said at the weekend.

This represented compound growth of 37,6% in total income over the past nine years. Earnings a share increased 24,4% to 33,6c and the total dividend was 22,4c (18c).

Jack said the results reflected substantial improvements in recurring premium income, single income and investment income. Recurring premium income increased 41% to R202,9m and investment income improved 46% to R33,5m.

The largest growth was in single premium income, which multiplied 3,7 times to R92,3m, largely due to the Guaranteed Portfolio range of products.

Total assets improved 30% to R554,3m, while new business increased 71%, gaining market share for the company.

Jack said the company would be able to sustain this growth for the next year, and expected recurring income to grow at least 25% a year in the next two years.

"We have continued to take market share away from our competitors as a result of the efforts of the company's marketing team, and with the support of the insurance broking industry."

The new guaranteed plan product provided over R70m in new business and received support from insurance brokers.

He said African Life was well positioned in the fastest growing segment of the life assurance industry — low- to middle-income earners with rising high discretionary income.

The relationship with parent Real Africa Investments, which owns 51% of African Life, had provided new opportunities for the assurer.

Earlier this year Jack said African Life was looking at opportunities to expand the company's financial services.

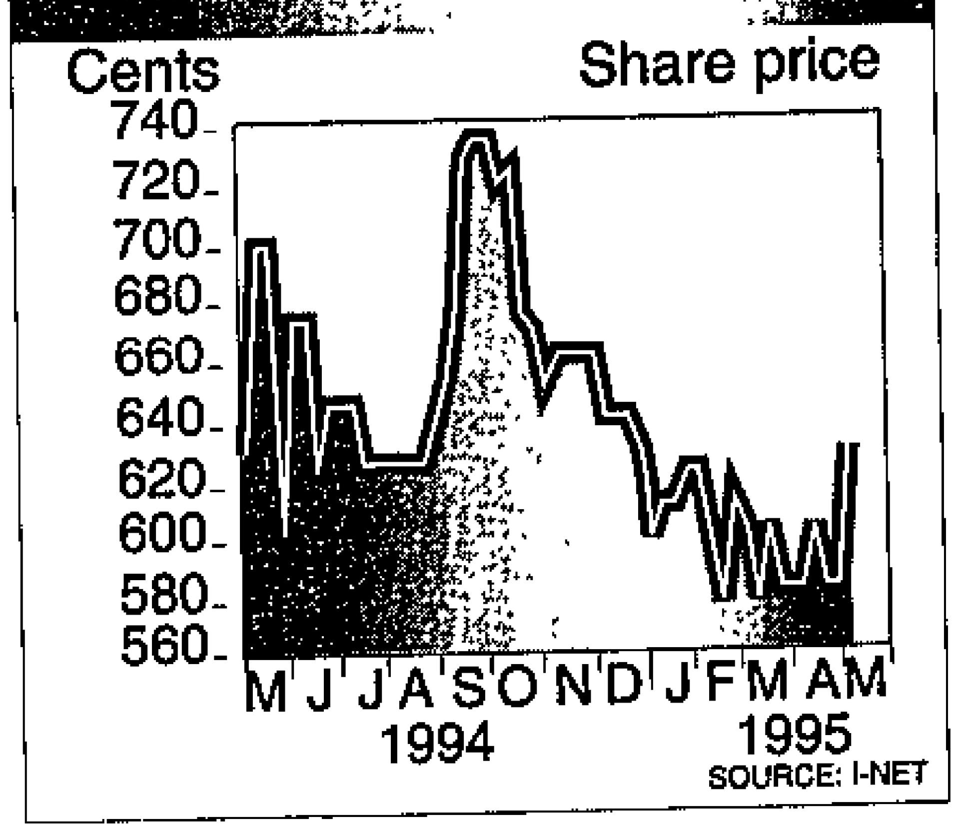
One area of potential growth was the rest of the subcontinent, which had a very low "spend" on life insurance.

Jack said that of all the money spent on insurance, only 3% was allocated to life insurance.

However, if the company moved into the neighbouring states, it would seek a local partner to form an alliance combining African Life's expertise and infrastructure with the local partner's knowledge of its market, he said.

African Life shares gained 65c or 10% on Friday to close at R6,90 — near their annual high of R7,35 in September last year.

AFRICAN LIFE ASSURANCE



Malaysians to get stake in Boland Bank

(238) EDWARD WEST (58)

CAPE TOWN — Malaysian company Landmarks Berhard would acquire a 26,8% stake in Boland Bank, Christo Wiese, the bank's controlling shareholder, announced at the weekend.

The investment is part of a major restructuring of the bank involving a R383m recapitalisation through a rights issue.

Wiese said the restructuring would create a listed holding company for Boland, which he would continue to control.

Describing the R2,3bn Kuala Lumpur-listed investment holding company Landmarks Berhard's decision to take a R275m stake in the venture as exciting, he said: "This is not the usual paper deal, but new investment that is being brought into SA."

In the first stage of the deal Wiese would sell his Boland Bank shares to Landmarks Berhard SA (LBSA) — formerly cash shell Martin Jonker Motors — for R350m. To fund the purchase LBSA would issue 86,5-million "N" ordinary shares to Wiese, giving him a 93,9% stake in LBSA. Landmarks Berhard would hold the remaining 6%. The JSE had agreed to list LBSA's shares under the name Samgro in the financial services sector from June 5. BD 8/5/95

While Boland Bank raised R383m through a rights offer, LBSA would hold a rights offer to raise R253m.

Wiese would renounce his rights in terms of the offer to his Malaysian partner in LBSA. As a result, Wiese would hold 55% of LBSA and Landmarks Berhard 44%. The remaining 1% would be held by minorities.

LBSA's board — with Wiese as chairman — would be reconstituted to reflect the new shareholding. Proceeds of the LBSA offer would be used to take up rights in the Boland Bank offer, raising its holding from 54,8% to 61%. Its 44% stake in LBSA would give Landmarks 26,8% of Boland's equity.

Next Boland Bank would transfer its operation to an unlisted, wholly owned subsidiary, which would pay for the business by issuing ordinary shares. The bank would be registered as a bank controlling company and change its name to Boland Bank Holdings, listing on the JSE as Bolhold on June 5.

● See Page 12

NEWS FEATURESS *Perm goes down-market to tap into*

The People's Banker delivers

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sowetan 8/5/95

By Mzimkulu Malunga

NEW INSTITUTION *A complete break with tradition to serve communities:*

THE newly-created People's Bank will break from the traditional conservatism associated with banks, says its general manager Liphapang Potloane.

If this objective is to be realised, the bank will have to disregard some of the long established practices that banks have come to be known for, he argues, even though he shies away from going into details.

He says the bank, which many see as targeted towards the lower income groups, is geared to anybody who earns a regular income but needs "simple, accessible and affordable financial services".

The People's Bank was born out of the breakdown of what used to be the Perm Building Society into two financial institutions just over a week ago by Perm's owners, Nedcor group.

It is expected that the bank will be operational within the next few months and will open 107 branches simultaneously across the country.

The branches will be established in both metropolitan and rural areas and will be equipped with all facilities associated with today's banking world, including Automatic Teller Machines.

Like many banks of its nature, the People's Bank, will have an anchor branch which services various sub-branches, he says.

For instance, there could be a main branch in a town like Vereeniging with sub-branches throughout the Vaal Triangle area. Initially, the bank will employ about 400 people which will increase over time.

"And of course in any change there is need for fresh blood," comments Potloane, hinting that new job opportunities will be created.

He says the People's Bank's creation is part of Nedcor's overall strategy of segmenting the market into various categories.

Patterns of behaviour

"We believe that unless we are focussed in respect of meeting the needs of specific market segments, financial services will still not be available to a wider range of South Africans," he argues.

Contrary to perceptions, the market segmentation, says Potloane, is based on patterns of behaviour rather than income levels.

Housing loans, investments, savings and transmission accounts, insurance as well as group savings schemes are among the bank's product range.

Building on the image cultivated by its predecessor, Perm, particularly when it comes to building cordial relations with the communities it serves, will be one of the bank's major priorities, says Potloane.

The People's Bank will break from the conservatism associated with banks, promises Potloane.

Responding to a question as to whether the ownership of the bank will eventually be passed to the community it serves as its name suggests, Potloane does not want to give details but says there are "consultative processes and other innovative programmes currently being finalised".

Although Potloane has only been working for the Nedcor group for a year, he is not new to the world of development and banking. Prior to joining Nedcor he spent almost a decade at the Development Bank of Southern Africa.

Born on a farm near the Free State town of Ficksburg, Potloane spent most of his youth in Lesotho finishing his secondary school education at the Catholic mission's Christ The King High School before graduating with a BA Economics degree from the then University of Botswana, Lesotho and Swaziland (now the National University of the Lesotho).

He finished off with a Master of Science degree in agricultural economics from Oklahoma City State University in the United States.

Between 1978 and 1980 Potloane helped establish the Lesotho Agricultural Bank while a lecturer at NUL.

"During this period I was also working on various developmental projects funded by organisations like the Food and Agricultural Organisation, the World Bank and the United State Agency for International Development," he says.

In the early 1980s Potloane went back to his Free State roots and joined the then QwaQwa Development Corporation (now Highland Development).

He worked for a few years before going to the DBSA.

SA insurance industry 'nearing saturation point'

B/D. 9/5/95 (58)

CAPE TOWN — The seemingly rosy future of SA's life insurance industry, the growth of which has outstripped many similar industries worldwide, could be tempered by the prospects of a single-digit inflation rate and an increase in competition.

Old Mutual chairman Mike Levett told the Insurance Institute of SA conference in Somerset West yesterday there was a high probability inflation could ease back into single-digit territory in future.

"The lower the inflation rate, the lower the nominal returns earned for policyholders."

While the industry would continue striving for real returns, policyholders would have to be educated to understand that their actual nominal payouts could turn out to be less than was expected when inflation was high.

In addition, said Levett, premiums could be expected to grow at a slower rate.

"In turn, of course, fee increases will be depressed.

"The result will have to be in-

EDWARD WEST

creased management vigilance to ensure continued profitability," Levett said.

The Swiss Reinsurance Company's analysis of the world insurance industry showed that in 1992, SA life assurance industry premiums equalled 10,3% of GDP — the highest level in the world.

"While this is a reflection of the effectiveness of our industry, it also points to the real possibility of market saturation — at least in our traditional markets."

He said that the industry's growth was likely to come from "so-called emerging markets" and from looking further afield to markets beyond SA's borders.

Insurance Institute of SA president and Liberty Life vice-chairman Dorian Wharton-Hood said SA's life industry showed 11% real growth during the recession in 1992, well up on world average real growth in that year of 4,6% and the UK and US industry growth averages of 4,3% and 2,1% respectively.

Wharton-Hood said it was crucial that the competitiveness of SA's insurance industry be maintained and the playing field between life insurance companies and other financial services needed to be levelled.

This "levelling" should address factors such as regulations pertaining to insurance commissions, benefit illustration agreements and switching agreements.

Wharton-Hood said the industry had proved to be successful in garnering and investing the savings of South Africans.

It would also become an attractive target for foreign competitors, he said.

Levett said regulations to register insurance intermediaires based on prescribed minimum standards would prevent new entrants into the industry.

The registration of intermediaries is being considered by the Financial Services Board as a consumer protection mechanism.

He said the regulations would deprive clients of services.

"The irony is that this is most likely to affect those sectors of the community least able to do without the financial security provided by the industry."

Bank must assess role — audit

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NAIROBI — The Eastern and Southern Africa Trade and Development Bank (PTA Bank) has met an extraordinary range of difficulties in the past 15 months and must appraise its role in regional development, an independent audit says.

Coopers & Lybrand said in an annual audit report the effect of those issues was becoming detrimental to the bank's image and reputation and ultimately its survival.

It said many serious issues arose last year, mainly as a result of relocation from Burundi and allegations of financial irregularities.

The firm said the bank's accounts showed losses of just over 3,5-million Uapta (Unit of Account of the PTA), about $5,25m), due to provisions of 4,2-million Uapta against amounts with Meridien International Bank — the bank put into liquidation in the Bahamas, and several of whose African branches have been closed.

The audit said PTA loans had started to show signs of repayment problems and it also appeared that loan commitments already made exceeded available finance.

The audit firm also called for a review of Uapta traveller's cheques, following foreign exchange liberalisation. Kenya's central bank says abuse of the Uapta cheques by PTA bank staff lost it $1,33m.

The bank is owned by 13 African governments and the African Development Bank and was set up to stimulate trade in the Common Market for Eastern and Southern Africa.

The auditors said allegations by PTA bank finance director Webster Masvikwa that bank president Martin Ogang lost the bank $3,5m in negligence clearly led to a mutual lack of trust and co-operation.

A special five-nation committee last week cleared Ogang, a Ugandan, of any wrongdoing and recommended disciplinary action that may include sacking Masvikwa. — Reuter.

Nedcor's share of home loans falls

BD 9/5/95 (58)

SAMANTHA SHARPE

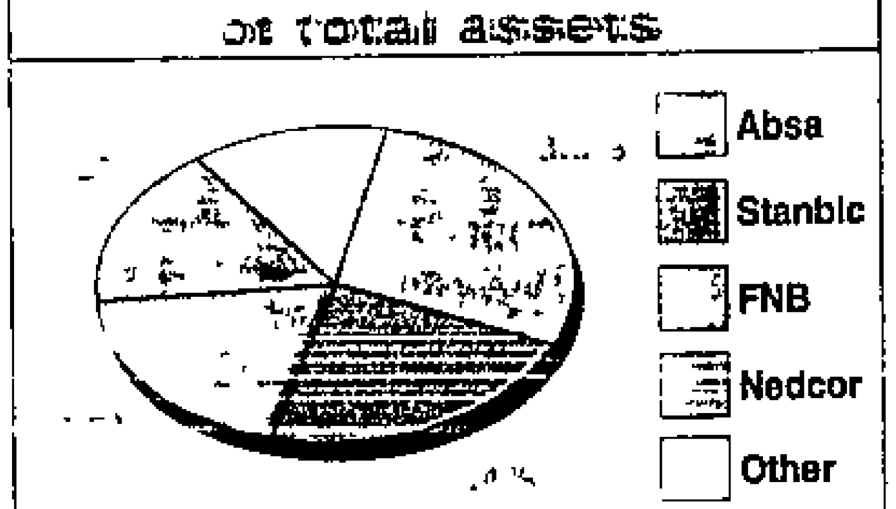
BANKING group Nedcor was unable to match the other major SA banks — Standard, Absa and First National — in terms of increasing or maintaining its share of home loans and total advances, latest Reserve Bank DI900 figures for February show.

The figures, which measure the market share of all SA banks in terms of their assets and liablities, showed a fall in Nedcor's share of total advances to 15,9% in February from 16% in January and a decline in its share of the home loans market to 18,8% from 18,9%.

The group's share of total assets, however, was unchanged at 16,4% between January and February.

Banking analysts said the latest statistics confirmed a trend of declining market share in terms of Nedcor's share of most categories of advances in the past year.

Percentage market share of total assets



Graphic: KAREN MOOLMAN Source: DI 900 RETURNS FEB 95

This was surprising given the high rating the banking group's share price enjoyed relative to the rest of the sector.

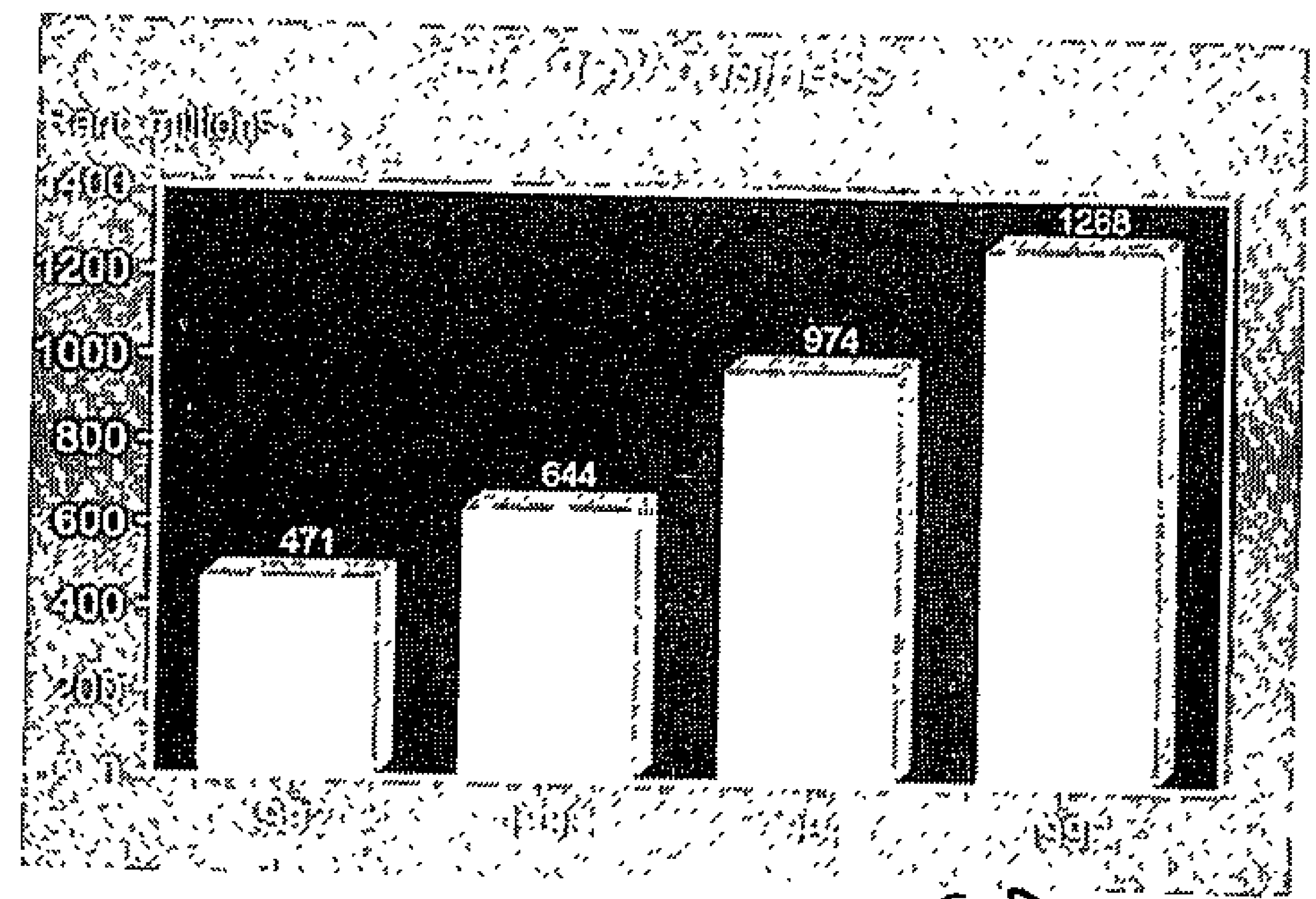
The analysts said that during the 1994 financial year Nedcor had focused its attention on maintaining its client base and enhancing its distribution strategies. This had been the primary cause for its shrinking market share.

Nedcor executive director Mike Leeming said Nedcor was concerned about the strong rise in consumer credit currently characterising the banking industry, and it was distancing itself from business areas which involved substantial increases in consumer credit extension.

Leeming said the group's recent foray into the retail market through its smart card project with Edgars and other members of the SA Breweries group had targeted a selective client base and was relatively small compared with the increases in consumer credit among other players.

First National Bank showed an increase in its total assets market share, with a rise to 19,6% from 19,3%, while the Standard Bank group grew its total assets market share to 22,4% from 22,3% in January.

Absa showed a marginal decline in its share of total assets to 28,5% from 28,7%. But Absa group executive Frans du Toit described the February figure as a temporary blip.



58

Southern Life surges

By John Spira

GAUTENG BUSINESS EDITOR

Southern Life's strong performance on Diagonal Street is partially explained by a surge in new business.

In the year to March, new individual business sales passed the R1 billion mark to reach a record high of R1,3 billion — 30 percent up on the previous year's figure. Recurring premium business grew by 24 percent to R325 million, while single premiums rose 33 percent to R943 million.

Chris Liddle, Southern's executive director (life division), says Exclusive Life, the product aimed at protecting policyholders against the financial impact of Aids, was once again the major contributor to the company's success, accounting for more than 30 percent of new business.

"By eliminating cross-subsidisation of HIV-infected people we can ensure that policyholders will not face drastic premium rate increases a few years from now."

Southern will release its financial results on May 17.

CT (BR) 10/5/95

FNB's earnings up 21,5%

(58) ST(BR) 11/5/95

By Derek Tommey

The growth in First National Bank's earnings accelerated in the six months ended March, rising by 21,5 percent from R315,7 million a year ago to R383,7 million.

This compares with a growth of 18,5 percent in the 12 months ended September last year.

Earnings a share in the six months increased from 72,5c to 88,1c and the interim dividend has been raised by 19 percent from 12,6c to 15c a share. In the 1993-94 financial year the dividend increased by 16,2 percent.

A significant increase in earnings from fees and other charges, and a slowdown in cost increases, more than offset the retarding effect on profits of the steady increase in interest rates.

Net interest income rose 11 percent to R1,38 billion after rising 14,9 percent to R1,24 billion a year earlier.

But fee income grew by 19,4 percent to R1,15 billion while other operating expenditure rose 14,8 percent (against 23,6 percent a year ago) to R1,75 billion.

The charge for bad debts fell by 2,3 percent to R179,9 million, a far smaller percentage of total advances than a year ago.

Total assets grew by R9,9 billion or 16,9 percent to R68,4 billion. The bulk of this growth is the result of an 18,3 percent increase in advances which rose R8,24 billion to R53,4 billion.

Deposits rose by R8,6 billion or 16,4 percent to R60,8 million.

Barry Swart, managing director, said all areas of the group had been performing well. This was the result of the organisation's balance between effective risk management and good customer service.

FirstCorp, the group's merchant banking arm, remained a significant contributor to group profits.

Swart said he was confident that the bank would continue to turn in a solid performance for the remainder of the financial year.

Old Mutual launches international fund

CT(BR)11/5/95 (58)

BY DEREK TOMMEY

The Old Mutual is launching the Global Equity Fund in anticipation of the further easing of exchange control.

It will be an international fund aimed at providing South African investors with the opportunity to invest abroad to the fullest extent as and when exchange controls are relaxed. In the meantime, it will operate as a rand hedge fund, investing in companies with major foreign interests and in commodity producers with overseas markets.

Selwyn Feldman, managing director of Old Mutual Unit Trusts, said investors who bought into the fund ahead of the lifting of exchange control would automatically participate in offshore investments when controls were lifted.

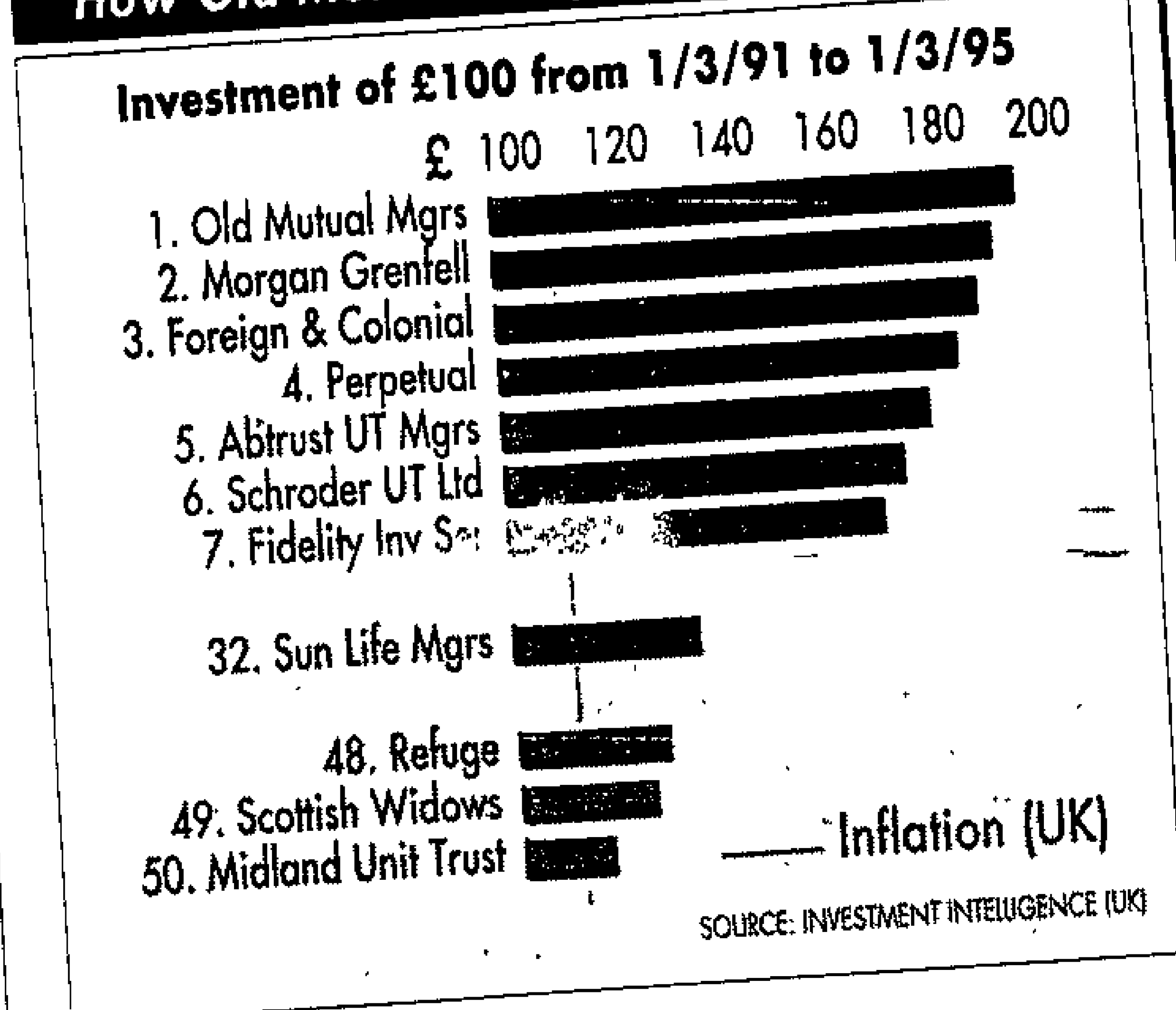
Initially the fund was likely to be high-risk, with returns reflecting changes in the exchange rate of the rand. But as it started investing in top firms in stable countries with hard currencies the risk element would be substantially reduced.

Foreign investments would be handled by the Old Mutual's international investment operation which has been in place for almost 10 years and has achieved an outstanding track record.

Feldman said the Old Mutual believed the authorities would phase out exchange controls gradually, with institutions allowed to invest overseas before private investors. The authorities would be able to maintain better control as they could instruct the institutions to, for instance, reduce foreign holdings to protect exchange reserves.

Investment costs will be identical to Old Mutual's South African equity funds and the tax advantage currently available to unit trust investors (no taxes on capital gains) will apply to the new fund.

How Old Mutual compares



Old Mutual has outperformed the large UK and US firms

Corporate Africa takes first step (58)

BD 11/5/95

Plan to launch black-owned merchant bank

AMANDA VERMEULEN

THE Corporate Africa group (Corpaf) launched a financial services company yesterday which it intended to turn into a leading black-owned merchant bank.

The new company, which has yet to be named, will be at least 51% owned by the Corpaf group, while directors and other employees will have equity. Senior executives from Rand Merchant Bank (RMB) and Standard Corporate & Merchant Bank (SCMB) have been appointed to run the company, which opens on Monday.

The new company's MD, former SCMB corporate finance head Rob Dow, said negotiations were under way with major foreign parties and local companies with a view to bringing them into the venture.

Dow declined to put a figure on the financial backing of the new organisation, but industry sources said it had start-up capital of R10m and significant funding capital from other sources would be injected into the company. The link to Corpaf, the holding company of New Africa Investments (Nail), would also provide the company with access to its R7bn asset base.

The company would focus primarily on black economic empowerment transactions by forging links between black business and established mainstream companies, he said. "Black business has to penetrate the mainstream of business and take the initiative if it is to survive. The formation of a black merchant bank will have significant benefits for its black shareholders, who will be on the receiving end of the profits gained from constructing empowerment alliances."

The new company would also play an essential role in providing black business, regarded by many in the financial community as an investment risk, with the capital to get ventures off the ground and the skills base to put empowerment transactions in place, he said.

At least two deals to be executed by the new company were already on the table, including a major telecommunications transaction and a large media venture, sources said. Dow said the company was looking at two listings of black-controlled companies in the short term.

Other areas it would focus on were unbundling, privatisation and joint ventures with foreign corporates. Dow said the JCI unbundling was being investigated as a possible area of involvement.

One industry source said the company was investigating proposals from a local group to make a significant bid for the unbundled JCI assets.

Other senior executives joining the company included former RMB corporate finance GM Carel van der Merwe and

☐ To Page 2

Corporate Africa (58)

BD 11/5/95

☐ From Page 1

SCMB senior corporate finance officer Zenzo Lusengo. Other directors would be appointed to the board. The chairman's post had still to be filled. Van der Merwe would be strategic projects GM and Lusengo would be corporate finance GM.

Dow, Van der Merwe and Lusengo have played key roles in several black empowerment deals and listings.

Dow said the company would seek a good working relationship with SCMB to facilitate future empowerment deals.

The company should have finalised details within three months, including forming partnerships with investors at home and abroad. Negotiations were still taking place on the size of the holding the Corpaf group would have in the new venture.

Code of conduct to set mortgage loan criteria

BD 11/5/95 22 (123) 58

ROBYN CHALMERS

LENDING criteria for mortgage loans extended to low-income earners would be non-discriminatory and transparent following the recent consensus reached on a banking code of conduct, Standard Bank divisional GM Jopie von Honschoten said yesterday.

Housing sources said the code meant redlining would become a thing of the past as banks could no longer grant mortgage loans based solely on the geographic area in which the property was located.

Von Honschoten said major mortgage lenders had committed to the code to ensure they operated within a normal business environment on a nonracial and nondiscriminatory basis.

The code dictated that mortgage lenders would provide education on mortgage finance and related issues as well as disclose all the relevant fees, interest rates, charges and the other conditions relating to a loan.

He said in cases of bona fide economic hardship, lenders would provide counselling, financial advice and where possible a rearrangement of repayments.

This related in part to negotiations between government and banks on the estimated 16 000 repossessed properties and non-performing loans of mortgage lenders.

Von Honschoten said the banking sector had set up a fully resourced service company, called Servcon, to interact with occupants of these properties and attempt to break the logjam on bond payments.

"The objective, together with state support, would be to normalise the occupants' position or where there is no affordability, help the occupant in a rightsizing arrangement (whereby a smaller, more affordable home was found)," he said.

Affordability had become a politically sensitive issue with prospective homeowners, and mortgage lenders had agreed on certain criteria as a result.

Rather than stipulate a percentage of income, traditionally a 25% ratio was applied to work out the instalment and thus the loan size, the lender's disposable income after housing expenses would, he said, be the determining factor.

Lenders would also place a limit on the total credit obligations of the applicant, so credit commitments should not exceed 35% of monthly income.

Applicants would be required to put down a minimum deposit of 5% out of their own savings.

Von Honschoten said banks would work with applicants who had not yet accumulated any savings to allow the deposit to build up over a period of between nine and 12 months.

In a bid to guard against the impact of interest rate increases, he said banks were well advanced in their investigation on the feasibility of fixed rate instalment loans to low-income borrowers.

CAPE TIMES

BUSINESS REPORT

SOUTH AFRICA'S NATIONAL FINANCIAL DAILY

Absa establishes a foothold in Europe

CT(BR) 12/5/95 (58)

STAFF WRITER

Absa, South Africa's largest banking group, yesterday said it had bought a German bank with assets of 430 million marks in the first purchase of a continental European bank by a South African institution.

Absa chairman Dave Brink told Business Report that while the undisclosed purchase price was small in terms of financial institution buyouts, the acquisition was "interesting for us".

"We've been spreading our international networks. We have had a representative office in Frankfurt. This will give us a proper bank in Germany," Brink said. Absa also has offshore branches in London and Hong Kong, and recently opened operations in Singapore and Shanghai.

The German bank, Bankhaus Wolbern of Hamburg, functions in niche markets of trade financing for medium-sized corporations and private banking, where it has a sizeable portfolio of high net worth individuals as clients, Absa said in a statement announcing the purchase.

Absa will move its German representative office from Frankfurt to Hamburg and will inject 10 million marks of capital into the German bank and use it to promote trade between the two countries.

Doug Anderson, Absa's managing executive for the treasury and international banking, said:

"I see an opportunity for an increase in capital flows in respect of German residents wishing to invest in South African bonds and gilts." He called Bankhaus Wolbern a "successful bank with a clean loan portfolio".

Absa was formed in January 1991 when United Building Society Holdings acquired the total assets of three other groups — Allied, Volkskas and Sage Financial Services. Absa acquired Bankorp Holdings in April 1992.

NEWS

50% MONTHLY INTEREST CHARGED

Loan sharks prey on on city pensioners

CT. 12/5/95 (58)

PENSIONERS already strapped for cash are paying up to 50% interest on money lent from loan sharks operating at the Civic Centre. **CLAIRE BISSEKER** reports.

PENSIONERS in Bishop Lavis are trapped in a cycle of debt and dependence where some have signed over their pensions to money-lenders who claim up to 50% interest a month.

But far from despising the money-lenders, the old and disabled who buy food on credit to stretch their measly pensions of R390 a month, sing the praises of Mrs Rieva Green, 59, who they say is "the cheapest and most popular" money-lender in Bishop Lavis.

Mrs Green has been operating in the area for 15 years. She charges 40% monthly interest but declares she is "cheaper than the banks".

Customers who queued outside her combi in the Civic Centre parking lot yesterday said they valued Mrs Green. "She always helps us, we can go to her at any time. She's fair and doesn't cheat."

However, Mr John Adams, ANC branch vice-chairman, said he had received dozens of complaints about Mrs Green.

According to Mr Adams, she keeps customers' pension books, collects their pensions as their appointed nominee and takes her cut before handing over the rest.

"Her secretary has a pile of green forms on which people who are too sick or unable to collect their pensions in person can nominate a candidate to collect the money on their behalf.

"People get trapped in the cycle of debt. They get trapped in the gutter. It's terrible. You can't survive on R390 a month, especially if you are borrowing money."

Mrs Green refused to explain what she did with customers ID and pension books. She said her business was risky and she made "a lot of losses".

Dozens of money-lenders and hawkers who offer credit ply their trade at the Civic Centre.

According to hawker and money-lender Mrs Rosaline Lamoor, pensioners buy their food on credit from different hawkers and end up owing everybody.

"This leads to a lot of jealousy among the loan sharks. People come to me and Mrs Green because we know how to treat them. We don't swear at them or hit them, like some of the others."

Mrs Lamoor charges 50% interest which she says is the going rate.

"We are honest ... we're not like the people who sell them buttons or drugs or drink," she said.

MONEY LENDER: Mrs Rieva Green, 59, a Bishop Lavis money-lender, is popular with her customers (from left) Mr Abraham Hendricks, Mr Daniel Tom and Mr Albert Cook, who say she is fair. *PICTURE:ALAN TAYLOR*

Big banks mount concerted effort to draw in the people

HILARY JOFFE

(58) BD 12/5/95

NEDCOR's recent decision to turn part of the Perm into the People's Bank, separate from the more conventional Permanent Bank, adds to a series of initiatives by the large banking groups aimed at bringing a wider range of South Africans into the formal banking system.

Over the past year Standard's E-Bank and First National's FutureBank have opened their doors, joining the Community Bank, which derived much of its start-up capital and knowhow from the big four banks.

Each represents a different approach to the problem of banking the "unbanked". All reflect the growing realisation among bankers that their traditional practices and products can reach only a minority of income earners. But mainstream bankers have not gone easily into the lower end of the market: although volumes are potentially high, so is the perceived risk.

The impetus to action came from several sources, among them reconstruction and development programme documents which have pointed to the inability of large financial institutions to serve most of the black community, calling for government to legislate against discriminatory lending.

Nedcor and Standard have gone the route of having separate institutions; both People's Bank and Standard's smaller E-Bank project are based on the view that different customers have different needs, and it is costly and ineffective to provide for all at every branch.

Ironically, all of the large groups are relying heavily on high-tech to serve those with low incomes. High on the list of innovations in this market are smart cards containing microchips which update details of a customer's bank balance every time the card is used. Automatic teller machines, in one form or another, are also central.

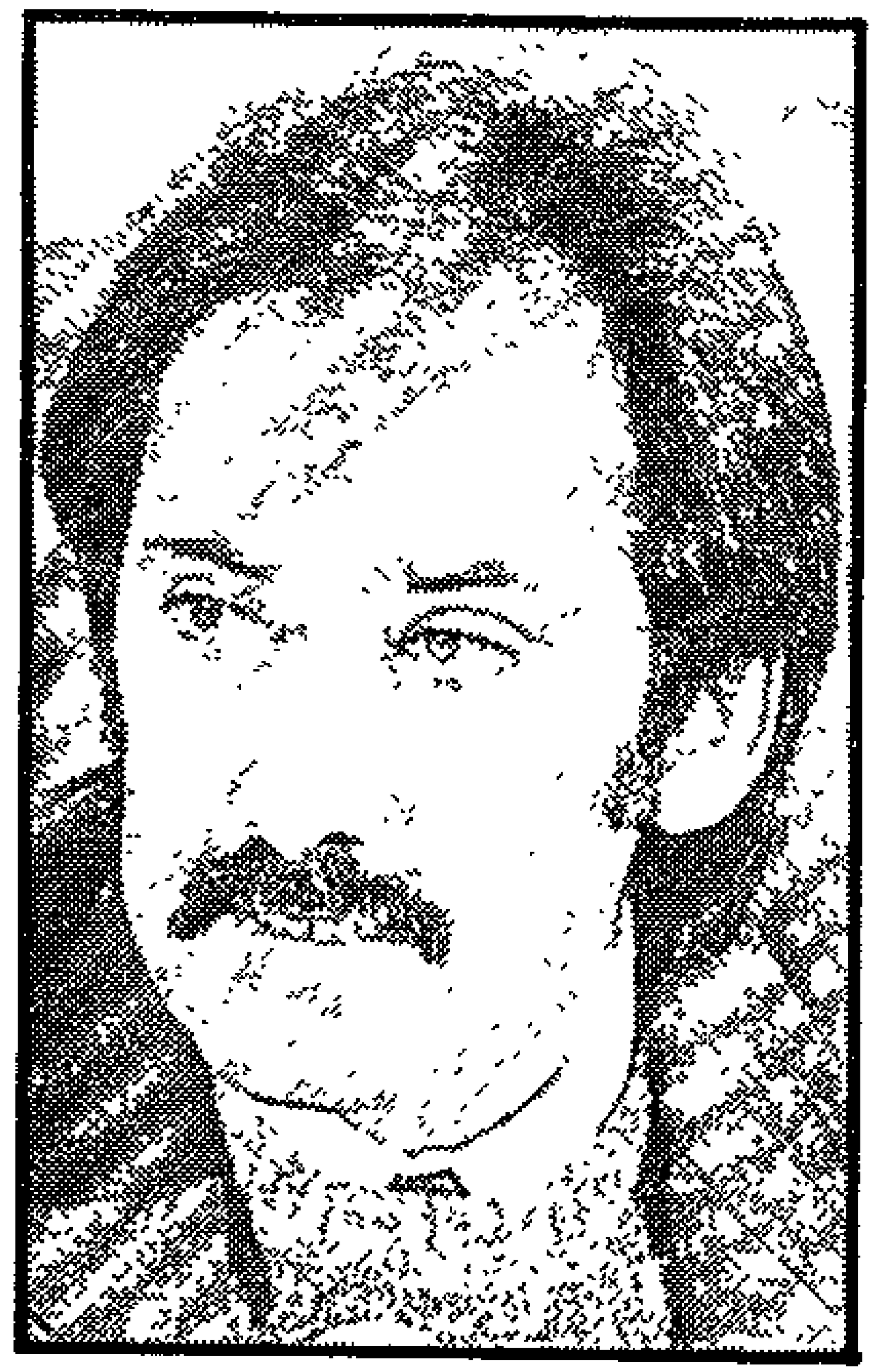
Perm divisional director Hugh Maclachlan explains the rationale for the separation of People's Bank and Permanent Bank in terms of customer needs, hastening to stress that the division is not race-based.

Most lower-income customers need a bank which allows them to pay in their salaries, draw their money easily and save a bit. The Perm has, for example, many pensioners on its books who fit this profile. The idea, says Maclachlan, is that People's Bank will be able to drop the price of banking for those whose needs are limited to simple transactions. Customers wanting cheque accounts will have to go elsewhere (preferably to the Permanent Bank, offering the full spectrum of banking services).

Existing Perm branches have been divided into 100 People's Bank and 200 Permanent Bank branches. The People's Bank branches will serve mini-branches at which banks of ATMs will do the transactions but staff will handle queries.

High technology is central to Standard's E-Bank project, described in the group's latest annual report as "a novel application of banking and information technology designed to help formerly unbanked people into the banked sector". Although the project has not been publicly launched, 10 outlets have opened since September and there are plans for 50 more.

Unlike People's Bank, these will not necessarily be self-standing — many are likely to be in existing Standard branches. Products will include features such as smart cards, fast-issue cards and coin dispensing.



☐ COOVADIA

Home and small business loans are also likely, adding to existing efforts within Standard itself, for example small loans (R2 500 to R6 000) for informal sector entrepreneurs.

The FNB group's FutureBank has black customers as its target market, but FNB itself is directing its efforts at using technology to reach previously neglected communities. It is also looking beyond the traditional "bricks and mortar" branch to find new ways of delivering services, says Information Technology GM Mike Jarvis, citing mobile banking units and outlets offering basic banking services at stations, taxi ranks, bus terminuses and shopping nodes.

FNB won 70% of the business of the nine regional governments recently and its technology is said by one JSE analyst to have been the main reason.

But if the large groups are going high-tech, Community Bank is tending the other way in at least one respect: it is sticking with old-style book-based savings because, says CE Cas Coovadia, this is what the members of its constituency have said they want. Branches will be linked electronically, but there are no ATMs and no intention to provide sophisticated banking services.

The Community Bank, which opened its first branch in July last year, now has six branches and plans to open six more by August.

By end-March it had just over 7 500 savings accounts averaging R350 an account and had processed R15m of housing loans averaging R40 000 each. This included lending in areas "redlined" by the commercial banks such as Soweto, Katlehong and the inner city.

The bank was formed to do a specific job: generating savings and providing access to loans for low-income people, says Coovadia. These include loans for houses in the R30 000 to R40 000 bracket, loans for incremental housing in the R5 000 to R15 000 range, small business loans from R2 500 to R25 000 and personal loans (for example to purchase appliances) of up to R10 000 or R15 000.

"Low income" means households earning not less than R1 200 a month, Coovadia says. These are the households which can be served within normal financial principles. Below that level the bank cannot service customers without facilities from the government. Discussions are under way on, for example, a zero-interest loan.

Community Bank's registration as a mutual, in terms of the Mutual Banks Act of 1993, aims to ensure ownership by its users. Customers must purchase at least one (interest-bearing) share, entitling them to vote for boards of directors at national and branch level. By end-March there were more than 7 500 share accounts averaging four shares of R80 each. Because the bank pays interest, not dividends, there is no pressure to maximise profit, and it can put money into areas of greatest need. It is expected to become profitable in years five and six of operation, but profit will be ploughed back, Coovadia says.

The Community Banking Foundation operates alongside the bank, running workshops before branches open to teach potential customers about banking and to empower them to participate on the board. Customers have to save with the bank for six months before they can be granted loans, which usually gear up to savings three times.

Coovadia notes that Community Bank was formed at a time when the other banks were not venturing into this market, but he welcomes their entry now. At its most successful, he says, Community Bank could not address more than 30% of the need.

Nedcor figures show that of the 22-million adults identified in last year's election, only 10% had cheque accounts, 15% credit cards and 40% savings accounts. So the market is wide open.

AFRICAN LIFE (58) FM 12/5/95

Assured of growth

Results from African Life (Aflife), in its first full year as part of the Real Africa Investments (RAI) group, which bought 51% of the assurer from Southern Life in February 1994, show strong growth in premium income.

That growth, says CE Bill Jack — referring particularly to the 41% increase in recurring premiums to R202,9m — shows the extent to which Aflife took market share from competitors. "The increase in new business has been strong, up by 71% during the year."

So armed, Jack is confident the assurer can sustain its rate of growth. He expects recurring premiums to grow at least 25% a year for the next two years.

This is the third successive year recurring premiums have increased more than 40%. Together with asset growth of 30%, to R554m, over financial 1995, there must be some concern about capital strain. Jack admits rapid growth of the kind shown by Aflife always presents that danger, but says the balance sheet is closely monitored.

Aflife intends making an aggressive push into new markets this year. One area is asset management — Jack expects Aflife to launch unit trust funds within the next year.

In SA, Aflife is one of the few assurers to have established a strong presence in the low to middle income market. Jack believes this market is the fastest growing segment in the life assurance industry. Continued growth in the economy and rising discretionary income offer potential.

There is always the danger to smaller companiess that larger players in the industry could make a concerted effort to tap this market segment — but Jack appears unmoved by the threat. The share price came off a bit, advancing 23% to R6,50 in the past year. On the likelihood that the latest growth is probably sustainable, the share should rerate.

Shaun Harris

GUARDIAN NATIONAL

FM 12/5/95 (58)

Leading the industry out of losses

Activities: *Short-term insurance.*
Control: *Guardian Royal Exchange Plc 50,5%. Liberty Holdings 45,4%.*
Chairman: *D Gordon. MD: K Nilsson.*
Capital structure: *10,2m ords. Market capitalisation. R579m.*
Share market: *Price: R57. Yields: 4,7% on dividend; 9,1% on earnings; p:e ratio, 10,9; cover, 1,9. 12-month high, R61; low, R53. Trading volume last quarter, 825 shares.*

Year to December 31	'91	'92	'93	'94
Gross prem inc (Rm)	600	773	1 036	1 160
Underwriting prft (Rm)	1,60	6,59	1,22	(19,65)
Invest income (Rm)	50,8	61,1	64,0	72,4
Pre-tax profit (Rm)	52,4	67,6	65,2	52,8
Solvency margin (%)†	73,6	67,6	71,8	66,5
Earnings (c)	410	537	616	522
Dividends (c)	155	187,5	224	268
Tangible NAV (c)	2 916	3 418	4 936	5 599

† International measure.

The great pity about these shares is that there are so few to go around. With most wrapped up by UK parent Guardian Royal Exchange Plc and, in SA, Liberty Holdings, only a paltry 4,1% is held by the public.

Guardian National is likely to lead the short-term industry out of the cycle of underwriting losses. It picked up the trend early, something operations director Andy Jack attributes to efficient information systems and reliable statistics.

The interim underwriting loss was R17m. Remedial action, in the form of rate increases and cancelling marginal business, held the year-end loss under R20m.

MD Keith Nilsson is reasonably confident that underwriting will return to the black by half-time this year. Jack says rates have been increased to the point where they seem adequate to cover continuing crime claims, mainly in commercial and personal lines. But fire rates remain under pressure, aggravated by suspected arson which in most cases is virtually impossible to prove.

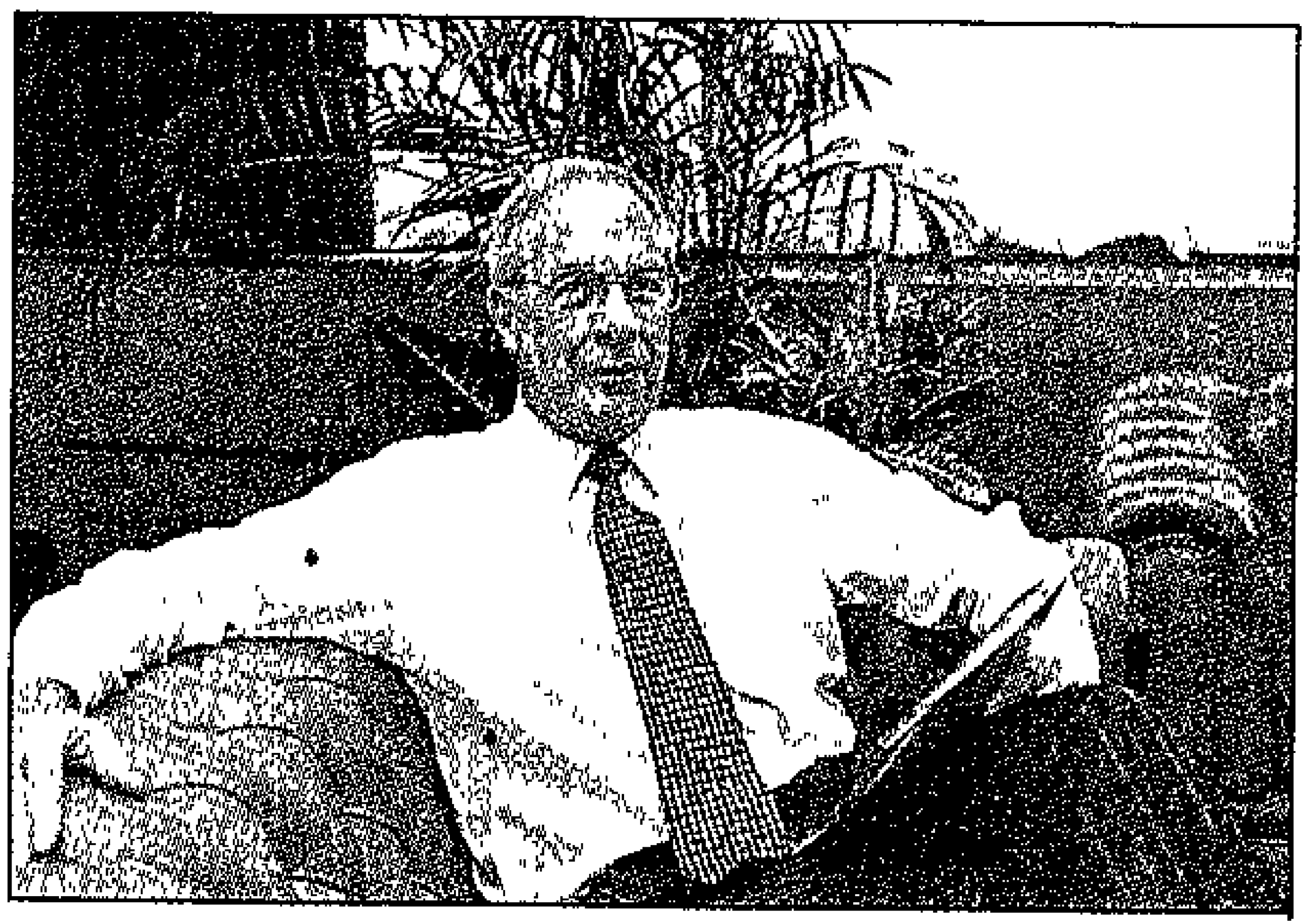
Cutting unprofitable business cost growth in gross premiums — retarded to an increase of 12%. However, revised reinsurance arrangements (down 10,6% to R304m, placing more risk directly on Guardian National) resulted in net premium income growing by a respectable 23% to R855,6m.

The underwriting loss was covered by investment income, though most of the 13,2% gain here came from selling a chunk of the portfolio for a profit of R8,5m. Without that, the increase in investment income would have been marginal.

Important trends remain intact. Expenses are well under control at R141m (including commission) or just 16,5% of net premiums, the lowest ratio in at least five years. But claims, at 82,7% of net premiums, are the highest for the same period.

As with most short-term insurers, the strength is in the balance sheet. Total assets advanced 15,6% to R1,34bn and shareholders' equity grew 13,9% to R568,6m.

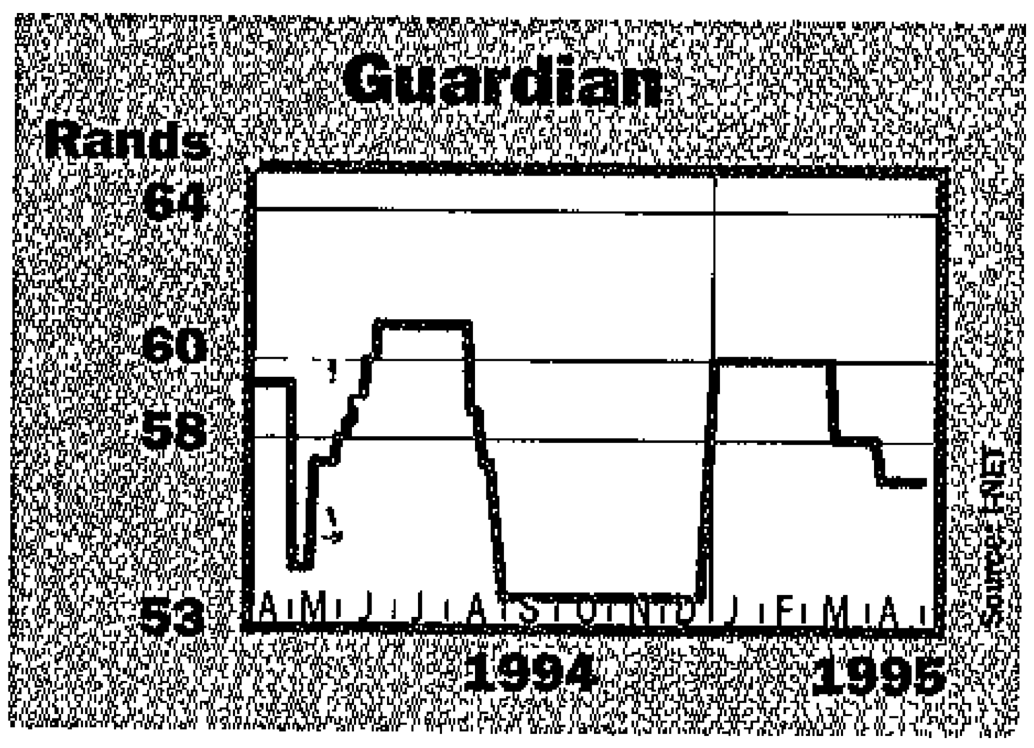
This allowed Guardian National to continue its policy of increasing dividends by 20%, though cover has now dipped under twice. The policy is likely to continue unless Nilsson is wrong about the return to underwriting profits; even then, the group could probably continue its generous payouts for some time.



Nilsson . . . *struggling to make crime pay*

It could well be the last time Nilsson reports as MD. Due to retire next March, he may leave early to avoid the new tax rules on lump sum retirement funds. If so, his successor could be named within weeks.

With crime restraining short-term results, chairman Donald Gordon says the industry is creating an information sharing system which should help reduce high levels of crime and fraudulent claims. "Clearly, though, the industry cannot become a law unto itself and we look to government to play its full and vital role in crime control if insurance premiums, already high by the standards of many other countries, are to remain affordable to a number of present and potential customers."



The expected return to underwriting profits makes the share look attractive. Its ratings are far less demanding than competitors such as Commercial Union and Mutual & Federal and even slightly lower than SA Eagle, possibly the insurer with the worst underwriting experience.

But all that is meaningless because the share hardly trades. No shares traded in March or February and only 825 in January. That undermines what could be a worthwhile investment.

Shaun Harris

BOTSWANA RST

For speculators only

FM 12/5/95

Activities: *Base metals producer in Botswana.*
Control: *Botswana government and Anglo American.*
Chairman: *D J Hudson. MD: B V Stewart.*
Capital structure: *17,9m ords. Market capitalisation. R14m.*
Share market: *Price. 80c. 12-month high, 85c; low, 55c Trading volume last quarter, 14 000 shares.*

Year to December 31	'91	'92	'93	'94
Loans (Pm)*	2 173	2 600	3 254	3 573
Accumulated def (Pm)	1 774	2 207	2 864	3 133
Turnover (Pm)	251	216	198	264
Metal produced (000t)	37,4	36,6	38,2	39,3
Earnings (c)	(2 075)	(2 433)	(3 687)	(1 937)

* 1 Pula = R0,71

This company's only rationale for continued operation is that it provides jobs for nearly 5 000 people, almost all Botswana citizens, and injects some economic life into an area of the country which would be moribund without the mine.

The company will never pay dividends. Year after year, this same sad message is faithfully relayed by whoever is unlucky enough to be the current chairman. This time it is Derrick Hudson: "... it is not envisaged that dividends will ever be paid." The fact is that Anglo American and the Botswana government, which jointly control Botswana RST (Botrest), hold huge subordinated loans; so do the World Bank and the European Community.

Early mining and metallurgical problems forced ever increasing injections of capital — far beyond what the feasibility studies envisaged. Meanwhile, government provided substantial infrastructural access. By the time it became clear the right business decision would be to flee, it was too late.

Starting at the top, turnover growth of 20,2% is less than might have been expected after the spate of acquisitions. Most of these started contributing only from the second half of 1994; yet the turnover growth rate is only one percentage point more than for the whole of financial 1994.

Moving down to trading profit, an 18% increase is satisfactory relative to turnover, given CEO Royden Vice's comment regarding a changed turnover mix and the probability that there are still rationalisation benefits to come from last year's acquisitions. But a 69% leap in financing costs — mostly associated with the extra borrowings to finance acquisitions — clips pre-tax profit growth to 10%.

Thereafter, things start to get better. The effective tax rate moderates from 44,3% to 41,1% and there is a marked improvement in the contribution from associates.

The lower tax rate alone adds six percentage points to the pre-tax profit growth rate, while a R1,3m turnaround from a deficit of R875 000 on associates' retained earnings to a positive R398 000 is responsible for the remaining three percentage points in the bottom-line increase.

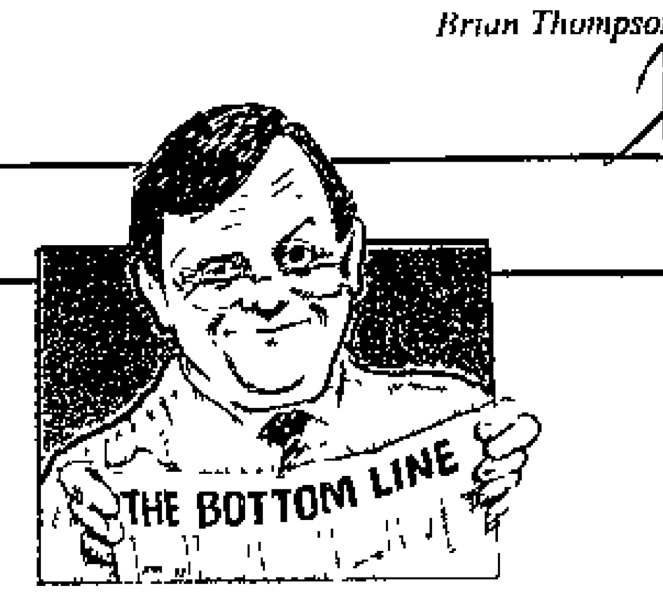
It could cause some unhappiness that there's no improvement in the balance sheet since financial year-end. In fact, R35,3m has been added to net borrowings (possibly reflecting nothing more than seasonal factors). This is proportionate to the increase in the permanent capital base, leaving the debt:equity ratio unchanged at 0,49 whereas Vice's annual report statement that 1995 would be a year of consolidation could have raised hopes that it would also see a return to a more conservative financial structure.

Afrox is by no means overgeared. Interest cover, reflecting the additional debt, is still healthy at 5,3 times, but the point is that it is out of line with the group's own historical standards, as is a 0,49 debt ratio.

Vice says Afrox should be able to grow steadily thanks to the expanded operating base and improvement in business conditions. A repeat of the interim increase would see full-year earnings of 465c-470c and a p:e ratio of 24,5 at the current R11,50 share price. This is well down on the 28,8 when the *FM* reviewed the 1994 annual report in December and could indicate that Afrox is becoming underpriced. A word of warning, though, is that there seems to be strong resistance between the present price and R12, which could inhibit progress.

Brian Thompson

TORQUE



Saficon/Boumat: Up for auction

Who is Sydney Borsook selling to? The cautionary last week about Sakers, the Borsook family's investment company which exercises control over Saficon, the motor franchise company, and Boumat (building supplies), excited surprisingly little comment.

Of course, that may be because Borsook, whose reputation for loquacity is well-earned, can also be as close-mouthed as a clam when it pleases him. One thing's for certain, though. Borsook's wish to sell — either wholly or in part — is well known in the market. A number of brokers responded tartly to my questions this week with comments like: "He's been trying to flog it around town for months."

Predictably, Borsook's response is sharp and impolite. However, rumours of talks about talks concerning Saficon have floated around for some time.

"It is certainly true," Borsook says, "that I have been approached at times by potential buyers. My response has always been that I am obliged to refer any reasonably based offer to the family."

Borsook resolutely refuses to say anything more about the identity of the group with whom he's talking. "I've asked if we can reveal this because it will make life a little easier," he adds. Borsook declines to respond when asked if the buyer is also listed.

Guessing the identity isn't easy. The possibilities canvassed — Bidvest, Malbak and Barlows — all have certain drawbacks. A major issue, at least in regard to Saficon, will be the tacit acceptance of the new owner by the motor manufacturers. While it is unlikely there is anything in the distributorship agreements which entrenches the right of manufacturers to veto a transfer of ownership, in practice the new owner will certainly want to be sure it has the makers' enthusiastic support. In any event, I doubt that Borsook would sell if the manufacturers were even vaguely grudging in their approvals.

At one time, Bidvest certainly was a suitor. What detracts from this acquisition is that Joffe has positioned Bidvest away from the consumer commodity cycle. A purchase of this kind would expose Bidvest to an area it has so far avoided. Another contender may be Barlows, though a notable drawback is likely to be the reluctance of the car makers. After all, Barlows Motor Investments is SA's second largest retail dealer. The effect of a link with Saficon would be to give it a power base which car makers would consider with the greatest unease. This applies, of course — indeed, even more so — to any suggestion of a deal with McCarthy.

A third possibility is Malbak, where Grant Thomas is sitting on a large cash pile and is known to be looking about (he has already confirmed a preliminary examination of National Sorghum Breweries). On the other hand, I'm not too sure how Saficon could fit in with Malbak's current operations — perhaps not at all.

To charge or not to charge

This week — or so I am told — two of the JSE's investigating committees (they are subcommittees of the main committee) dealing with the matters of Ed Hern, Rudolph and Frankel Pollak are expected to decide whether charges will be laid against either or both.

The content relating to these two cases is entirely different; the principles are similar. They are whether, in terms of JSE regulations, the firms themselves — and therefore, the partners in their individual capacities — carry responsibility for events which resulted in criminal procedures being instituted against employees or partners. In Hern's case, the matter relates to former Lifegro (Momentum) assistant GM Christo Auret *et al*; in Frankel's, the matter revolves around Greg Blank and the Mutual scam.

These cases attract attention for two reasons. First, they involve large broking firms and, therefore, much is at stake; second, they have been an unbelievable time in process — around four years. I have repeatedly excoriated the JSE for these delays. Executive president Roy Andersen says the JSE has done all it can to move matters forward. Over the next few weeks, I hope the situation with both firms will be clarified and either charges laid or the investigations dropped.

The next step will be to determine whether this element of self-regulation is actually in the JSE's best interests. Personally, I stand four-square against members of the JSE carrying the power to discipline (and, by extension, to paralyse) their colleagues. This is a matter which requires the most serious consideration and debate.

Watching the spillways

I am being asked when my research into Umgeni Water's involvement in the capital markets will see the light of day. It is clear from the responses I have received — along with many offers of help, some a bit cranky but others which I regard seriously — that interest in Umgeni and in capital-raising operations is high. This is encouraging. Since Umgeni is a public corporation, it is appropriate that citizens should pay attention to its activities.

As for an article, well, soon now, very soon.

David Gleason

NEDCOR FM 12/5/95 (58)

Shape looks good

Banking groups, as the *FM* has often noted, have much space to show the bottom line growth they choose. Nedcor is a case in

point — but that's not to suggest it uses the deliberate opacity of inner funds.

Provisions against loans and money advanced to project finance deals are some of the accounting procedures unique to financial services which can be used to adjust the bottom line — all under the collective banner of "being conservative."

So rather than concentrating on the 22% halftime EPS rise, it may be more useful to look at the overall shape of the figures.

That shape is good, promising full-year results which could easily better the 23% growth in EPS forecast last year (*Companies* December 23). They are also just the sort of results Nedcor needs tucked under its arm during its current two-week roadshow to international investors.

If Nedcor does raise capital abroad (a figure of US$100m has been mentioned) it will most likely be aimed at a substantial acquisition. The target could be London-based with international interests; it's believed the only obstacle is price.

First feature of the income statement is a healthy widening of the interest margin, from 3,94% to 4,11%. Two factors count: first, R20m income has been booked on roughly R1bn advanced to three large

HIGHER BASE

Six months to	Mar 31 1994	Sep 30 1994	Mar 31 1995
Total income (Rm)	1 644	1 769	1 918
Pre-tax income (Rm) ..	469	497	546
Attributable (Rm)	271	344	335
Earnings (c)	139	170	170
Dividends (c)	29	66	36

project finance deals. To date the group has only taken sufficient income to book to cover the cost of these funds. It can still take back considerable interest income from this source, but under its "conservative" policy it probably won't.

The second point relates to the structure of the balance sheet. Nedcor CE Richard Laubscher says the bank began to sell fixed rate assets some time ago, in line with its view of a rising interest rate cycle. This current low exposure to fixed interest loans and a large proportion of home loans gears the balance sheet to rising interest rates, which translates to increased margin income.

Overall, interest income grew 17% to R1,15bn, non-interest income 16% to R770m. That compares with growth of 14% and 16% respectively for financial 1994.

What's important about this is that Nedcor is a strong second-half group (see table). That, together with possible income from the outstanding project finance balance and the potential to write back over-provisions, virtually guarantees increased growth in total income for the full year.

Consistent growth should also be supported by all divisions performing well. Nedcor Bank, the major contributor to net

income of R335m, increased its share by 18%. Cape of Good Hope Bank sorted out a problem loan and upped results by 44%, Syfrets (off a low base) by 75% and UAL by 23% (off the high base set last interim).

Ratios underscore the consistency. ROE is slightly up over the year but down to 20,1% from the year-end 21,1%. Laubscher notes this comes off a capital base which has grown by 24%, partly from cap awards (again offered at the interim). On the same base, ROE would have been 21,5%. ROA widened from 1,01% to 1,11%

Results show the ability, perhaps need, to expand, and the logical direction is offshore. Nedcor has followed an international strategy of following clients and growing organically abroad. But Laubscher says the door has been left open on an acquisition should the right opportunity present itself.

With the abolition of the financial rand, increasing access to offshore capital and SA's ratings in the global business community on the rise, now could be the best time to make a strong move offshore.

That could boost a share price which has already gained more than 70% over the year to R46 earlier this week. Ratings remain softer than Standard Bank Investment Corp and First National Bank. With the prospect of strong full-year earnings and expansion that must represent value. *Shaun Harris*

Bank rejects SA request

(58) CT 14/5/95

SOUTH AFRICA'S entry to the African Development Bank is not yet certain, although the bank's annual meeting, where memberships will be discussed, takes place later this month.

Secretary-general of the bank Hedi Meliane said the bank had not been able to meet the conditions South Africa set. "We have not been able to respond favourably to their demands," he said, speaking from Abidjan.

"Everything depends on them. We remain open . . . but we are in no more of a hurry than they are."

South Africa has asked for concessions, such as being excused from liability for loans made before it joins.

The African Development Bank, set up in 1963, groups African and non-African members. Africans have a voting majority.

South Africa was barred from joining until last year's democratic elections. — *Sapa-Reuter*

MULTINATIONAL FIRMLY ROOTED IN SOUTH AFRICA

ST(BT) 14/5/95 (58)

This week one of the country's corporate stalwarts celebrates its 150th anniversary. **JEREMY WOODS** and **JULIE WALKER** report on Old Mutual's historic progress and its role in a changing South Africa.

OLD Mutual, South Africa's largest and oldest insurance group, has grown to the dominant position it holds by doing what it does best — "helping people to help themselves", says Mike Levett, the group's chairman.

"That was true 150 years ago and it is just as true today, he says.

"Fundamental basic needs continue regardless of what happens in the rest of the world. People still need to provide for their future and Old Mutual does that best through its various insurance policies and unit trusts."

Old Mutual has R130-billion of managed assets under its control, which puts it in a dominant position among the country's financial institutions.

Furthermore, Old Mutual, which was established in 1845, is also the largest life assurer on the continent and employs 17 000 people worldwide.

Mr Levett says the best way to check out the policies and investment opportunities on offer from Old Mutual is to "check with people whose judgment ..."

future of Old Mutual's growth is based there.

In a move described as "visionary" by one of Old Mutual's competitors, Mr Levett was the guiding hand behind Old Mutual's move to focus on its overseas business and expand it.

"Back in 1985 we took a decision to develop the overseas side of our business. We had managed some offshore funds for clients for some time but I felt we should expand this and increase our expertise in this area."

Quietly, but persistently, Old Mutual has been building up its British and Channel Island fund management operations and an investment team to manage the portfolios.

"We now have some R10-billion worth of different forms of managed funds and our investment team is extremely well set up and

unit trust companies, Old Mutual has beaten off most of the big-name British fund managers to become the second best performer over seven years, best performer over four years and second best over two years.

Mr Levett says the insurance giant is now looking to maximise its proven investment expertise by aggressive expansion in the US, the Far East and the rest of Europe.

To that end, the group has opened an office in Boston, Fairbairn Investment Advisers, and moved some of its best investment and marketing executives there, including Bertie van Wyk, a top investment marketing executive.

The first objective is to capture a percentage of US pension fund assets for emerging markets.

"South Africa is one of the more interesting emerging markets and I

can capture 5% of pension fund assets for emerging markets we will be doing very well," says Mr Levett.

But the US is not the only big fish market that Old Mutual wants to fry.

Although its has had long-term business interests in the potential of the Far East, the group has just launched an office in Hong Kong and has further expansion into the Far East firmly in its sights.

China could be Old Mutual's next stop.

Will the group's overseas earnings ever match the earnings of its local operations?

"We live in a world market. If a company wants to succeed it has to become a global player, that is the transition taking place at Old Mutual in its anniversary year. Yes I can see a time when overseas earnings will match the local ... couldn't. I

Road victims slate 'callous' proposals

(58) ST 14/5/95

By CARMEL RICKARD

COST-SAVING suggestions by the Multilateral Motor Vehicle Fund came up against a storm of disapproval from disabled people this week.

The fund, which pays compensation to victims of road accidents, wants to fix a maximum amount which will be paid out. It has suggested a cap of R250 000.

But disabled people say this shows a callous disregard for people injured in accidents whose survival depends on public finance.

The issue came to a head on Tuesday when the parliamentary committee on transport called a conference to discuss the capping suggestion and other proposals. It was attended by fund officials, lawyers, doctors, assessors and representatives of disabled people.

Head of the transport committee, Patricia de Lille, said it was the first time that fund board members had faced the people whose lives depended on the fund.

Disabled delegates had to be carried into the parliament building, and from the conference venue to the lunch venue, because facilities for handicapped people in Parliament were not yet complete.

Drive Alive, an organisation set up by parents of children killed in road accidents, opposed the capping proposal, saying that people disabled through accidents needed society's generous funding to survive "with dignity and diminished pain".

Accidents could leave people blind, quadraplegic, paraplegic, with serious orthopaedic or brain injuries. Victims might be left incontinent and in permanent need of an assistant to help with washing, feeding and dressing.

A wheelchair would be useless if it could not get into the home, so building alterations are often necessary. "But if there is no funding the victim becomes destined to a martyrdom which no caring society can permit," the organisation said.

Drive Alive complained that despite three commissions of inquiry into the fund, it had not implemented the recommended changes. One inquiry found "widespread mismanagement, incompetence and irregularity in the direction and running of the fund".

Drive Alive also challenged the fund's claim that it was insolvent, quoting the fund's own words to show that its finances were healthy.

Representatives of Disabled People South Africa complained that the fund's board was exclusively white, male and able-bodied, although the constitution said there should be no discrimination on the grounds of race, gender or disability. The organisation objected to the cost-cutting suggestions.

After the conference, Mrs de Lille said board members did not seem to realise they were affected by the new constitution, which provides for access to information. Mrs de Lille pointed this out, yet board officials repeatedly refused to provide copies of the minutes of board meetings.

She said previous inquiries had made a serious mistake when they left it up to the board to implement recommended changes.

"The old guard was asked to transform itself."

She said reconstruction of the board should begin at once, and her committee is to ask the minister of transport to make new appointments immediately. Suggestions made to the conference would also be considered when a new draft bill on the fund was drawn up.

A 150-year-old stokvel stays ahead of its time

58

ST (BT) 14/5/95

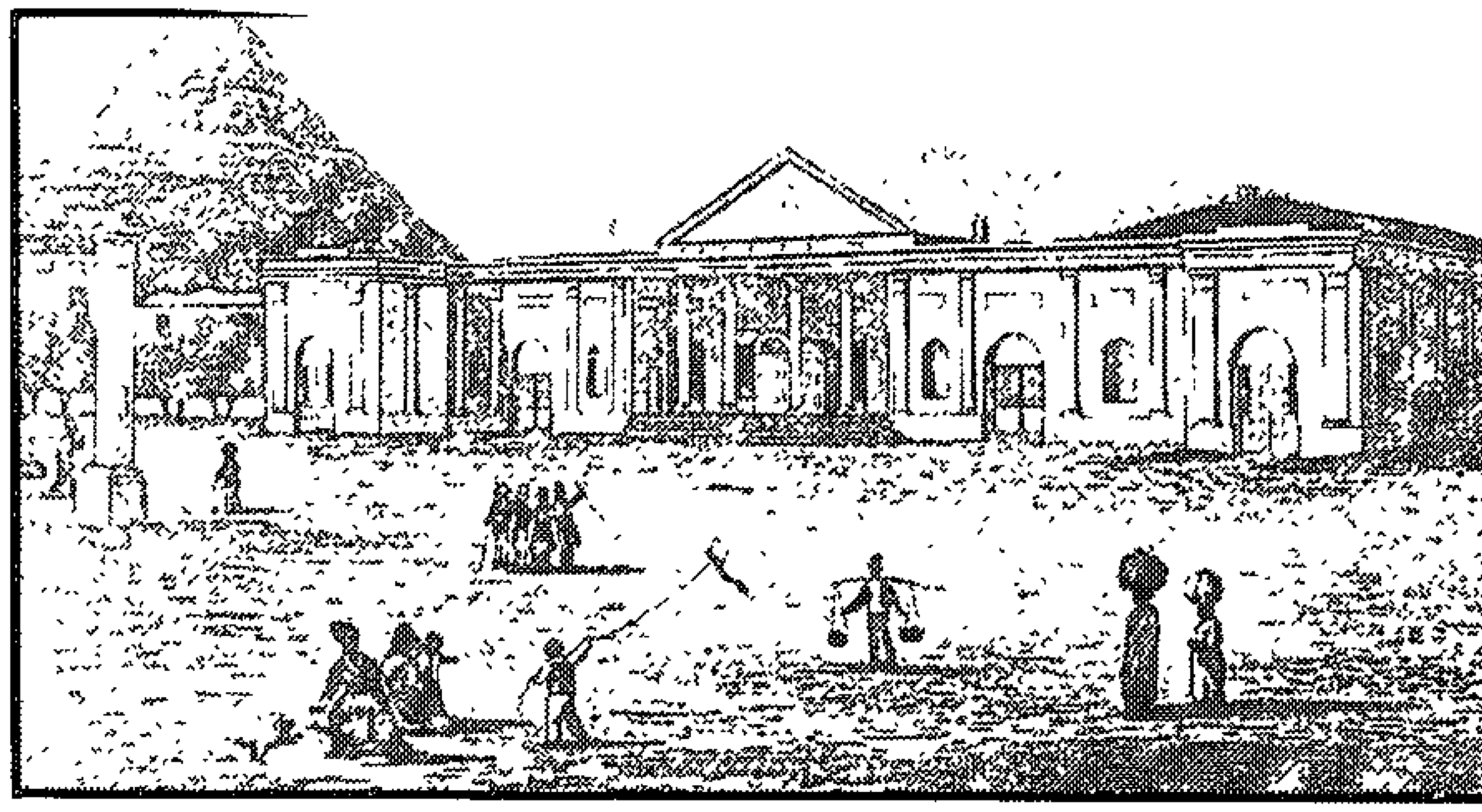
IN 1845 John Fairbairn was elected the first chairman of the Mutual Life Assurance Society of the Cape of Good Hope (the company picked up the tag "Old" in 1881 when a rival company set up shop as Colonial Mutual).

Gerhard van Niekerk, Old Mutual's chief operating officer, says Fairbairn modelled the Old Mutual on the same lines as its British counterpart, Scottish Widows.

"They were prudent people in those days; prudence was the best way then and it remains a hallmark of the Old Mutual's business strategy today."

The approach has seen the Old Mutual through some demanding times. Mr van Niekerk says that among the most difficult was 1918, when an influenza epidemic claimed the lives of more policyholders than did the whole of the First World War.

"In those days there was far less flexibility in terms of the asset side of the balance sheet. Almost all policyholders' funds were placed in fixed-interest investments. The effects of new business strain were just as onerous then as they are now and across the world, mutual life offices are always short of capital in their infancy.



STARTING BLOCK . . . Old Mutual's first office, in Adderley Street, Cape Town

"We are rather proud of the fact that Old Mutual has built a capital base while offering value for money to policyholders. We are extremely well capitalised and have never been under pressure to become a proprietary company in order to tap shareholders for money."

This raises the eternal question about corporate life offices: whose interests do they serve, their shareholders' or their policyholders'?

"All Old Mutual's with-profit policyholders are owners of the society," says Mr van Niekerk.

"They are able to attend the annual general meeting and vote on the agenda, nominate board members and have their say in the same way as shareholders at a company meeting.

"Old Mutual is also like a stokvel, or savings pool. Our policyholders have the right to question the management."

Mr van Niekerk says that as many as 1 500 policyholders attend Old Mutual's annual general meetings, at which Issy Goldberg, the chairman of the Shareholders' Association of Southern Africa, is a regular attender.

Old Mutual is directly and indirectly responsible for the training and education of the thousands of independent brokers who have at some time spent part of their career with Old Mutual's sales team.

Over the past 20 years, Old Mutual made a concerted effort to get blacks into the life assurance-selling business.

Mr van Niekerk is pleased to see that several of today's black politicians and provincial government members have followed the Old Mutual path.

"It is satisfying to know we have made this contribution to South Africa because those people have entrepreneurial flair combined with the necessary business disciplines."

The success of the sales force across the life industry is second to none: the ratio of insurance premium income to gross domestic product stands at 11% — by far the highest in the world.

"The main reason is that we have captured a large proportion of the retirement industry in the past 20 years," says Mr van Niekerk.

"With exchange controls and negative real rates of interest for much of that inflationary period it is no surprise that Old Mutual and other life offices have done well. We offer a decent exposure to equities and properties, which has resulted in high real returns over the period."

Old Mutual on average collects R60-million a day in premium income and R20-million in investment income while dishing out R45-million a day in benefits to policyholders.

"The other R35-million is applied to building up the future assets of policyholders. At the end of 1994 we had R128-billion of assets under management, representing R2 500 held in trust for every man, woman and child in South Africa."

A survey in Fortune magazine says that excluding US, British and Japanese companies, Old Mutual is the seventh largest life office in the world.

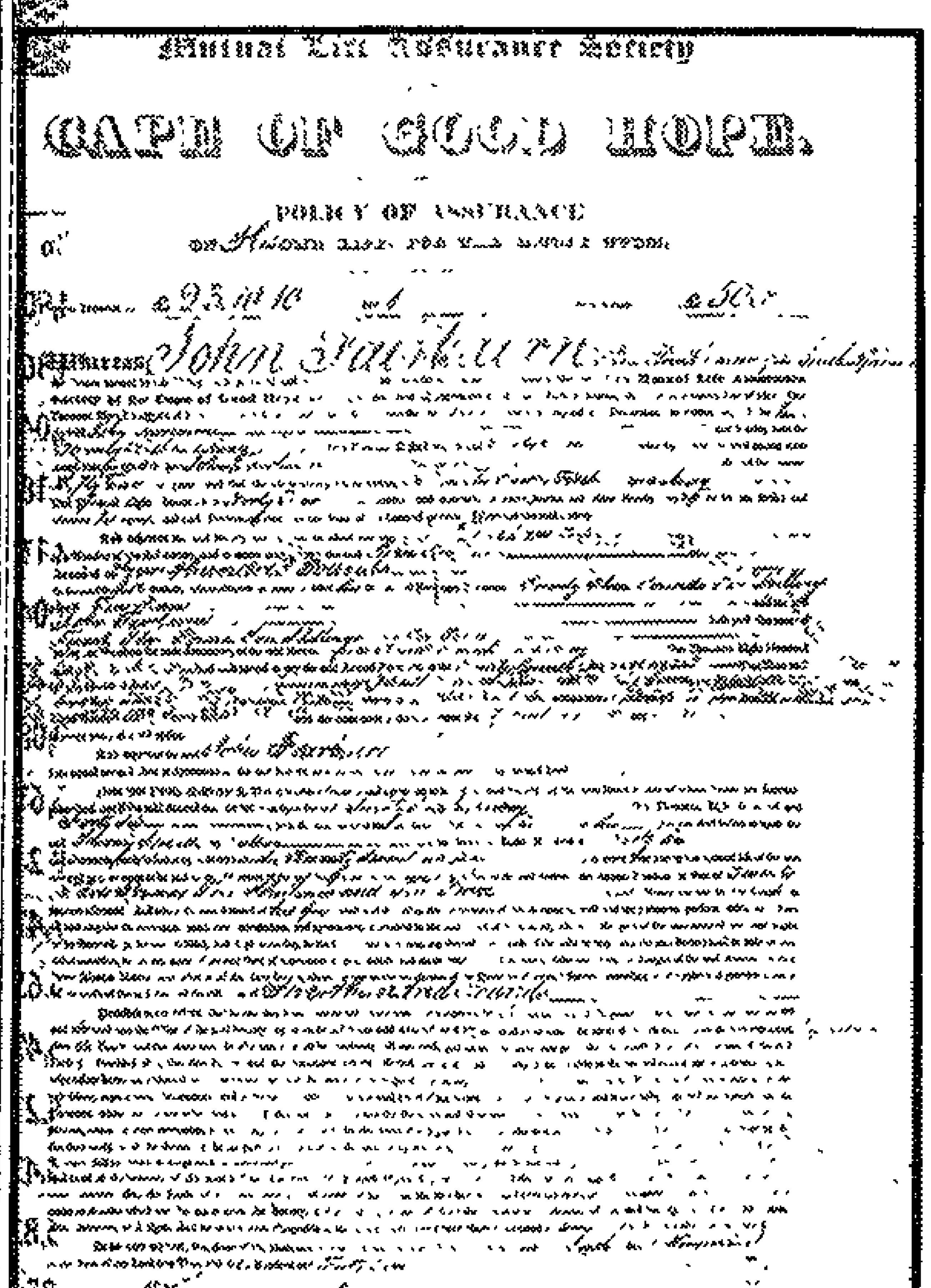
Old Mutual has always had a pioneering spirit.

"Remember that there was no united South Africa until 1910, so Old Mutual's expansion out of the Cape into Natal, Transvaal and the Free State last century ranks as the first steps in foreign investment.

"Offices were opened in Durban and Johannesburg in 1889 and Bloemfontein two years later. We had already opened offices in the Eastern Cape in our founding year," says Mr van Niekerk.

In 1954, Old Mutual's salesman of the year operated in Dar es Salaam. The Tanzanian operations were consolidated into Old Mutual's Kenyan office, which is still around.

"Everywhere we have been in Africa we have met our obligations to policyholders."



Mutual Life Assurance Society

CAPE OF GOOD HOPE.

POLICY OF ASSURANCE

John Fairbairn

STEP ONE . . . Old Mutual's first assurance policy

Insurance industry 'will fight back'

Amanda Vermeulen

BD 16/5/95 (58)

THE insurance industry would have to take action to alleviate its vulnerability in view of the high levels of crime and fire claims, Protea Assurance MD Andrew Tainton said in his annual report.

"We will have to focus on rate for risk and better management of the claims line." The market remained "dangerously" underrated, which had left the industry susceptible to the heavy incidence of suspected arson-related claims last year.

This had not been taken into account by the industry's rating structures, which had also left it unprepared for the dock holdings and cargo delays in the aftermath of the Kobe earthquake in Japan.

Despite high fire and crime-related claims, Protea Life lifted its life taxed surplus to R4,1m (R2,4m) in the 1994 financial year. The group did not fare as well, with an R8,8m loss attributable to shareholders compared with a profit of R21,3m in the previous financial year.

The group had continued with its strategy to develop its general business direct mail activities via the Hospital Cash and Personal Accident products. The area was developing quickly, Tainton said, and while it was profitable, no profit release was yet being made. He added that the establishment of a separate direct line operation was still under review.

"Despite the poor underwriting result, shareholders' funds continued to grow due to the investment performance. The company's financial soundness is reflected by the solvency margin of 57%."

However, Tainton said that the group could not rely on investments to bolster performance in the long term.

"Shareholders must get a return on their investment that is market-related. This requires a return to sound underwriting practices that have been allowed to slip from the SA market."

Phoenix Assurance, which had its insurance licence reactivated in 1993, increased its premiums substantially, making a strong contribution to group results. Total assets under management increased 25% to R1,3bn and shareholders' funds increased 16% to R472,6m.

Tainton said the insurance industry was under threat from "the increasing temptation of the authorities to intervene in company affairs by inappropriate regulation, including the Katz commission's recommendation to cap tax deductible contributions to retirement funds".

PROTEST AGAINST PAYMENT OF PENSIONS TO 'LOAN SHARKS'

Angry women storm post office

CT 17/5/95 (58)

FOLLOWING a Cape Times exposé of irregular money-lending practices, one woman said yesterday she had repaid R7 600 on a R500 loan. **LISA TEMPLETON** reports.

FIFTY angry women took over a Bishop Lavis post office yesterday afternoon to protest against the payment of their pensions to a local money-lender — who has been held for questioning by police.

The women demanded the return of their pension cards, which had been taken by a money-lender.

Last week the Cape Times reported how money-lenders in Bishop Lavis and at the Civic Centre lend money to pensioners and those drawing disability grants, charging them up to 50% interest. In many cases personal documents are kept by the money-lender, and cheques cashed by them.

A Bishop Lavis detective confirmed that a local lender had been questioned earlier yesterday, and police were investigting the practice. A suitcase full of ID books and pension cards had been handed to police, he said.

One woman, Mrs Charmaine Gile of Montana, claimed she had borrowed R500 from the lender three years ago, to pay funeral expenses.

Security

She had handed over her maintenance book as security. Since that time she has repaid the lender R7 600 and has been told she owes a further R700, she said.

The angry women stormed into the post office late yesterday afternoon, demanding that their pension cards be returned to them.

They claimed the lender was drawing their pensions in their names, taking a cut and then handing what was left over to them. They said she drew their grants using an official nominee form.

Post office workers locked themselves in an office to ward off the protesting women, and called the police.

The post office later agreed to hand over the women's pension forms early today.

Bishop Lavis postmaster Mr Andrew Fortuin said he did not know how the lender had acquired the green nominee forms, which have enabled her to claim the full pension payout.

Regional post office official Mr Marius Lowrens said the post office is investigating the matter.

Mr John Adams of the ANC's Bishop Lavis branch said money-lenders take pensioners' ID as security for a loan. He said the repayment amount could become exhorbitant in relation to the amount originally borrowed.

LOAN SHARK STORM: Women receiving pensions or grants stormed a post office in Bishop Lavis late yeste day afternoon to demand the return of their pension cards, which they claimed were being used by a money-lender to draw their pensions. Post office workers locked themselves in an office. *PICTURE: NIC BOTH*

Old Mutual steers R295m into SA

CT(BR) 18/5/95 (58)

By Bruce Cameron

Assistant Editor

The life assurer Old Mutual has channelled R295 million in investments to South Africa from its overseas operations and is set to steer even more money into the country.

Mike Levett, Old Mutual's chairman, announced the investment flow at a gala banquet in Cape Town last night to celebrate the 150th birthday of the country's biggest life assurer.

Levett told the guest of honour, President Nelson Mandela: "We are excited and proud to be able to celebrate this anniversary almost one year to the day after the birth of the new South Africa. At Old Mutual we believe in the future of this country and we are determined to play our part in its growth and development."

He said the success of the country was heavily dependent on its ability to find international partners in trade and investment. It was for this reason that Old Mutual had opened operations abroad.

"The Old Mutual South Africa Trust (launched last year) successfully attracted R295 million of investment in our economy.

"And through our branch in Boston, we are seeking institutional funds for investment in South Africa." Levett said that in doing this, Old Mutual had remained true to its purpose of the past 150 years, which was "to help people to make the most of their lives and in so doing play a constructive role in South Africa".

"Old Mutual has made, and continues to make, a major contribution to the economies of southern Africa," he said.

In reply, Mandela appealed to business and communities to form an active partnership with government to combat crime.

"This includes both the violent crime that threatens the security of communities and the white-collar crime which costs our economy billions of rands," he said.

R9m injection for African Bank

Amanda Vermeulen (58) BD 18/5/95

CORPORATE Africa (Corpaf) subsidiary New Africa Investments (Nail) and Metropolitan Life (Metlife) have invested R9m in African Bank, a further step in Corpaf's plan to expand into the financial services sector, says Nail MD Jonty Sandler.

Nail believed African Bank was well positioned for further growth, and the R9m injection had also helped the bank meet Reserve Bank regulations regarding capital adequacy, he said yesterday.

The African Bank transaction follows last week's announcement that the Corporate Africa group had launched a financial services company which would ultimately evolve into a merchant bank.

Corpaf and Nail chairman Nthato Motlana said yesterday Nail had bought 25% of African Bank for R4m. African Bank CE Jack Theron said Metlife had increased its stake in the bank to 17% from about 15%, paying R1m for ordinary shares and about R4m for debentures. Metlife could raise its stake even further as shares were still being sold, he said.

Theron said the bank had fallen short of its capital adequacy requirements, and Nail and Metlife had invested in the bank to assist it in meeting its capital requirements while also furthering its own ambitions in the financial services industry.

Continued on Page 2

R9m for African Bank BD 18/5/95

Continued from Page 1 (58)

Other proposals to strengthen the bank were on the table, according to merchant banking sources, but Theron said no deals had been finalised.

While Nail had not yet disclosed its plans for the bank, an alliance with Corpaf's recently formed financial services company would be welcomed as it would have positive spin-offs for the bank, he said.

Theron said the bank had expansion plans to bring on line at least another five outlets in the 1996 financial year, bringing to more than 40 the number of outlets it had across the country.

Sandler said Corpaf's involvement with African Bank would help unleash the "enormous potential" the bank had in the new SA social, political and economic arenas, saying that the bank could become one of the major players in the financial services sector.

Motlana confirmed yesterday he was having discussions with some members of the National Empowerment Consortium, one of the parties vying for the JCI mining and industrial assets. It was reported earlier this week that the consortium had invited Motlana to join its ranks in the negotiations with Anglo American over JCI's unbundled assets.

Good premium growth boosts insurance group

Samantha Sharpe

30/8/5/95 (58)

ROBUST growth in recurring premium income and a strong increase in Southern Life's actuarial surplus helped lift the insurance group's attributable earnings 27,1% to R306m in the year to March.

The earnings growth, which exceeded market expectations, translated to a 23,4% increase in earnings to 174c a share and a similar rise in dividends to 116c a share, the second highest dividend increase in the group's history.

Capitalisation shares would be offered in place of a final dividend, with the option of a cash dividend.

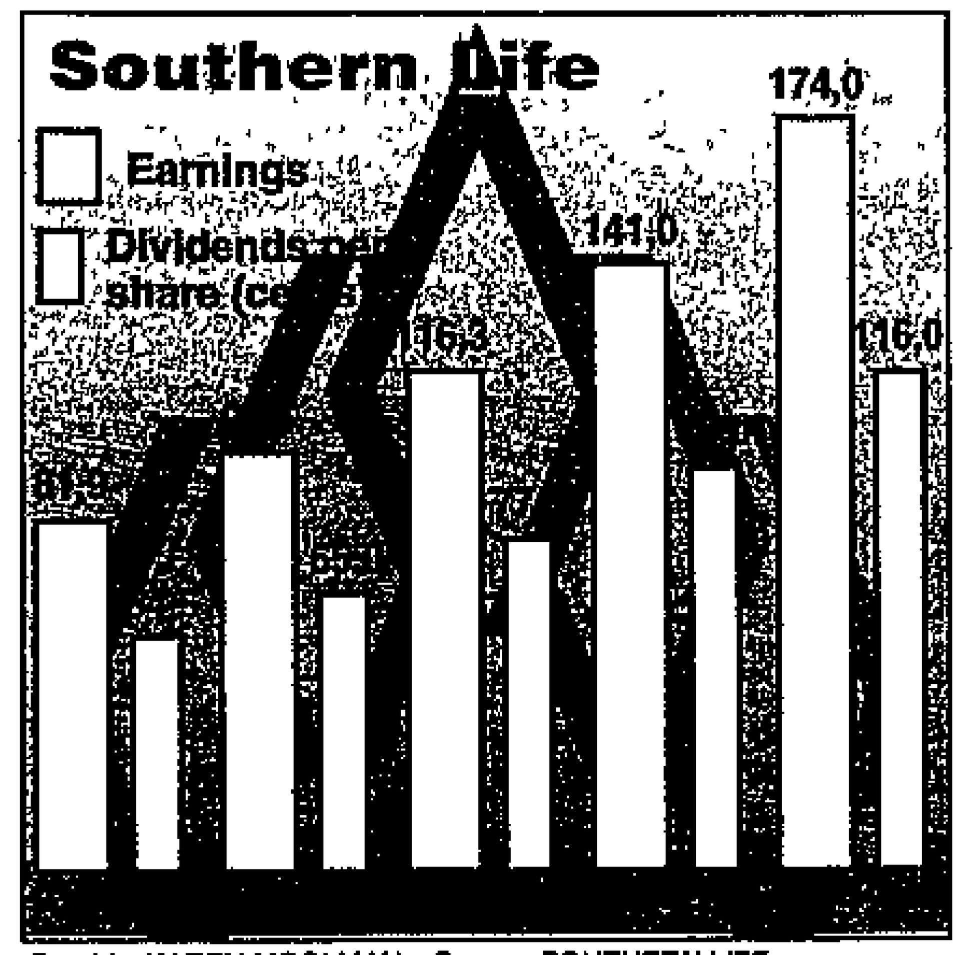
However, single premiums fell to R1,57bn compared with a previous R1,84bn. Southern Life MD Jan Calitz said the high 1994 figure included a few major investments which could not be expected to be repeated given the volatile nature of single premium income.

"In the area of single premium business on the group side we were unable to repeat last year's performance," he said. However, some single premium business had started to flow through in the last quarter.

But recurring premium income grew 15% to R1,99bn, with an 18% increase on the individual side to R1,07bn and a 13% rise in employee benefits to R920m.

Accounting for 30% of all new recurring premium business was the group's HIV-related Exclusive Life policy, with the product one of the key success factors behind new individual business sales passing the R1bn mark for the first time.

A muted 3% increase in investment income to R1,23bn, which flowed from the fall in single premium income, brought the total income figure to R4,79bn.



Graphic: KAREN MOOLMAN Source SOUTHERN LIFE

Calitz said the excess in assets over liabilities — Southern Life's assets currently exceed liablilities by R3,65bn (R2,69bn) — was the most accurate indication of the group's inherent financial strength as well as its longer term profit potential.

He said that while the insurance industry could be accused of using actuarial surpluses as a tool to smooth earnings, the industry demanded a long term view.

Calitz said R373m of the R962m increase in the surplus had been due to a change in the basis of valuing assets and that this had not been included in the attributable earnings figure.

Total assets increased to more than R27bn, which brought the total assets managed to more than R30bn.

SA team in key African bank talks

CT(BR)19/5/96 (58)

By Bruce Cameron
POLITICAL EDITOR

A high ranking government team led by deputy minister of finance Alec Erwin leaves for the African Development Bank annual meeting in Abuja, Nigeria, this weekend with a mandate to spell out firm conditions for South African membership.

Although the government committed itself to membership by signing letters of intent in February, it is understood there is no hurry on the part of South Africa to sign membership forms.

The biggest single concern is the size of the ADB debt.

A recent report of the United States government accounting office spelt out the precariousness of the ADB, confirming the caution on the part of South African government advisors.

In the report, the US accounting office said the ADB was financially solvent but vulnerable.

Nearly a third of the R35 billion loan programme is held by countries that were not sufficiently creditworthy to get loans from the World Bank.

The chief director in charge of foreign financial relations at the department of finance, Dr Elty Links, said in an interview with Business Report the problems of membership were not insurmountable.

"A number of issues still have to be negotiated, including our position on outstanding liabilities of the bank and the level of membership." He said a final decision on membership was unlikely at this stage.

Commitment

It is understood South Africa wants to negotiate a deal which would exclude itself from having to underwrite past accumulated liabilities of the ADB for at least the first three to five years of membership.

If South Africa joined without qualification, a commitment would have to be made to a negotiated percentage of the capital base of the bank. Of this amount, 12,5 percent would be payable over 10 years with the balance of 87,5 percent on call in case of problems.

If the bank became insolvent, South Africa would face the prospect of having to pay out the full 100 percent to meet the demands of creditors.

Both African members and the non-regional donor members are placing pressure on South Africa to play a leading role. An issue of concern to South Africa is that only the non-regional countries, which provide 33 percent of the bank's capital, have made any contribution to the African development fund over the past few years.

FORUM

Assurance celebrations among mine tragedy's sadness

(58) AR C 19/5/95

LIFE WITH CAMERON

By BRUCE CAMERON

The Vaal Reefs mine disaster proves the need for a strong life assurance industry

Old Mutual's celebration of a very successful 150 years in business was unfortunately marked by proof of the need for a strong, viable and competitive life assurance industry.

The 15-decade celebrations were interrupted by Mike Levett, Old Mutual chairman, to mourn the tragic deaths in the Vaal Reefs mine disaster.

The loss to the families of the dead would have been so much worse if it had not been for the life assurance industry and, aptly in this case, for Old Mutual, which through its employee benefits division provides group life cover for the majority of mineworkers by way of the Mineworkers Assurance and Benefits Scheme.

Levett said about R5 million would be paid out to families as lump sums or funeral benefits. Since August 1991, Old Mutual has paid out R400 million to dependents of mine workers who have died from all causes.

It is events like the Vaal Reefs disaster that government should take into account when it seeks to meddle or unduly exploit the many billions of rands managed by the industry.

Old Mutual, owned by its policyholders, has every right to crow as it has in various celebratory events and in special surveys published this week in all the country's leading newspapers about its achievements.

Under Levett's leadership in particular, Old Mutual has not only prospered for its South African policyholders, but has increasingly made its mark internationally.

At a celebratory board lunch yesterday, Levett said the success of Old Mutual was based on three qualities:

☐ The imagination to create a vision of the future;

☐ The expertise to translate vision into reality; and

☐ The strength to be true to its purpose and values.

Levett said it was vision which led John Fairbairn (who also holds a special place in the annals of media freedom in South Africa) to establish the Old Mutual in 1845.

It was much the same vision which saw Old Mutual look outwards to an international future, when in 1985 the then government turned its back on the world.

Levett is determined to make Old Mutual a global financial services player in a rapidly changing market operating under equally rapidly changing conditions. I, for one, would not be surprised if the company takes far less than the next 150 years to be as dominant on the world stage as it is in the South African industry.

□□□

To mark the event, Old Mutual has published a book, written by Phillida Brooke Simons, on its 15-decade history.

The book not only relates the development of the company but also how it intertwined with the turbulent history of the country.

□□□

The deputy chairman of Liberty Life, Dorian Wharton-Hood, has decided to give George Marx, head of the actuarial science department at the University of Pretoria a public mauling for his constant questioning of the reasons behind the large number of surrenders and lapses of policies in the industry.

Marx claimed that up to R1,5 billion was being lost in a year by ordinary investors because of lapses and surrenders.

Wharton-Hood said Marx's figures were way out, saying he was misjudging the position because of the way the Registrar of Life Assurance recorded the figures.

The problem, however, is that Wharton-Hood does not address the real problem.

It does not really matter whether the figure is indeed R1,5 billion or whether it is half the amount.

His argument, to make a crude comparison, is similar to arguing about the number of people Stalin, Hitler or Ghengis Khan killed off to find some position on a horror table.

Marx's main criticism is that people appear to be losing money because they buy policies that they cannot afford to maintain, losing whatever they have invested if the policies lapse or a percentage, if surrendered.

Two years ago, Marx asked the industry to undertake a proper investigation.

Instead there has been a response from some of the senior members of the industry of "if you are not totally with us you are against us".

Hoary old cliches like "life assurance is sold not bought" are dragged out to support their attitude.

The issue goes far deeper than the sale of life assurance, particularly as life assurance is very seldom sold nowadays.

Most assurance salespeople are more intent on selling investment-type policies, which have far greater commission returns.

This means that it is the savings of ordinary people that are affected.

It does not help ordinary people to be a small part of a statistic of R1,5 billion, or half the sum, if they have been sold an inappropriate product or have been the subject of some slick, hard selling operator.

Unless the industry is prepared to be flexible and to take serious note of criticism, particularly when it comes from someone with the standing of Marx, it will find it more difficult to withstand what could become growing demands for statutory rather than voluntary regulation.

Charting life's mires

WM (BM) 19-25/5/95 (58)

Pieter Schoombee argues that the life assurance industry is often far from transparent

THE fat cats on the assurance industry gravy train are notoriously touchy about criticism, as Dorian Wharton-Hood so insultingly illustrates in the *Mail & Guardian's* April 21 to 27 issue.

Big assurance business has evidently decided that Professor George Marx is getting too big for his boots and should be slapped down. Wharton-Hood was given the job, but he botched it. It's a case of the lady doth protest so much, so petulantly and so spitefully that she in fact feeds the suspicion that she has much to hide.

And, as a spokesman for Liberty Life and "other reputable life assurers", Wharton-Hood is indeed speaking for interests that are frequently lacking in transparency.

For instance, Liberty Life recently treated newspaper readers to some hyperbole about its annual results. In a number of publications, four or five full pages were bought, boastful announcements were made about international achievements and columnists were talked into repeating acrobatic claims.

The money and effort were in all likelihood well worthwhile — in terms of shareholders and in terms of Liberty's sales effort. It helped their salesmen to sell policies. But it did not help the people who bought those policies.

The holders of smoothed policies, those good people who regularly pay their premiums blindly believing that their money is not being used to keep fat cats in luxury, had to wait a few weeks longer for Liberty's bonus or growth declaration, the figure that would tell policyholders what was in it for them. And when it came — and proved to be embarrassingly lower than the rates declared by Liberty's main competitors — there was no fanfare. Policyholders were quietly informed by mail. Compared with the earlier circus, the information pertinent to policyholders was not merely whispered, it was kept quiet.

In his response to Marx's criticism, Wharton-Hood is less then frank:

- He states that Marx "even comments that commission is not disclosed to the client", claiming that commission is a matter of common knowledge because it is "limited by regulation" — as if the average purchaser of an assurance product gets the *Government Gazette* delivered with his *M&G*.

How many people are told, when they buy insurance, that as much as 80 percent of the premiums they pay in the first year is in fact commission going to the salesperson? And that more commission gets paid in the second year? And that every time a premium is increased "automatically" to compensate for inflation, still more commission is subtracted from the amount "invested"? And, it was Wharton-Hood who accused Marx of saying things that are, "sometimes incomprehensible and in some cases totally untrue!"

- Liberty Life, Wharton-Hood claims, "has a comprehensive and sophisticated training programme". What he does not say is how much of that training comprises sales techniques which add no value other than parting the clients from their money more deftly.
- Wharton-Hood makes the claim that "surrender values often constitute more than reasonable investments to the policy holders" and the creative assumption that "surrender values represent fair value for money".

Doubtless the fat cats in the life offices and the salespeople for whom Wharton-Hood speaks are happy with surrenders. The client, on the other hand, who is the victim of such a situation, often experiences it as simply a loss of money.

But what makes his claim truly surprising, is Liberty's recent bonus declaration. Relative to the alternatives and to inflation, a growth rate of 10,06 percent does not constitute a "more than reasonable" investment, even for those policies which have not been surrendered.

Hopefully this is only the beginning of the debate about the South African assurance industry.

Peter Schoombee has been a public relations officer in the life assurance industry for a number of years

AFGEN (58) FM 19/5/95

Still salvageable

Afgen, a short-term insurer started by black business interests, is struggling for survival. But major shareholders are confident the company can be nursed back to health. Though Afgen is not writing new business, and its financial situation is a worry, the Financial Services Board is satisfied existing policyholders are protected.

Rumours swept the insurance market this week that Afgen had closed its doors and was running off its book. According to executive manager Niall Atherton, the firm is not running off. It is not, however, accepting new business and some current risks will not be renewed. Claims are being paid normally. CEO Vusi Sithole was at an insurance conference in Dakar this week.

Afgen was started by Future Bank and Fabcos, with SA Eagle and Aegis Insurance holding 49% and supplying expertise. When Eagle lost interest, its shares were to be transferred to Aegis, a member of the RMBH-Momentum insurance group. But Aegis acting MD Rudolf Pretorius says the share transfer — verbally agreed on a year ago — was not concluded.

Afgen's gross premium income is insignificant at R12,3m last year and currently an annualised R20m; that's from the total short-term premium cake of about R11bn. Afgen's significance is symbolic — it was one of the first black-managed financial institutions. Viewing it clinically on its financial position, the board might have considered suggesting a graceful retreat from the market. In the event, the special nature of the company and the shareholder assurances were good reasons for allowing Afgen time to regroup.

Running-off an insurer's book is the last rite. Though in theory a company can contract in size, pay claims and restore its capital requirements, there are no historical precedents for success. The board's view of Afgen, therefore, is that it is not confronted with a run-off situation — merely a company that grew too quickly and lacks adequate systems but can survive with the backing of its shareholders. A capital infusion has apparently been promised. Pretorius says an official announcement on Afgen's future will be made this week.

Atherton confirms that several shareholder meetings were held to consider the future. He says that until recently the company had 460 agencies — "an impossible number for an operation this size." Apparently the company tried to provide a service right across the black community, from industrial and commercial risks to personal lines. The revised business plan will focus on selected risks, coupled to adequate support systems.

Manager designate of short-term insurance at the Financial Services Board Fanie Smit warns it would be wrong to focus only on Afgen's finances. Shareholder assurances concerning the protection of policyholders and the infusion of capital would make the solvency issue "historical only."

Since Afgen's launch, it has been obvious that adolescent exuberance posed a danger. Under sterner guidance, the company may still mature. ■

International banks return

(58) ST(BT) 21/5/95

By JULIE WALKER

THE return of several banks which left these shores because of sanctions pressures has picked up since April 27 1994.

Among the first back, with little fanfare so far, is Citibank, which led the exodus in 1986. Vice-president Terry Davidson, who is in charge of the South African branch in Rosebank, Johannesburg, says the local operation is a combination of a traditional corporate bank based on core products such as loan liquidity, foreign exchange, trade finance, lending, deposit-taking and transaction services, and an investment bank focusing on capital markets, corporate finance and an intermediary role between issuers and investors.

Emerging markets account for 45% of Citibank's global profits, and Mr Davidson says a presence in South Africa will offer an excellent complement to African and global operations.

Citibank is represented in 94 countries and has assets of $250-billion.

Barclays is another well-known name that has returned to South Africa after pulling out in 1988. Its commercial operations were renamed First National Bank and the Barclays plc shareholding went to Southern Life and Anglo American. The returning Barclays will be a much smaller affair.

Managing director Philip Howell says the bank will start with 15 staff in trade finance and other selected areas until it is re-established.

International Bank of Southern Africa was formed last year out of the former operations of Commercial Bank of Namibia. Based in Parktown, Johannesburg, it offers a range of services aimed principally at multinational companies operating in southern Africa. The bank has three shareholders — Germany's Dresdner (which manages the bank), France's Banque Nationale de Paris and Belgium's Banque Bruxelles Lambert.

Commerzbank, another German bank, opened an office in Johannesburg at the beginning of May, operating from the Carlton Centre.

Many foreign banks operated in South Africa uninterrupted by political events, among them the Bank of Taiwan, Bank of Athens, Bank of Lisbon and Societe Generale.

The Bank of Lisbon was recently sold to Mercantile Bank but the Portuguese seller, Banque Ultramarino, now holds 22% of Mercantile.

There have been several important moves in the stockbroking and financial services community ahead of the deregulation of the Johannesburg Stock Exchange on November 8.

Finance house Warburg has taken a stake in Ivor Jones Roy; Smith New Court is buying into Davis Borkum Hare; James Capel has joined with Simpson McKie, and Frankel Pollak Vinderine has taken two partners, Yamaichi of Japan and Donaldson, Lufkin & Jenrette of the US. Martin & Co is in a joint venture with Robert Fleming as Fleming Martin in London.

Banks will be permitted membership of the JSE from November. They face the challenge of either buying into an existing JSE member or poaching staff to set up by themselves.

Most of the better JSE firms have already tied up with multinationals.

Other international groups have established offices in Johannesburg to ride the burgeoning financial services market. Cazenove and Barings, now ING, have opened offices.

Among insurers, General Accident is proud to have been in the country since 1908 and has 14 branches around the country. One of South Africa's top 10 insurers, it operates in 40 countries and employs 23 000 people. The global group made £428,3-million pre-tax profit last year.

Axed bank watchdog reinstated

Star 22/5/95

(58)

BY BRENDAN TEMPLETON

Herman le Roux is not very popular in banking circles — and he believes there have been times when he has not been popular with his government bosses either.

After speaking to The Star in 1992 about widespread illegal interest rates being charged by banks, the then Finance Department deputy director was effectively axed from his job for six months. But now he is back with vengeance.

The reasons for his axing and reappointment emerged during his recent testimony before the Nel Commission, which is investigating the R600-million Masterbond debacle and ways to protect investors' rights.

Le Roux is back in his previous job of administering the Usury Act — a consumer protection law limiting interest that lenders can charge on loans made to clients.

He told the commission that, shortly after the story appeared, the Usury Act department was transferred to the Department of Trade and Industry (DTI), but he had remained behind.

He sat alone in an office on a deserted floor in Pretoria's Finance Department building on full pay with nothing to do for six months, despite being one of only two people in the government who were then administering the Usury Act.

No official reasons were given for the failure to transfer him, he told the commission.

The DTI told The Star that it gave a reason at the time to the Department of Finance as to why Le Roux should not be transferred. It refused to state what the reason was, saying it was "an internal personnel matter".

Le Roux said he later learnt that banks had been given an assurance by the DTI that he would not be transferred. The DTI denied that it gave such an assurance.

After six months, he was eventually sent to the DTI, where he then investigated a bank's interest rates.

His investigation resulted in about R7-million being paid back to 6 000 clients whose interest on housing loans had been capitalised, he said.

The bank initially refused to pay the 6 000 clients, claiming it only had to pay seven clients who lodged complaints under the scheme, Le Roux told the commission.

Angry letters, of which The Star has copies, were then sent by some top banking people to senior government officials, including ex-Finance Minister Derek Keys.

The Association of Mortgage Lenders (AML) told Keys in a letter that it had been "given to understand" that Le Roux would not be transferred to the DTI.

"We sincerely believe that it is absolutely imperative that this gentleman should be relieved of all his responsibilities regarding the administration of the Usury Act.

"Your kind assistance in this matter would be highly appreciated."

The AML and the Council of Southern African Bankers refused to comment on the issue when twice approached by The Star. A copy of this article was faxed to them, but again they declined to comment.

Six months idle for exposing illegal fees

(68)

ST 22/5/95

SPECIAL CORRESPONDENT

MR Herman le Roux is not popular in banking circles — and he believes he has at times not been very popular with his bosses either.

After speaking to the Star in 1992 about widespread illegal interest rates being charged by banks, the then-Finance Department deputy director was effectively axed from his job administering the Usury Act, for six months.

He told the Nel Commission his department was transferred to the Department of Trade and Industry shortly after the story appeared — without him.

He sat alone on a deserted floor in Pretoria's Finance Department building on full pay with nothing to do for six months, despite being one of only two people who were then administering the Usury Act.

No official reasons were given why he was not transferred, he told the commission.

He later learned that banks had been assured by the DTI that he would not be transferred. The DTI denies it gave such an assurance.

However, the Star has copies of angry letters sent by some top banking figures to senior government officials including then-finance minister Mr Derek Keys.

The Association of Mortgage Lenders told Mr Keys it had been "given to understand" that Mr Le Roux would not be transferred.

"It is imperative that this gentlemen should be relieved of all his responsibilities regarding the administration of the Usury Act."

INSTITUTIONS 'MISLED' PUBLIC OVER ADMINISTRATION FEES

Banks under investigation

CT 22/5/95 (58)

JOHANNESBURG: Over 700 cases of illegal charges uncovered by the Department of Trade and Industry were just the tip of the iceberg.

OVER 700 cases in which some banks and finance houses have allegedly charged illegal administration fees have been referred to the offices of attorneys-general countrywide.

A lengthy investigation by the Star, the Cape Times' sister paper, discovered the Department of Trade and Industry (DTI) laid the charges after its officials conducted inspections of the institutions' systems over the past 12 months.

Mr John Rosin, DTI director of trade regulation and credit protection, said the banks misled the public into believing they were paying interest rates lower than those advertised by other banks.

Clients taking out personal loans would then be hit with hidden costs in the form of "administration fees". He said the banks were not allowed to charge the fees, which were a disguised form of interest.

He said the investigation had only probed administration fees over the last three years and the cases referred to the attorneys-general had only been samples taken from the institutions' files.

He did not give the names of the banks, but added the DTI was inspecting other institutions as part of a new "pro-active" policy the department had adopted.

Mr Rosin said the inspectors had also uncovered hundreds of apparent illegalities, also referred to attorneys-general, committed by the institutions in the second-hand car market.

● Almost R30-million has been recovered over the past five years from banks which charged clients interest rates and service charges which apparently contravened the law, according to Interest Research Association (IRA) chairman Mr Jaap Spelt.

He claimed the banks were still contravening the Usury Act with interest and service charges.

Disputed

The IRA consists of companies who investigate bank clients' accounts for disputed interest and service charges and then charge a commission for any money returned. The association was established under the initiative of the Consumer Council last year.

The Council of Southern African Bankers (Cosab) has denied Mr Spelt's claims. It admitted that interest charges exceeding the maximum rate were occasionally charged, but it described these as "mistakes".

Cosab general manager Mr Nico van Loggerenberg said in terms of the volume of transactions every day, disputed charges were "mere pinpricks".

● The Nel Commission, which was established to investigate the Masterbond debacle, has also turned its attention to the interest rate issue. It is investigating the sudden suspension of a senior government official, Mr Herman le Roux, in 1992 after he went public about the charging of illegal interest rates.

Mr Le Roux, who has already testified before the commission, has alleged that 90% of claims taken to court by banks against defaulting clients include illegal interest and service charges, which the courts do not have the staff, resources or time to detect. He said only one prosecution had been made under the Usury Act since its inception in 1968. — Special Correspondent

Saambou income rises to R28,2m

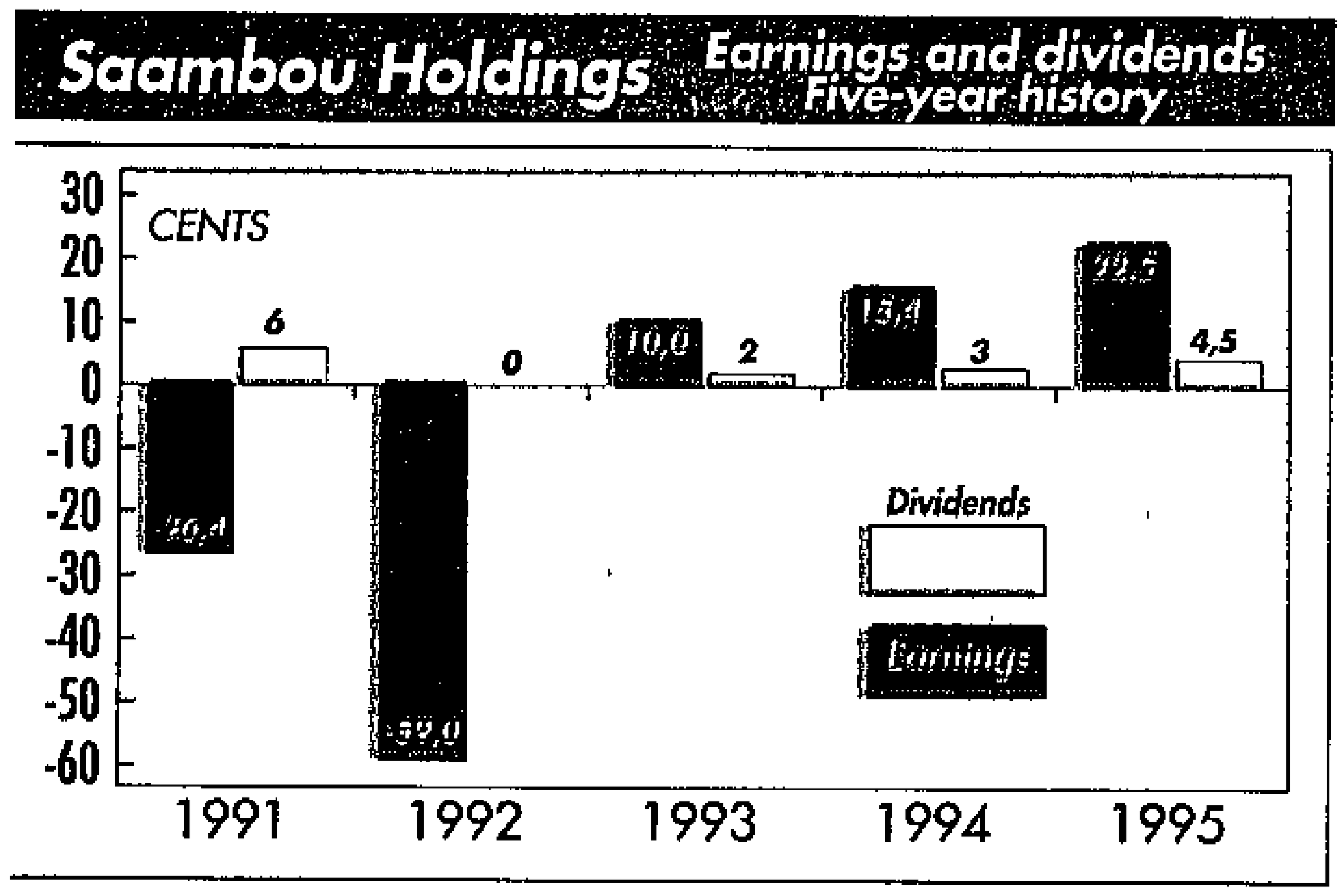
(68) CT(BR) 22/5/95

By Charlotte Mathews
Investment Editor

Banking group Saambou Holdings grew attributable income by 46 percent to R28,2 million in the year to March compared with the same period last year as costs were controlled and underperforming assets eliminated.

According to figures released over the weekend, the group's net interest and related income moved up 17 percent to R224,7 million while other income was 18 percent higher at R67,6 million.

Operating expenditure was R177,8 million (R155,5 million), equivalent to 3,3 percent of average assets, unchanged from last year. The expenditure figure includes R5 million for software development. Saambou group MD Johan Myburgh said there would be no further costs for software development but the balance of the other computer systems were still being redeveloped.



A provision was made for possible losses on advances of R54,0 million, 17 percent above the previous R46,2 million, in addition to a general risk provision of R17,0 million.

Saambou Holdings MD Johan Myburgh said the reason for separating the two was to smooth earnings as the group once again becomes liable for taxation. It had a previous assessed loss. The group's tax rate was 31,5 percent from 38,1 percent previously.

On earnings of 22,5c (15,4c) a share, the dividend was raised by 50 percent to 4,5c a share.

The bank is still holding about R105 million in non-performing mortgage loans, which have been written down to the value of the properties.

It was hoped these could still be recovered, either by negotiating with the purchasers or repossessing the properties.

Non-performing assets on the balance sheet — mainly development properties — have now been reduced to R46,5 million from R140 million a few years ago.

Myburgh said that, barring any abnormal weakening of the economy, the group was likely to achieve 25 percent growth in earnings a share next year.

NBS moves into black market

58) CT(BR) 22/5/95

BY AUDREY D'ANGELO

CAPE BUSINESS EDITOR

The NBS Bank, under new managing director John Smale, will move aggressively into the growing black market.

Smale, on a visit to the bank's Cape Town operation, said he saw this as an exciting opportunity.

The bank's core business is still mortgage loans and he said it would return to the low cost housing market. "We'll have about 10 percent of the total business to be done initially by banks and building societies in that market.

"We'll be reasonably aggressive but it will be phased in."

However, because "the section of the construction industry in that area almost died" as a result of the culture of non payment, Smale thinks "the houses won't start flowing for some months to come".

He described the culture of non-payment as a type of violence.

"We would not need a government guarantee for low-cost housing loans if we were a normal society, and we hope we will become one.

John Smale, new managing director of NBS Bank

"We have got to go forward with optimism and hope."

In addition to housing loans, Smale hopes to grow his bank's normal deposit and investment business in the black community.

Deploring the fact that branches in some black areas had to be closed during the period of violence, he said it would be targeting "steady savers" in all income groups.

Inkatha men allegedly informers for C10 unit

Stephane Bothma BD 22/5/95

PRETORIA — Senior Inkatha officials were paid informers of the now defunct Vlakplaas C10 unit, a former C10 member testified in the Transvaal Supreme Court on Friday.

Key State witness in the Eugene de Kock murder and fraud trial Chappies Klopper testified that prominent Inkatha officials received payment for information supplied to C10 under fictitious names.

The Inkatha officials' identities were not disclosed.

Klopper was responding to questions by defence advocate Flip Hattingh SC.

De Kock, the former C10 commander, has pleaded not guilty to 121 charges including murder, fraud, theft, attempted murder, assault and the illegal possession of weapons and explosives.

In a preliminary indictment served on De Kock late last year the State alleged that the former policeman had supplied firearms, hand grenades, ammunition and homemade bombs to "prominent" Inkatha members since August 1990.

Although these charges have not appeared on De Kock's final indictment, sources at the Transvaal attorney-general's office earlier said investigations into the Vlakplaas-Inkatha connection relating to train and other violence on the Reef continued. De Kock could still be charged with these alleged crimes.

The preliminary indictment stated that some of the hand grenades supplied to Inkatha by C10 had been used in 53 separate terror attacks throughout the country.

Role of Bank debated

Adrian Hadland (58) BD 22/5/95

CAPE TOWN — While all political parties have agreed the constitution should enshrine the SA Reserve Bank's impartiality and independence, the degree of the Bank's independence continues to worry constitution-makers, Constitutional Assembly discussions on Friday indicated.

At the centre of the debate is the specific relationship between the Finance Minister and the Bank's board of governors.

Section 197 of the interim constitution states the Bank shall exercise its powers and perform its functions independently "provided there shall be regular consultation" between the minister and the Bank.

The ANC has argued, however, that this phrasing gives the Bank too much leeway to determine broader monetary policy issues.

More than regular consultations, the Bank and the Minister should concur on decisions before they are implemented, the ANC said. It proposed that decisions should, therefore, be made "in consultation with" the Minister.

This was rejected on Friday by legal advisors to the Constitutional Assembly.

In a document put before the assembly the advisors said the change would "effectively neutralise" the independence of the Bank and was therefore unconstitutional.

The ANC explained that it had not intended to compromise the "operational independence" of the Bank but wanted more ministerial involvement in the institution's longer-term "goal independence".

"The Bank should be free to exercise its powers and functions without ministerial intervention but within broad policy objectives or guidelines determined by the Bank 'in consultation with' the Minister," the ANC said.

The legal advisors said such a formulation, "while a purely political matter," could be included without affecting the constitutional principle which protects the Bank's independence.

They suggested a new formulation: "The Bank shall discharge its powers and functions with due regard to a policy framework determined in the interest of the maintenance of effective public finance and administration by the Bank in consultation with the said Minister."

The ANC withdrew the entire report on the Bank, which was tabled but not discussed.

The chairman of the committee dealing with the report, ANC MP Rob Davies, said the proposal needed further discussion.

He described the issue as the last outstanding matter to be resolved before multi-party consensus could be declared on the way in which the new constitution should deal with the Bank and its role in government and the economy.

Hazardous waste buildup averted

AN EMERGENCY arrangement to avert a buildup of hazardous waste of crisis proportions in Gauteng was agreed upon on Saturday at a meeting called by Water Affairs and Forestry Minister Kader Asmal.

The waste buildup could have led to illegal discharges of hazardous waste into sewer systems and onto the veld, eventually leading into the Vaal Dam which is already low and supplies the bulk of Gauteng's water, a spokesman for the Minister said. BD 22/5/95

He said the waste, including medical waste, had been building up for some time and posed a potential [illegible]ard to the public.

Asmal f[illegible] to Johannesburg after calling the meeting o[illegible] [illegible]ovincial and national government representat[illegible]es, local authorities, waste disposal experts a[illegible]d other organisations.

The meeting agreed to recommend the waste disposal company Waste Tech restart and upgrade two incinerators at the Margolis waste site in Germiston as a temporary measure.

The site has been inoperative for some time due to a Supreme Court order following public objections. The Minister insisted the site be closed by the end of the year.

The meeting agreed to make arrangements for careful waste monitoring and compilation of a register of medical waste. — Sapa.

● See Page 8

Effective planning, cost controls boost Saambou

BD22/5/95 58

Samantha Sharpe

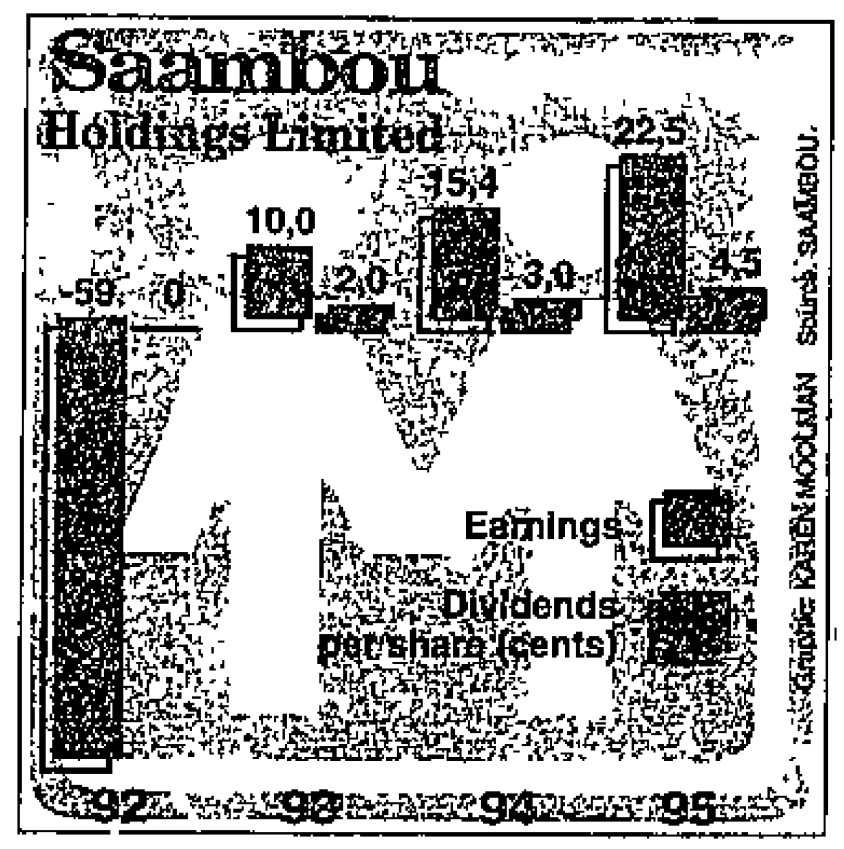
COST control and healthy growth in net interest and related income helped Saambou Holdings post a 46% surge in attributable earnings to 22,5c a share in the year to March.

Saambou MD Johan Myburgh said effective planning had also contributed to the solid base for healthy earnings growth in the review period, despite the narrowing interest margins experienced in the last quarter.

Directors were confident that the positive performance trend, which led to a 50% increase in dividends to 4,5c a share, would continue, barring any abnormal weakening of the economy, he said.

Net interest and related income rose 17% to R224,7m, while other income increased to R67,6m compared with R57,5m in the previous year.

The introduction of a new computer system helped lift operating expenditure 14% to R177,8m. "The implementation of a new computer system to facilitate the expected growth in business has already passed the halfway mark. The cost of this investment to date has been accommodated in full in the operating expenditure figure," Myburgh said.



Bad debt provisions increased to R54m compared with a previous R46,2m, while general risk provisions were unchanged at R17m. This meant a 40,7% rise in pre-tax income to R43,5m. The group's tax charge increased to R13,7m from R11,8m.

Myburgh said that on the balance sheet side, the group's capital base was strengthened by a further convertible debenture issue of R40m. "This provided Saambou with sufficient capital to allow the expected growth in assets to be serviced from its own resources."

The group's concentration on the banking needs of individuals, salary earners and pensioners remained its primary focus.

Funding from this niche market, as a percentage of total funding, had risen from 28% to 49% in the past two year, Myburgh said.

"In addition, continuing with our stated policy of reducing non-performing assets, the quality of our balance sheet was further strengthened by the reduction in these assets by R30,6m to R46,5m."

Saambou boosted by cost control

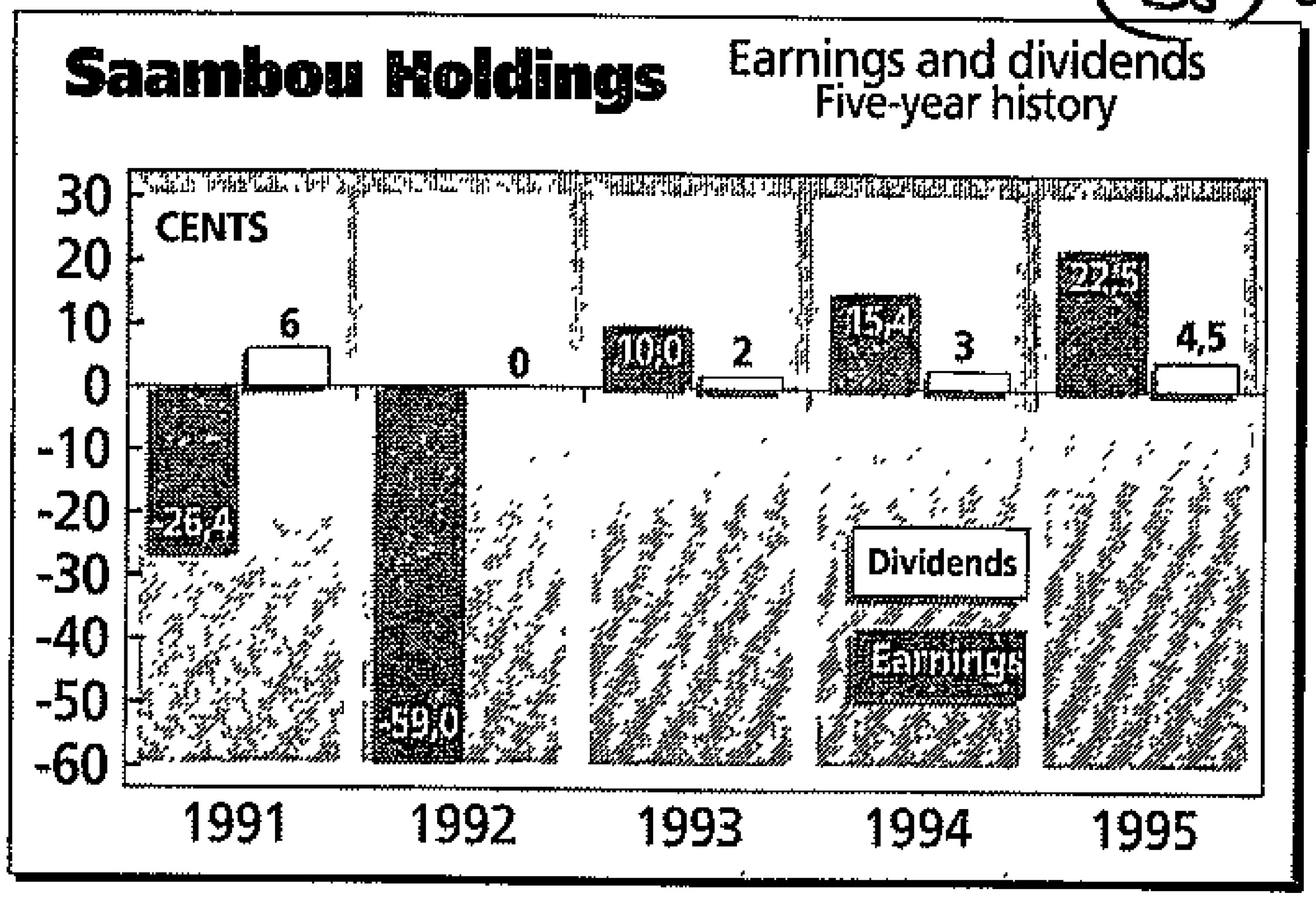
(58) Star 22/5/95

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

Banking group Saambou Holdings grew attributable income by 46% to R28,2-million in the year to March compared with the same period last year due to cost control and elimination of underperforming assets.

According to figures released over the weekend, the group's net interest and related income moved up 17% to R224,7-million while other income was 18% higher at R67,6-million.

Operating expenditure was R177,8-million (R155,5-million), equivalent to 3,3% of average assets, unchanged from last year. The expenditure figure includes R5-million for software development. Saambou group MD Johan Myburgh said there would be no further costs for software development but the balance of the other computer systems were still being redeveloped.



A provision was made for possible losses on advances of R54,0-million, 17% above the previous R46,2-million, in addition to a general risk provision of R17,0-million.

Saambou Holdings MD Johan Myburgh said the reason for separating the two was to smooth earnings as the group once again becomes liable for taxation. It had a previous assessed loss. The group's tax rate was 31,5% from 38,1% previously.

On earnings of 22,5c (15,4c) a share, the dividend was raised by 50% to 4,5c a share.

The bank is still holding about R105-million in non-performing mortgage loans, which have been written down to the value of the properties.

It was hoped these could still be recovered, either by negotiating with the purchasers or repossessing the properties.

Myburgh said the group intends to concentrate on its niche market — individuals, salary earners and pensioners — until it has mastered this area before looking at other opportunities. He said barring any abnormal weakening of the economy, the group was likely to achieve 25% growth in earnings a share next year.

Community Bank expands

(58) Star 22/5/95

BY FRANCOISE BOTHA

Community Bank, established last year to assist parties not serviced by the commercial banking industry, is set to double its number of branches within the next three months as demand for home and small business loans is on the increase.

Archie Hurst, Community Bank managing director, said in an interview the bank will be concentrating its efforts on developing its business in three areas — the Western and Eastern Cape and Gauteng.

"We are set to open branches in Nyanga and Guguletu this month, but within the next three months, branches are also planned for Butterworth and East London in the Eastern Cape, and Salt River and Mitchell's Plain in Cape Town," Hurst said.

Loan facilities are provided to people employed in the informal sector and those without collateral, but a requirement of the bank is that a potential recipient go through a savings programme first.

"The bank is focussed on relationship-building within communities which means that we are not only lending on an asset basis, but also on the character of and relationship with the person concerned," Hurst said.

"For that reason, we limit the size of our branches," he said.

The bank also requires each clients to purchase at least one share in the bank, so that they can vote for the local and national board of directors.

Bank usury cases sent to A-Gs

(58)

BY BRENDAN TEMPLETON

More than 700 cases where some banks and finance houses have allegedly charged illegal administration fees have been referred to Attorneys-General offices countrywide.

A lengthy investigation by The Star discovered the Department of Trade and Industry laid the charges after its officials conducted inspections of the institutions' systems over the past 12 months.

John Rosin, DTI director of trade regulation and credit protection, said the administration fees were used by the banks to "mislead" the public into believing they were paying interest rates lower than those advertised by other banks.

Clients taking out personal loans would then discover the loans were not cheaper than other banks because they would be hit with hidden costs in the form of "administration fees". He said the banks were not allowed to charge the fees which were a disguised form of interest.

Star 22/5/95

Rosin said the inspectors had also uncovered hundreds of apparent illegalities, referred to attorneys-general, committed by the institutions in the second-hand car market.

The Star has been told that almost R30-million has been recovered over the last five years from banks who have charged their clients interest

▶ To Page 3

Bank usury investigations sent to A-Gs

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(58)

◀ From Page 1

rates and service charges which apparently contravene the law.

The figure was supplied by Interest Research Association (IRA) chairman Jaap Spelt, who believes the actual figure is far more than R60-million. He claims the banks are still contravening the Usury Act with charges.

The IRA consists of companies who investigate bank clients' accounts for disputed interest and service charges and then charge a commission for any money returned. The association was established under the initiative of the Consumer Council last year.

The Council of Southern African Bankers (Cosab) has denied Spelt's claims. It admitted that interest charges exceeding the maximum rate were occasionally charged, but it described these as "mistakes".

Cosab general manager Nico van Loggerenberg said many claims regarding the legality of interest charges were a matter of interpretation, particularly where compound interest could be levied.

'Confident' Absa boosts pre-tax profit by 24%

CT (BR) 23/5/95 (56)

By Charlotte Mathews
Investment Editor

Confidence in the quality of its growth in advances encouraged Amalgamated Banks of SA (Absa), which includes United Bank, Allied Bank, Volkskas Bank and Trust Bank, to cut its bad debt provision by a third in the year to March. This contributed to a 24,1 percent increase in pre-tax profit.

According to figures released yesterday, attributable income before extraordinary items rose 16,2 percent to R774,3 million compared with the same period in 1994.

Net interest income was 9,7 percent higher at R4,1 billion, with growth in the second six months of the year stemming from the 19,4 percent increase in advances to R82,7 billion. Group chief executive Danie Cronjé said the growth in advances was an important figure because it meant that the group had maintained its market share.

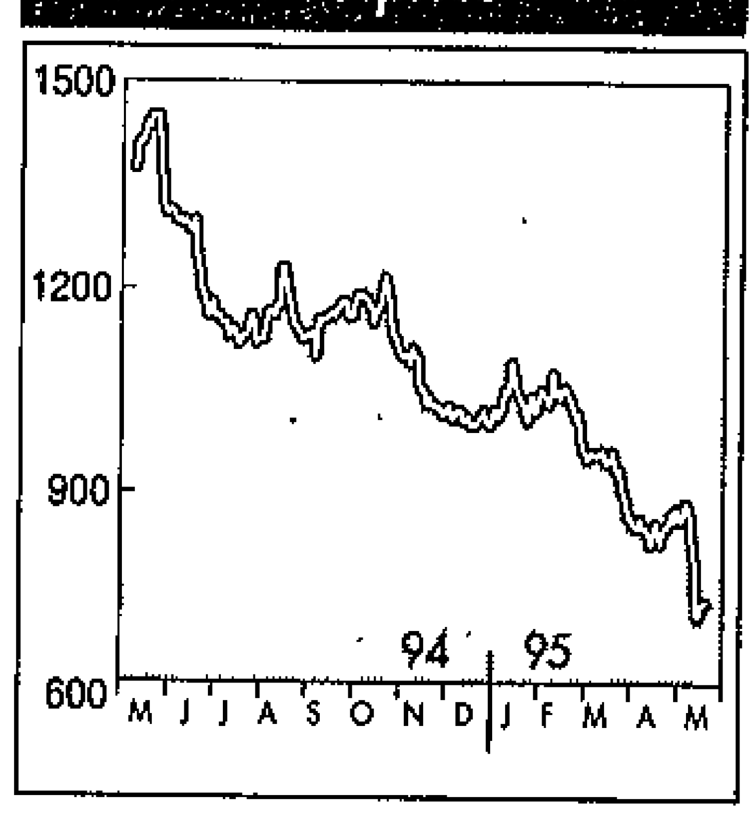
Other operating income grew 9,0 percent to R2,0 billion, with growth restrained by lower than expected domestic treasury income, including the effect of poor underwriting conditions in the short-term insurance industry which affected Commercial Union.

The provision for bad and doubtful debts dropped by a third to R489,2 million, 0,64 percent of advances, against the banking industry average of 0,73 percent. Cronjé said the lower provision resulted from hard work and an improvement in the quality of advances.

Operating expenditure grew by 13,6 percent to R4,3 billion, but excluding the effect of 1994's pension fund holiday was effectively 10,5 percent higher year on year, Cronjé said. The group's operating expenses as a percentage of average assets is 4,71 percent, below the industry average of 4,91 percent.

Although Absa's pre-tax income grew by 24,1 percent, a 35 percent increase in the tax bill, arising from the transitional levy, lower dividend income and the higher VAT rate, took some of the gloss off the bottom line.

Absa share price



On earnings a share of 136,8c (117,8c), the dividend was raised by 13 percent to 49c (43,5c). Cronjé said there was some way to go as far as dividend cover was concerned since management believed three times cover is the minimum necessary for a bank of Absa's size.

The group's retail banking activities did exceptionally well, raising their contribution to total profits to 68,5 percent from 56,5 percent last year. The substantial contribution by this sector was advantageous in a cycle of rising interest rates, Cronjé said. Although the contribution from insurance activities fell to 14,7 percent from 21,3 percent, it is expected to grow to 20 percent or 25 percent in the future.

The return on average assets improved to 0,86 percent from 0,82 percent last year but, at less than one percent, remains below the industry average.

The return on average equity has also improved to 13,45 percent (12,87 percent) and over the next three years is expected to move towards the industry average of 19 percent.

Absa lifts income in 'watershed' year

(SE) BD 23/5/95

Robyn Chalmers

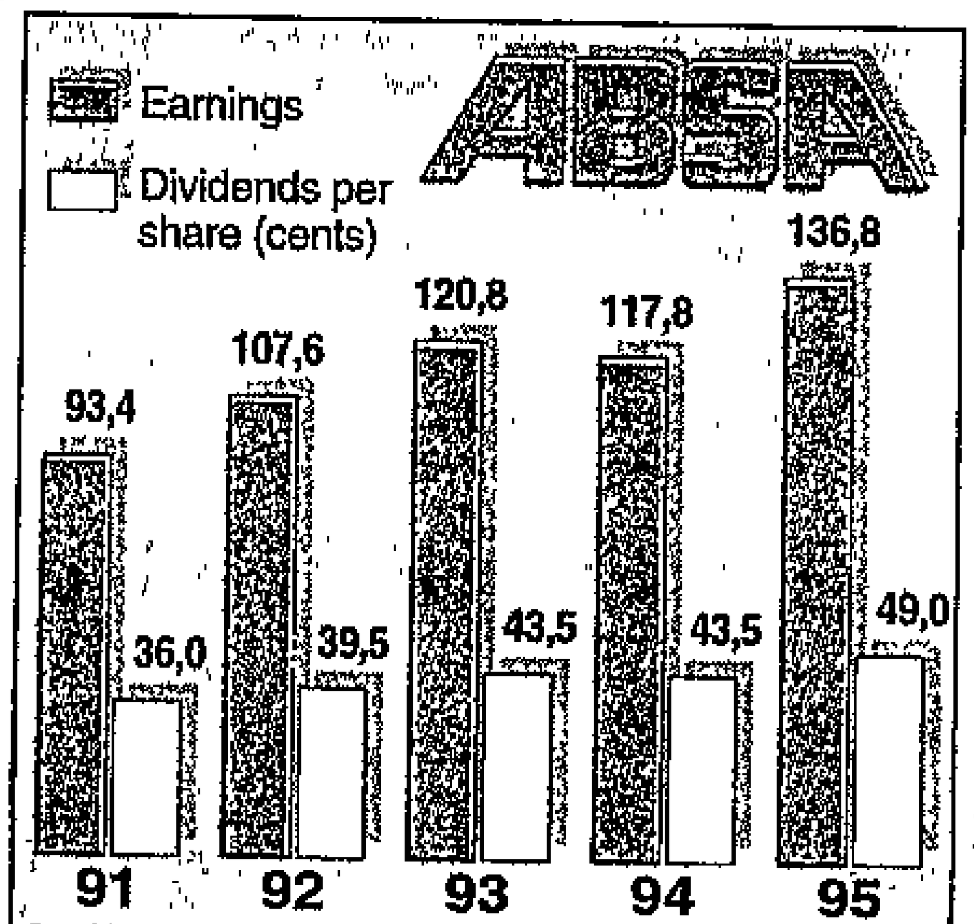
STRONG growth in total advances and a sharp reduction in bad and doubtful advances for the year to March helped Amalgamated Banks of SA (Absa) to meet market expectations and post a 16,2% rise in net attributable income to R774,3m.

This was equivalent to earnings of 136,8c (117,8c) a share, and was accompanied by a 12,6% rise in the total dividend to 49c — the first inflation-beating increase in dividends since the group was formed in 1991.

Describing the past 12 months as a "watershed" for Absa, chairman Dave Brink said the results were a testimony to the way in which staff had coped with the challenges of merging four banks into one.

Total advances surged 19,4% to R82,7bn, a trend Brink said was still accelerating even though lending was done within strict credit guidelines, while bad and doubtful advances were reduced more than a third to R489,2m (R731,1m).

The charge for doubtful advances as a percentage of total advances was reduced



Graphic: KAREN MOOLMAN Source ABSA

to 0,64% (1,10%). Brink said this brought Absa back into line with norms for a bank with a comparable asset mix and signalled that the problem of bad debts inherited through the merger had been addressed.

Pre-tax net income rose 24,1% to R1,3bn,

Continued on Page 2

Absa

BD 23/5/95

Continued from Page 1

but a 34,9% tax hike to R583m left net income after tax 16,8% higher at R749,7m.

Brink said the banking interests achieved good results with an increase of 31,2% in their contribution to attributable income. However, the insurance and other interests provided a lower contribution of R122,9m after a difficult year with poor short-term underwriting results, in line with the market as a whole.

In addition, the group's return on average assets, at 0,86%, and return on average equity, at 13,45%, compared unfavourably with its competitors, which came in at an average 1% and 19% respectively.

Absa's market capitalisation more than doubled over the year, with the share price rising from R6,70 at the beginning of April last year to close at R13,85 yesterday.

Brink said objectives for the year ahead included a drive to improve market share through quality growth and the development of a stronger sales culture.

The contribution of the insurance and other interests would have to be improved, while technology would be integrated and further attention paid to the development of staff and training. Further international expansion was also on the cards, while the profitability of wholesale banking would be improved.

Confident Absa's income up 16,2%

(58)

Star 23/5/95

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

Amalgamated Banks of SA (Absa) improved attributable income before extraordinary items by 16,2% to R774,3-million in the year to March 1995 compared with the same period in 1994, after a year in which market share was maintained and costs kept down.

Absa includes United Bank, Allied Bank, Volkskas Bank and Trust Bank.

Net interest income was 9,7% higher at R4,1-billion, with growth in the second six months of the year stemming from the 19,4% increase in advances to R82,7-billion. Group chief executive Danie Cronje said the growth in advances was important because it meant that the group had maintained its market share.

Other operating income grew 9,0% to R2,0-billion, with growth restrained by lower than expected domestic treasury income, including the effect of poor underwriting conditions in the short-term insurance industry which affected Commercial Union.

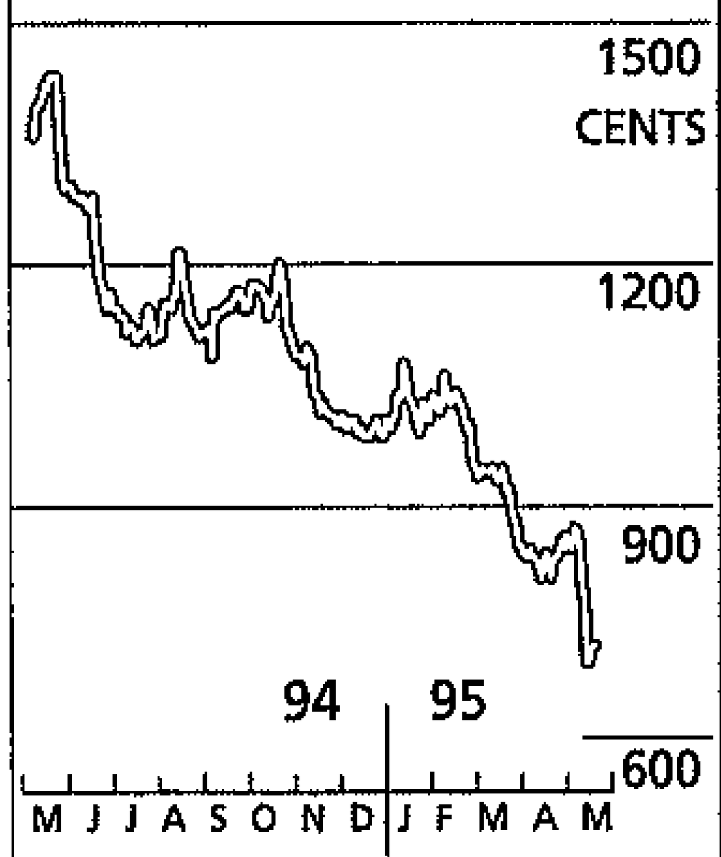
The provision for bad and doubtful debts dropped by a third to R489,2-million, 0,64% of advances, against the banking industry average of 0,73%. Cronje said the lower provision resulted from hard work and an improvement in the quality of advances.

Operating expenditure grew by 13,6% to R4,3-billion, but excluding the effect of 1994's pension fund holiday was effectively 10,5% higher year on year, Cronje said. The group's operating expenses as a percentage of average assets is 4,71%, below the industry average of 4,91%.

Absa's pre-tax income grew by 24,1%, but the tax bill increased 35%, due to the transitional levy, lower dividend income and the higher VAT rate.

On earnings a share of 136,8c (117,8c), the dividend was raised by 13% to 49c

Absa share price



(43,5c). Cronje said there was some way to go as far as dividend cover was concerned since management believes three-times cover was the minimum necessary for a bank of Absa's size.

The group's retail banking activities did exceptionally well, raising their contribution to total profits to 68,5% from 56,5% last year. The substantial contribution made by this sector of the business is advantageous in a cycle of rising interest rates, Cronje said. Although the contribution from insurance activities fell to 14,7% from 21,3%, it is expected to grow to 20% or 25% in the future.

The return on average assets improved to 0,86% from 0,82% last year but at less than 1% remains below the industry average. The return on average equity has also improved to 13,45% (12,87%) and over the next three years is expected to move towards the industry average of 19%.

"We have a solid platform for future growth," Cronje said. "We have clients in all market segments and are well placed for the servicing of government business. We have new provincial structures in the nine provinces and are actively involved in the RDP." In the short term it is not believed international competition is a threat due to the strength of retail operations.

Governor's letter sparks row

(58)

Stals in clash over Bank's independence

BD 24/5/95

Greta Steyn

A ROW has erupted over the ANC's proposals to rewrite the Reserve Bank's role in the final constitution, with Bank Governor Chris Stals and ANC MP Rob Davies differing sharply over Bank independence.

Davies yesterday accused Stals of using "highly charged language" and attempting to silence the debate on central bank independence. "Stals believes the issue should not be debated because it is sending the world the wrong signals. He cannot tell us that some things should not be discussed because they are supposedly sensitive."

He was reacting to a letter in which Stals expressed his views, which had been written to NP MP Francois Jacobsz and distributed to members of the Constitutional Assembly theme committee debating the issue. Davies, who is theme committee chairman, criticised Stals for directing the letter at Jacobsz and not at committee members — a move which he described as "irregular" and "not helpful".

Referring to the difference of opinion between himself and Stals, Davies quipped: "As Mandy Rice-Davis said — he would say that, wouldn't he?"

The difference of opinion centres around the ANC's proposal that a distinction be drawn between the Bank's "goal independence" and its "operational independence". In terms of the ANC's proposals, the Bank's "goal independence" — the setting of its objectives — would be curtailed. Its "operational independence" — the use of monetary policy instruments to reach these goals — would, however, be certain.

Davies said a workshop held earlier this year at the Bank had suggested there was consensus that the Bank's goals were a political decision. Consultation on choosing the Bank's objectives was the issue that now had to be discussed.

Stals yesterday reiterated the stance in his letter that the distinction between two types of independence was academic. He said he had held the same view when the workshop was held in January. "The proposal cannot be implemented in practice. How will the line between goal and operational independence be drawn?"

He said SA had advertised its central bank independence in prospectuses for bond issues. Foreign investors might be scared off if they got the idea that SA now wanted to go back on the independence given by the interim constitution.

Stals said he had written a letter to Jacobsz because the NP MP had asked for his opinion. The letter had been distributed among committee members because Jacobsz had asked whether he would mind if his views were made public, and he did not. He would take part in further debate if the committee requested his participation.

The ANC initially proposed that Bank decisions be taken "in consultation with" the Finance Minister. But legal advisers rejected the suggestion, saying it would "effectively neutralise" the Bank's independence. But they said ministerial involvement in setting the institution's longer-term goal independence was compatible with constitutional principles.

Citizen Bank on expansion trail

(58) ARG 25/5/95

Deputy Business Editor

BLACK-controlled Citizen Bank is poised for expansion, with after-tax profit up from R6,1 million to R16,4 million in the year to end-March.

Extraordinary income of R24,4 million, arising from the sale of shares to Thebe and FirstCorp Merchant Bank and from the conversion of R7 million which had been set aside for bad debt, left net profit at R40,8 million compared to R5 million in 1994.

Thebe and FirstCorp now hold 48 percent of the Bisho-based bank which is set to benefit from improved funding, additional banking expertise and new business opportunities, says CE Edgar van Deventer.

The bank's investment portfolio swelled by R24,5 million to R285 million. A final dividend of 23,5c makes 43,7c for the year.

■ M-Net and Multichoice shares on the Johannesburg Stock Exchange will be delinked from Monday if a meeting of shareholders tomorrow approves the consolidations of Multichoice's subscription television businesses with those of Richemont and Nethold.

■ Metropolitan Life boosted shareholders' earnings 26 percent to R37,4 million in the six months ended March, on the strength of a 24 percent rise in premium income and a 13 percent rise in investment income.

The interim dividend is up 24 percent to 36,5c.

■ Venture capital board listing Manga-Chem could double forecast profits as a result of a deal giving the manganese group access to a deposit near Tolwe in the Northern Transvaal, according to chairman Deon Seymore.

Subsidiary Baltimore Manganese Mine has an option to investigate the deposit.

Parties plunge into row over Bank role

BD 25/5/95 (58)

Adrian Hadland

CAPE TOWN — Parties and interest groups called yesterday for the reopening of the debate on the SA Reserve Bank's independence after criticism of the latest proposals by Bank Governor Chris Stals.

The proposals, which were framed by legal advisers to the Constitutional Assembly on the basis of ANC recommendations, suggest the Bank retain its day-to-day "operational independence" but act within broad policy guidelines determined by the Finance Minister in consultation with the Bank's board of governors.

The SA Chamber of Business said yesterday the proposals had "serious implications for the positive inflow of capital to SA". It also called for another opportunity to address the sub-theme committee considering the matter.

In a letter this week to the sub-theme committee, Stals said little distinction could be drawn between operational independence and the Bank's broader "goal independence". He warned foreign investors could be scared off if they believed the Bank's autonomy was to be compromised.

Though the report was withdrawn by the committee for further consideration — before it could be debated by the full Constitutional Assembly — a war of words broke out between Stals, the NP, the ANC and other interest groups. Committee chairman Rob Davies (ANC) accused Stals of trying to stifle debate.

The NP accused the ANC of incorporating SACP policies and said the new concepts had not been discussed by the committee before being incorporated into the report. Davies replied the report had been withdrawn, by multiparty consensus, to discuss the new proposals.

The NP said Bank representatives and other experts should be asked to give more evidence of the proposals' implications.

DP finance spokesman Ken Andrew said the proposals, which would dilute the Bank's independence, were "ominous".

● Comment: Page 10

Extraordinary items lift Citizen Bank's earnings

(58)
BD 25/5/95

Samantha Sharpe

A BOOST from extraordinary items helped Eastern Cape-based Citizen Bank Holdings lift earnings 33,8% to 131,1c a share in the year to March.

Citizen Bank CE Edgar van Deventer said the bank's new stakeholders — Thebe Investment Corporation and FirstCorp acquired a 48% stake in Citizen Bank in September — had added more substance to the group.

"It is anticipated that the group will start benefiting from the improved funding facilities, the additional banking expertise and the new business opportunities which should flow from the relationship."

Net interest income showed subdued growth, rising to R14,92m. This compared with previous interest income of R8,71m, with comparative figures based on the period October 12 1993 to March 1994.

Other income increased to R10,3m (R3,03m), while operating expenses rose to R8,35m from R5,59m.

After a R415 000 transitional levy charge, net income before extraordinary items rose to R16,4m (R6,15m).

Net income after extraordinary items, which included the proceeds from the shares sold to Thebe and FirstCorp and the reversal of an exceptional bad debts provision of R7m, rose to R40,82m (R5,1m).

This translated into a final dividend of 23,5c a share and a dividend for the year of 43,7c a share.

On the balance sheet side, Van Deventer said the bank had granted new mortgage loans to the value of R42,5m during the year. Its investment portfolio was also strengthened by R24,5m to R264,9m.

Absa ready to show steady growth after turbulent years

(58) BD 25/5/95 HILARY JOFFE

WHEN Amalgamated Banks of SA (Absa) chairman David Brink described the past 12 months as a "watershed" for the group this week, it was an unfortunate echo of the 1993 year-end: then chairman Herc Hefer referred to that year as "a watershed for the group" and a dismal year followed in 1994, with earnings and market share down and bad debt provisions well up.

But things look different this time. Four turbulent years after the start of the round of mergers which formed Absa, it seems finally that the group is cohering and is starting to improve profitability. In a real sense, the year-end results announced this week mark the end of the beginning for SA's largest banking group.

Earnings were up 16% following last year's 2,5% fall, asset growth of 16% indicated the group had arrested the decline in its market share, and a fall in bad debt provision showed confidence that it cleaned out the shaky business it inherited.

Brink talks of the shift in mindset of management and employees from internal to external matters: with the merger now bedded down people have turned to think about the business and about what customers want, where previously they worried about their jobs. He believes a great deal more has been achieved at Absa than one could reasonably have expected. The group's in-house TV station, Africa Growth Network, has facilitated the change process. It can broadcast to all 1 500 branches for four hours daily and has been used extensively to brief and train people, to elicit feedback and raise morale.

The task now for Brink, CE Danie Cronje and their troops is to build a group whose stature matches its size, and whose profitability compares with its major competitors.

Essentially, they have to show that the mergers which created the super-group, bringing together United, Allied and Volkskas in 1991 and then the ailing Bankorp in 1992, were worthwhile — not just that they were possible.

To do that they have to show consistent earnings growth and better quality earnings. It is a task which will take another four years, at least. Profitability, measured by return on assets and equity, had fallen steadily since 1991 but improved in financial 1995 to a 0,86% (0,82%) return on assets and 13,5% (12,87%) on equity. This compares, though, with returns of more than 1% on assets and about 20% on equity for Standard, First National and Nedcor. Brink thinks the gap can be closed quite quickly, "perhaps in four years", but cautions that Absa's heavy focus on mortgage loans means its returns may not be as good as those of its competitors. Against that, though, the risk profile is better.

In the current rising interest rate cycle, home loans should stand the group in good stead: it should feel any squeeze on interest margins less than its competitors. But the composition of its lending book tends to be Absa's Achilles heel. With its strengths in mortgages and retail banking, it is in a good position to grow interest income: it is less able to grow non-interest income. And since non-interest income (fees, commissions and the like) tends to rise with inflation while interest income fluctuates largely at the whim of the Reserve Bank, the quality of Absa's earnings compares unfavourably with its peers. One analyst notes 32%

☐ BRINK

of Absa's revenue comes from non-interest sources compared to about 40% for Nedcor, Standard and FNB.

The problem shows in the year-end results. Although there was solid growth in assets and in interest income, non-interest income lagged. Without the 33% reduction in provision for bad and doubtful debts, pre-tax profit would have been up only 1%.

Brink acknowledges Absa's weakness in corporate and merchant banking. The group's domestic treasury function is said to be well below par for the industry and Brink concedes that expertise in this area does lag behind the competition. But he says the group is working hard to beef it up.

The strategy now is to grow assets in line with the market, rather than increase overall market share, but to increase the group's participation in selected markets. Mortgage loans make up half of the group's book and its share of the market is at 36,1% (down from 40% a couple of years ago and 37% last year) against the 18,5% share of second-placed Nedcor. Absa aims to defend its dominant position, says Brink, but is unworried by others chipping away at its market share.

The group has risen from third to second position in instalment sales and leasing, with a 25,6% share to FNB's 29,7% and Standard's 22,4%. It wants to expand further in this area and to take the largest share of overdrafts and advances: its 24,7% share currently lags Standard's 26,1%. It does have the largest share of savings deposits, with 35% against Standard's 23,1%.

The group sees reaching the "unbanked" part of the population as important: it plans to form a new bank, although Brink will not yet give details.

A big part of the rationale for the mergers originally was that economies of scale would position Absa as the lowest cost producer in the industry. It is not yet clear whether that will be achieved, although the group is containing cost increases successfully. Operating costs rose less than income in the year to end-March, but as a proportion of income costs are still comparatively high.

Maintaining different brands (Allied, Volkskas, United, Trust Bank) is expensive: the increase in operating costs would have been lower if not for heavy brand advertising. But Brink is confident that the brand strategy is the right one and feedback over the past year has shown this. "We can get the advantages of efficiency and technology and commonality of systems without one brand. But we do have different needs and cultures in the SA market and we believe we must position ourselves to deal with these."

Computer-spend has also been very high and will remain so for the next 18 months.

Incredible progress has been made in merging systems, says Brink. In the first phase of development, seven centralised computer systems were reduced to two. The second phase, currently in progress, puts smarter systems in place and Absa should be among world leaders in banking technology by the time this is complete at the end of next year, he says.

Analysts expect the group to achieve earnings growth of more than 20% in the coming year. The insurance interests, which held back earnings growth last year, should rebound, bad debt provision is likely to be flat and the group's asset growth gives it a higher earnings base. The doubling of the share price over the past year reflects investor perceptions that Absa has started to turn around and analysts see scope for it to rise further.

Another good few years will see the group building up the kind of growth record which would, in time, see its share rated as a "core holding" in the banking sector.

Income growth injects life into Metropolitan

BD 25/5/95 (58)

Samantha Sharpe

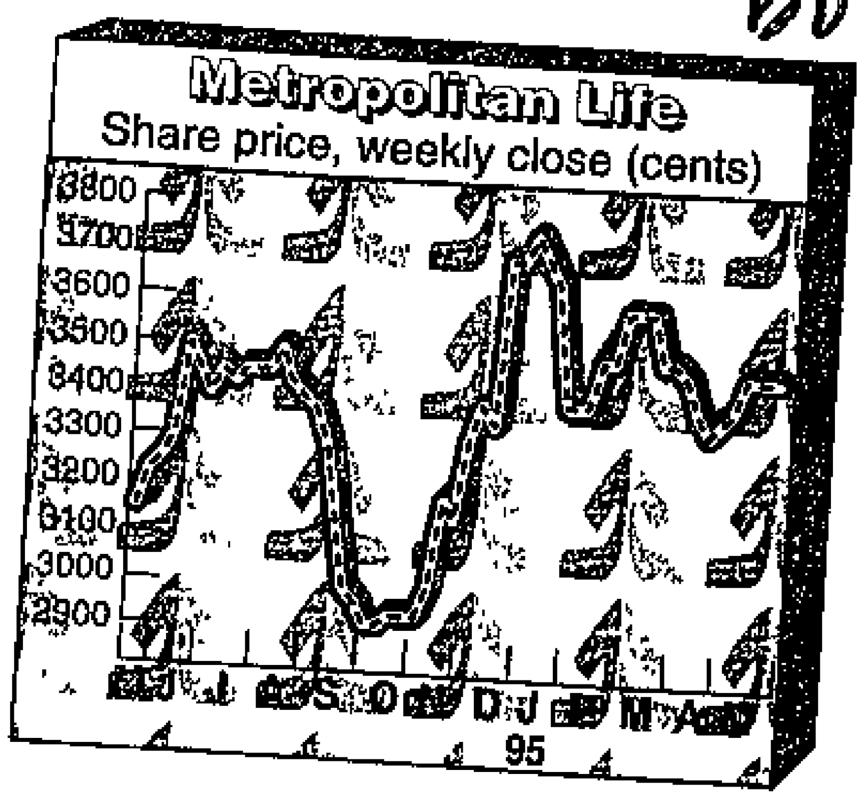
HEALTHY growth in premium and investment income was the key factor behind a 22% increase in earnings to 55c a share for insurance company Metropolitan Life (Metlife) in the six months to March.

The earnings growth, which was in line with expectations, was accompanied by a 24% rise in the interim dividend to 36,5c a share.

Metlife MD Marius Smith said that the greater stability in the country after the election had contributed to the more satisfactory premium income growth.

"The company is still benefiting from the stabilisation of the political climate in SA. Under these circumstances and, barring any unforeseen setbacks in the SA economy, I expect Metlife's earnings and dividends for the full year to show a satisfactory increase over those of the previous year," Smith said.

The development of new insurance products, including the company's new medical aid scheme, also pointed to opportunities which should further Metlife's continued strong growth.



The company's robust 23% increase in recurring premium income to R668,56m was accompanied by a 27% surge in single premium income — the most volatile form of premium income — to R47,8m.

These had combined to lift total premium income 24% to R716,36m — with premium income usually cited as the measure of a life insurer's trading success.

Investment income rose 13% to R246,41m. This carried through to the total income figure, which increased 21% to R962,77m.

Smith attributed the healthy growth in investment income to a strong increase in company assets, with a significant share of investments held in interest-bearing assets.

Metlife's total assets grew 15% to R7,7bn, with investment assets up 14% to R7,18bn.

Total shareholders' funds stood at R408,37m compared with R344,88m at the same time last year, while long-term insurance funds rose 14% to R6,99bn compared with March last year.

The results also showed a 26% increase in the surplus attributable to shareholders, which stood at R37,4m, compared with the same time last year.

Metlife's shares closed unchanged on the JSE yesterday at R34,75, off their R37,50 high in January but above their R29,25 low in October.

Bank row: SACP has its say, too

(58)

BY CLAIRE GEBHART
ECONOMICS EDITOR

Star 25/5/95

An acrimonious debate over the independence of the Reserve Bank is hotting up.

Big business and politicians entered a row yesterday between bank Governor Chris Stals and ANC MP Rob Davies over an ANC suggestion that the Bank's independence in formulating policy be curbed.

The South African Chamber of Business (Sacob) and the Afrikaanse Handelsinstituut (AHI) came out strongly in defence of Bank autonomy.

The South African Communist Party (SACP), however, waded in with a fierce attack, labelling the present Board of Governors of the Bank as "linked to one powerful factional interest as shown through its dogmatic monetarist ideology".

Central to the argument is a letter written by Stals to a National Party spokesman, stressing the need for an independent Reserve Bank. This was seized upon by the ANC as an attempt to pre-empt a debate on the issue.

The AHI said it was extremely concerned about the proposal to reduce the Reserve Bank's independence in formulating its policy, saying such a move would be another shock to investors' confidence and could have severe detrimental effects for the economy, dealing a blow to badly needed growth and job creation.

Afgen being streamlined

(58) Sowetan 25/5/95

■ NEW PROGRAMME Black insurance company cutting costs:

By Mzimkulu Malunga

AFRICAN General Insurance Company (Afgen), which made history when it became the first black controlled insurance company, is undergoing a restructuring programme.

The programme involves a streamlining campaign in which shareholders have agreed to rationalise some of the company's operations in order to cut costs.

Like many insurance companies, Afgen experienced a spiral of costs in the past financial year.

In terms of the restructuring programme, the company's administration will be taken over by one of the shareholders, Aegis Insurance Company.

Insurance sources suggest Afgen's overhauling was necessitated by resolve on the part of shareholders to minimise costs and avoid duplication.

As part of the restructuring programme, shareholders have agreed to limit the writing of new business by the company until Afgen's new operational orientation has been finalised.

Representatives of the company's shareholders were reportedly in a series of meetings this week. They are believed to have been mapping out the new business programme for Afgen.

A few years ago, Afgen experienced cash flow problems, a factor which necessitated shareholders coming up with a financial rescue package.

However, insurance sources say the company's financial standing is relatively healthy at the moment, negating speculation that the company could be in financial trouble.

Another factor which industry analysts suggest could be behind the restructuring is that Afgen has not grown as fast as its shareholders expected.

The Foundation for African Business and Consumer Services and its brainchild Future Bank control 52 percent of Afgen. The remaining 48 percent is held by Aegis and SA Eagle Insurance Company.

SA Eagle is said to be reviewing its involvement in Afgen due to its own restructuring programme and Aegis has offered to buy SA Eagle's stake in the company.

ANC assurance on Bank autonomy

(SS) BD 26/5/95

CAPE TOWN — An ANC financial strategist said yesterday a Constitutional Assembly committee he heads would not endorse proposals which would subject the Reserve Bank to political meddling.

Rob Davies, who heads a working group on the Bank's role, was responding to concerns of business groups that the Bank's autonomy might be undermined by measures under study.

He said a key issue was the extent to which the Bank should consult government when it made decisions which had political repercussions.

"There is absolute consensus among all parties that the Reserve Bank must be insulated from partisan and political interference.

"We want to insulate the Bank from the kind of political pressures our NP colleagues tell us it was subjected to in the past. We do not want to see that happen again."

The committee would discuss the issue again on June 5 and try to reach consensus. — Sapa-Reuter.

Hard act for bank to follow

(58) CT (BR) 26/5/95

JOHN SHERROCKS
KZN BUSINESS EDITOR

New Republic Bank's results for the year ended March 31 do not shine when compared with last year's JSE-debut figures, but the Durban-based institution is satisfied with its performance.

Income attributable to shareholders increased by 12,8 percent to R13 million.

On a higher weighted average number of shares, EPS fully diluted dipped 4,9 percent to 49c (51c), while undiluted EPS declined 5,4 percent to 51,9c (54,9c). Dividends were, however, maintained at 19c a share.

There was a 180 percent jump in the charge for bad and doubtful debts to R12,6 million (R4,5 million) but managing director Mac Mia said this was part of the bank's decision to move its provisions on to a more realistic footing.

"The increase in attributable income is regarded as satisfactory in light of the substantially higher charge for doubtful debts of 1,1 percent of advances, levied in terms of the bank's stated policy of increasing its level of provisions," noted the board in its report.

Banks gear up to face tougher competition

(68) WM(BM) 26/5-1/6/95

With the changing climate in local banking **Jacques Magliolo** looks at which banks are likely to come out tops

SOUTH AFRICA'S four major banks have girded their loins to face a tough future as interest rate rises squeeze their margins.

Brian Feldtman, banking analyst at stockbrokers EW Balderson, says that Amalgamated Banks of South Africa (Absa), Standard Bank Investment Corporation (Stanbic), Nedcor and First National Bank (FNB) have all positioned themselves for the challenges ahead.

"The bank which succeeds in efficiently bridging the gap between first and third world sectors, is likely to emerge as market leader," says Feldtman. He believes the bank which achieves this will move to an "entirely diferent and higher earning growth curve and, thereby, offer superior investment returns."

Feldtman suggests that FNB will be at the forefront of South African banking. His argument is that, while Nedcor is the most efficient bank, with the lowest cost structure, in South Africa, FNB is the most profitable.

Latest statistics reveal that, on a pre-tax profit per employee, Nedcor scores R63 000 per employee, while Stanbic R46 000, FNB R38 000 and Absa R31 000. A similar pattern is displayed in terms of assets per employee: Nedcor R3,5-million, Stanbic R2,6-million, Absa R2,4-million and FNB R2,1-million.

However, profit statistics show that FNB surpasses the others. According to figures, FNB betters the other major banks with a Return on Assets of 1,25 percent. Stanbic achieved the same figure, but Nedcor shows a 1,15 percent return and Absa 0,75 percent. On a Return on Equity basis, FNB achieves a 20,9 percent return, while Nedcor has a 19,7 percent, Stanbic 17,6 percent and Absa 12,3 percent.

"FNB has maintained a superior and significant market capitalisation to shareholders funds ratio among the Big Four," he says. Not all analysts agree.

Sentiment in the market place is that ultimate success in South Africa will depend entirely on general banking and technological market trends over the next three years and not on which bank is efficient or profitable.

Graham Baillie, banking analyst at stockbrokers Martin & Co, believes that Nedcor's efficient and low cost structure makes it perfect for the future. "If technological trends in South Africa move towards some type of Smart Card technology, then Nedcor is best situated for the future," he says. Smart Cards have a microchip embedded in them, allowing the user to be credited with a certain amount of money — much like the telephone cards that Telkom issues.

Nedcor has already displayed its intentions of making aggressive moves into the consumer card market. It recently announced the launch of the Nedbank Advantage Card for South African Breweries' retailing interests and it also announced plans to start an insurance company to further promote and secure this source of income.

Feldtman disagrees: "With market growth opportunities in Smart Cards, insurance, home loans, funds management and private label cards, FNB is a must buy for all balanced portfolios.

"With the technology and infrastructure that FNB has at its command, this is the banking share of the future as far as providing competitive banking products that meet the needs of the emerging markets while still accommodating its existing markets."

While some analysts continue to quibble over which bank will ultimately succeed, some say it is pointless to assess banks under present conditions.

If multinationals do enter our market, they are unlikely to even try to compete with our banks for consumer business. Analysts assert that the cost of setting up a client-based infrastructure would be prohibitive.

"International companies will probably compete in money and capital markets, in project and trade finance and not in the retail market."

The present upward trend in interest rates should not materially affect the big four as in recent years they have been moving to increase their non-interest income.

This means that, during a climate of rising interest rates, banks' financial margins are squeezed and they have to rely more on income derived from foreign exchange commissions, service fees, dividend income and gains made on trading equities.

Surprisingly, the proportion of interest to non-interest income in South Africa has become quite close in recent years. Latest figures show that the banks' interest to non-interest income ratio for FNB was 57:43, Nedcor 60:40, Standard 61:39 and Absa 67:33.

"These banks will continue to perform due to their changing focus to more non-interest income business and in meeting the banking needs of the black population," says Feldtman.

Heads may roll at African bank

WM(BM) 26/5-1/6/95 (58)

The African Development Bank is facing its greatest challenge for survival as its governors meet in the Nigerian capital, Abuja, reports Melvis Dzisah

THE struggle for the African Development Bank's (ADB) future is reflected in the storm that has erupted over its management, amid accusations of corruption and counter-accusations of score settling.

At the centre of the controversy is a memorandum from out-going bank president, Babakar Ndiaye, exposing the rot in the 32-year-old pan-African financial institution.

The 24-page confidential memoire accuses many of the bank's executive directors of fiddling expense accounts and deliberately frustrating house cleaning reforms. Ndiaye said they were unqualified as administrators and called for their dismissal.

At least nine of the 18 executive directors have reportedly tendered their resignations, as have several senior officials in the audit department, accused in the report of collusion.

"I can tell you, almost everyone, from cleaners to vice-presidents are waiting anxiously for the outcome of Abuja," one bank source said. The source added that: "Heads are expected to role after Abuja, and those who are sure they will be implicated are not waiting to be dismissed, they are resigning."

Ndiaye's memorandum to the bank's governors accused executive directors of abusing their privileges. He exposed scams, including dubious missions abroad, some for up to six months in the year, on full expenses.

He stressed the weakness of his position in trying to institute the much-touted reforms, demanded in particular by the bank's non-African shareholders. Article 36 of the bank's charter gives the 18-strong board of directors the power to suspend the president without the prior consent of the board of governors.

His report, however, called for an outside audit of each elected officer to enable the governors, made up of ministers of finance or leading finance officials from member countries, to ensure accountability.

However, the executive directors have hit back. They fired off their own memorandum to the chairman of the board of governors, in which they expressed "shock, dismay and sadness over the president's memoire".

They described it as defamatory, but said they would not undermine the image of the ADB by responding to each of "the fallacious and misleading statements.

"Contrary to the accusations contained in the memoire, the board of directors has consistently striven to bring transparency to the management of the bank," a copy of the report, leaked to IPS, says.

It claims: "The president's action is no more than a personal manoeuvre, reflecting a lack of sense of responsibility." The executive directors "suggest the governor commissions an independent external audit of the budgets of the president, executive directors and vice-president, as well as a general audit of the bank".

The ADB was established in 1963 by the Organisation of African Unity (OAU) with start-up capital of only \$250-million. It has grown into a \$33-billion, multinational development bank with 52 African and 24 other shareholders.

However, mismanagement in recent years has turned the bank's fortunes. Although it now has a triple-A credit rating, unless reforms championed by the non-African members are implemented, it could lose funding from its Western shareholders.

Its soft-loan arm, the African Development Fund (ADF), has not been replenished for nearly two years as donors hold back their contributions in protest over its direction and control.

The bank's image took a beating in 1993 when allegations of corruption began to surface in anonymously circulated tracts which referred to housing and telephone frauds and political and ethnic favouritism in appointments. — IPS

BANKING

Bursting out all over

(58) FM 26/5/95

Despite isolation, our banks compete aggressively and several are world-class

In the Eighties, two waves of innovation began to build up in banking. One was financial and the other technological.

At about the same time, deregulation started changing the shape of the SA financial services sector. It unleashed fierce market forces in what had been a staid banking industry regulated by an effective cartel.

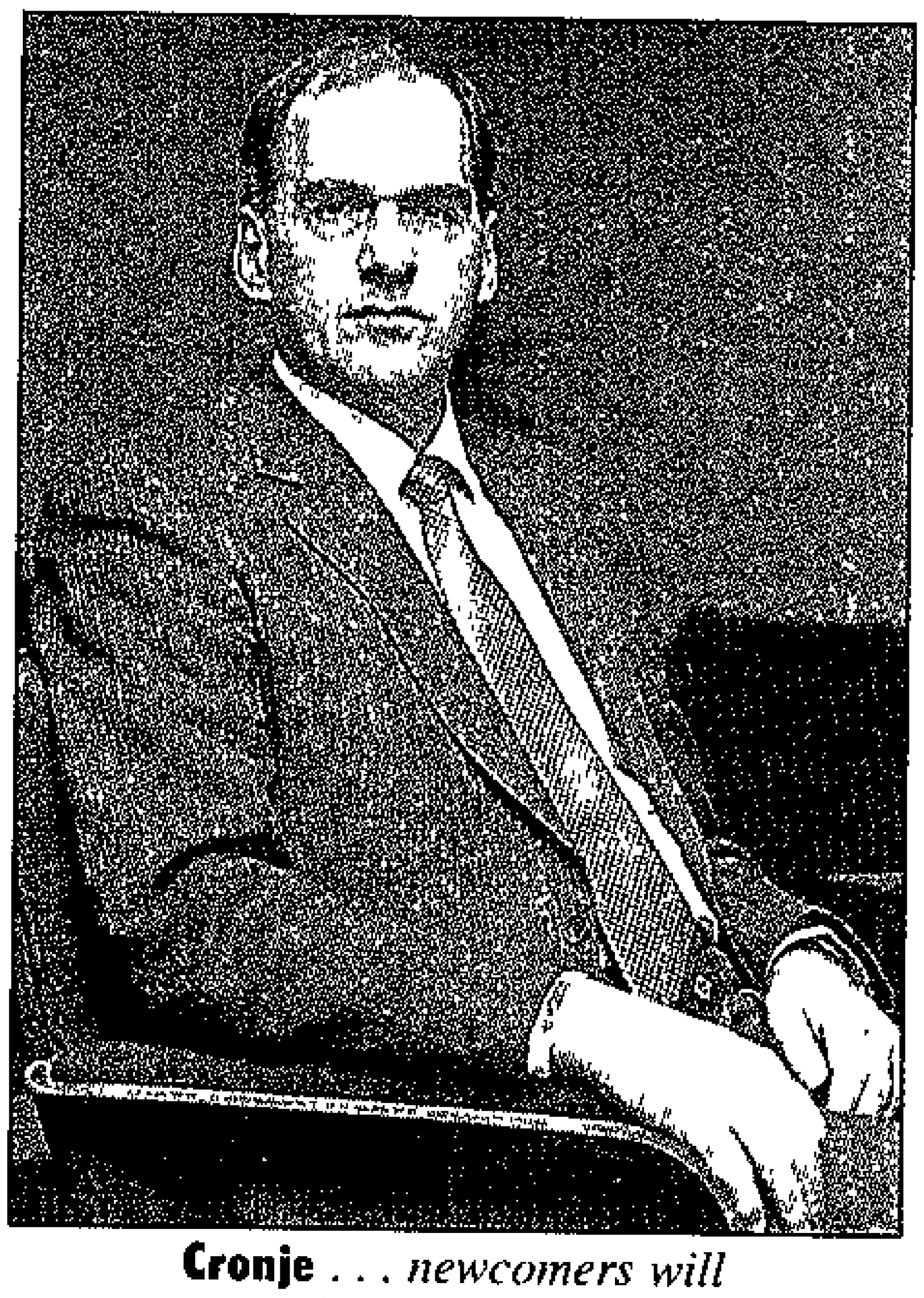
This development soon made banking the most competitive sector of the economy, says Standard Bank Investment Corp chairman Conrad Strauss. He played an active part in the banking revolution of the mid-Eighties, when he was group MD.

After sanctions were introduced in 1985, however, domestic banks were forced on to the defensive and trapped on their home base.

"In the case of Standard," says Strauss, "we were, in a sense, right back to where we were in 1862, entirely a domestic entity but with a larger base."

Though creative forces continued to feed into the system, banks could not fully exploit their potential in the sanctions-bound environment.

A measure of the marginalisation experienced, says Strauss, is that "between 1985 and 1991 we had few visitors from banks or industries in other countries." Then, as international perceptions began to change, a trickle of visitors turned into a flood of sometimes serious investors. And SA was once again free to enter offshore markets.



Cronje . . . *newcomers will have to invest*

Bankers say they are well equipped to meet the challenge. During the fallow years, the sector did not stagnate.

Technology retained priority and huge resources were consistently poured into advanced systems.

Standard Bank finance GM Henry Shaw says: "In spite of our isolation, we realised we had to maintain an electronic funds transfer system comparable with the best in the world to remain competitive."

And, as the benefits of deregulation of financial services started coming through, aggressive rivalry brought rationalisation. It reduced five major banks and five big building societies to four main banking institutions: Standard, First National Bank, Nedcor and Absa.

Blomeyer . . . *moving outside normal hours*

This has not left them unassailable.

In a dynamic market, other players are growing vigorously. NBS, formerly the Natal Building Society, is now SA's fifth largest banking group in terms of assets. In the financial year to March 31, its assets rose more than 20% to R16bn.

It is followed by Investec, previously an instalment finance house which moved aggressively into other areas of banking after deregulation blurred the distinctions among different types of banking business. In the year to March 31, total assets rose nearly 40% to R15,3bn.

They are still way behind the fourth-ranked banking group, Nedcor, which had assets of R53,6bn at the September 1994 year-end. But they have shown consistent, strong and profitable growth over a long period.

Now the traditional market battleground is expanding on two fronts. Banks are moving abroad while fending off foreign competitors at home. And they are zooming in on aspirant entrants to the money economy.

Smart card technology is expected to make it commercially feasible to serve a population dispersed over huge, relatively inaccessible areas.

The smart card, a plastic card in which a microprocessor chip has been embedded, will allow consumers to "download" money on to a card at ATMs, retail and other outlets.

This will eliminate the risks of cash management and reduce banking costs because services will not have to be delivered through brick and mortar branches.

The target market will be small businesses with relatively large volumes of business, along with hawkers, taxi operators, wage earners and consumers.

Rural merchants will be pivotal to success in the outlying areas.

And, as more people use cards instead of money, economies of scale will reduce the operational cost.

Banks are extending contact points. FNB assistant GM (banking) Edgar Blomeyer says: "We are establishing outlets housed in modular structures positioned at stations, taxi ranks, bus terminuses, shopping nodes and community centres.

"And we are operating outside normal banking hours."

The four main groups are co-operating to establish local standards for the cards and to ensure that any bank's card can be used at all banks' points of sale.

Banks have sound commercial incentives for entering this area of retailing. It has huge potential, which will increase as the community starts to make more sophisticated demands on the banking sector.

A market which has been a casualty area for many years is now showing signs of commercial feasibility — providing finance for low-cost housing.

Government is underwriting specific risks, not normally part of banking business, and the banking sector has promised R50bn in finance over the next 10 years. If all goes according to plan, low-cost housing will open up another avenue for banks.

As demand for home finance increases (and provided existing loans are serviced) banks will start to sell off parts of their book — securitisation.

While hi-tech innovation is vital to the mass market, PIN-based smart cards have many uses throughout the economy.

In developing their potential, SA is tracking international developments.

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RMB AND UMGENI

Some awkward questions

The funding of a public enterprise should not be a private matter

FM 26/5/95

The virtues of a public corporation making a market in its own stock, even when assisted by a hot-shot merchant bank, cannot always be taken for granted. Sometimes mistakes are made. Umgeni Water and Rand Merchant Bank (RMB) admit that to be so.

What is interesting is how felicitous these market-making endeavours may also be to covering up those mistakes — and sometime blaming them on inflexible accounting procedures. For that is essentially the saga of how a modest public undertaking like Umgeni Water finds itself overborrowed (although this is denied) after, by its own and RMB's admission, having misread the interest rate cycle.

In financial 1995 Umgeni had a turnover of R291m, a profit of R12,1m and capital expenditure of R300m. Yet it has borrowed more than R2bn — and that without proper authorisation.

Umgeni is an authority established in 1974 and regulated by the Water Act. In theory at any rate, Umgeni is self-financing and receives no State funding, nor does the State provide guarantees for long-term debt. In practice, capital market investors assume that the State would stand behind paper issued by an authority over which it, ultimately, has control.

Umgeni is a monopoly supplier of potable water for the Durban/Martizburg area. Essentially, it stores water and distributes it; it is able (within limits) to set tariffs and that underpins the stability of its cash flows — important to lenders.

However, beginning in June 1991, options in Umgeni Water stock began to flow on to the market in increasing quantities. These options, written by Umgeni itself, were facilitated by RMB, at the time apparently mandated as Umgeni's market-maker. Unfortunately, these option issues coincided with a gilts market which, from January 1992 onwards, rapidly acquired all the tendencies of a rampant bull. This meant that, as interest rates fell, so options in Umgeni long-dated stock became increasingly attractive because they provided capital profits. Holders called therefore for the underlying paper.

Umgeni had to supply; its officials had no alternative — despite their having failed to secure the authority of the Minister of Water Affairs, which is required by the Water Act (No 54 of 1956). Umgeni's financial director Avison Carlisle says this authority has still not been secured.

By September 1992, Umgeni's position had worsened though Carlisle now flatly claims it "was manageable." Umgeni had issued something approaching another R2bn of paper (a figure which Umgeni says is "totally misrepresented"); it had received cash loans totalling about R1,8bn. Its treasury officials applied some of this money to the purchase of other long-dated stock such as Eskoms and RSAs. The balance was placed in the money market at rates substantially below those Umgeni itself was paying on its own paper.

Ferreira . . . *found it difficult to sleep*

These actions could only have had one outcome: losses. According to information available to the *FM*, by September 1992 these totalled about R200m — sufficiently large to warrant a meeting attended by top officials of both Umgeni and RMB.

The causes are not hard to find:

- ❑ Umgeni's unauthorised borrowings from external sources had risen by more than R2bn;
- ❑ These were approved by Umgeni's board — but without the prior or subsequent approval of the Minister;
- ❑ In the period the borrowings were made, long-term interest rates declined (from above 17% to below 14%); and
- ❑ Umgeni invested a substantial portion of the proceeds from loans in the money market earning yields which also declined substantially over the same period.

However, the losses incurred are not shown against Umgeni's income statement: instead, they are offset against the loan discount account in the balance sheet. In this case, it seems the loan discount has been used as a convenient parking place for losses arising from unauthorised borrowing and trading activities.

Responding to this, Carlisle says "a loan discount arises from (the) difference between the nominal value and the cash proceeds of a loan." This is standard accounting practice. However, Carlisle says: "The practice of writing off position losses is the common practice among issuers and is a cost of borrowing." What Carlisle says suggests that Umgeni might have used the loan discount to park trading losses which otherwise would have been brought to account in the income statement.

In August 1992, in response to the interest rate plunge, an urgent meeting was called between Umgeni and RMB It was held in Maritzburg in September 1992 and was the first meeting with Umgeni attended by RMB chairman GT Ferreira in three years. He told the meeting, chaired by Umgeni's CE G J D Atkinson and attended by RMB directors Paul Harris, Russell Loubser and Alberto Bottega (along with Carlisle, Clive Packer and other Umgeni officials) that the "situation" was of such a magnitude he was unable to sleep. At that meeting, Ferreira said bluntly of the accounts: "The true position isn't reflected." He was referring, Harris said, not to the losses but to Umgeni's gross overborrowings. Ferreira now says the reference was to a valuation report, not to overborrowings.

In reviewing this watershed meeting, what becomes clear is that, for the first time, the underlying dilemma was clearly enunciated and understood. Umgeni's new CE Brian Walford, manfully defending actions in which he played little part, admits it was a crisis but it wasn't of undue significance.

Nevertheless, in reviewing the decisions made, the *FM* is aware that those attending were confronted by a simple choice: either they quantified and then disclosed the nature of the crisis, or they created mechanisms to remedy the situation and, to provide time, to change the manner in which trading transactions were reported.

Later in the same meeting, Ferreira told Atkinson that RMB had acted in the market on behalf of Umgeni without its prior knowledge. RMB had bought large amounts of government and Eskom stock, in order to protect Umgeni from its existing exposure.

Then, as though realising the import of this admission, Ferreira added that there "were certain misunderstandings." In a subsequent statement, Ferreira suggests Umgeni rejected RMB's action "because it

continued from page 24

Blomeyer says: "In France, virtually all bank debit, ATM or credit cards issued contain a microprocessor chip and the traditional magnetic stripe.

"In Denmark, a project is under way aimed at replacing coins. The card is reloadable and can be used for buses, telephones, vending machines, parking, swimming pools and laundries.

"In the UK, National Westminster Bank and Midland Bank have started a pilot trial. In the US, Chemical Bank and AT&T smart cards are working to implement the applications in New York.

"Visa, MasterCard and Europay have set up a joint working party to agree on technical standards for microchip cards."

Strauss . . . *equipped to meet the challenge*

Nedcor card division GM Gail Kelly believes that, in some respects, "SA is even ahead of international developments."

She identifies two Nedcor products already in use. "There's a chip-to-chip system used by product distributors, most notably SAB's beer division, to eliminate the need to carry large amounts of cash. Unlike the emerging market product, transaction numbers are small but values are high.

"Another product in the early phases of implementation involves the downloading of credit on to a chip — up to a prearranged limit. This is available to customers who would not qualify for conventional credit cards. At present it can be used at specific retail outlets of 17 different chains in Pretoria. From July, it will be rolled out to most of the rest of the country."

Domestic banks will need their technological edge as they forge global links and defend their home ground.

It is difficult to assess the competitive threat which foreign banks pose because their presence is so recent and their potential uncertain. And they too are facing environmental hazards. At least two have experienced changes of control since setting up SA bases.

UK merchant bank Barings opened an office last year to "establish a high-quality research team," says Simon Hollis, who heads the operation.

But huge losses incurred by that derivatives trader in Singapore forced Baring Brothers into the arms of Internationale Nederlande Groep (ING), one of Europe's largest financial institutions and a major provider of debt and insurance services to emerging markets.

This has not stopped plans for southern Africa, says the local office. ING is to open a branch in Johannesburg to operate alongside Barings, according to SA representative Jaime Gubbins.

UK merchant bank S G Warburg opened a Johannesburg representative office last year. It already had a track record of SA-related activities, having led the country's first international equity issue — for Liberty Life.

Warburg advised Gencor on the US$1,1bn acquisition of Billiton. And it helped Sappi, jointly with FirstCorp, to acquire S D Warren for $1,5bn, the largest investment by an SA company abroad. It also arranged the first international equity issue by an SA group after the April 1994 general election — for Anglovaal.

However, Warburg's London parent has problems.

It failed last year to achieve a merger with US investment banker Morgan Stanley and has now been bought by Swiss Bank Corp.

Some banks are going further than opening representative offices.

German-based Commerzbank Aktiengesellschaft and ABN Ambro of the Netherlands have received Reserve Bank approval to open a branch, which means they will be able to raise funds in the domestic market.

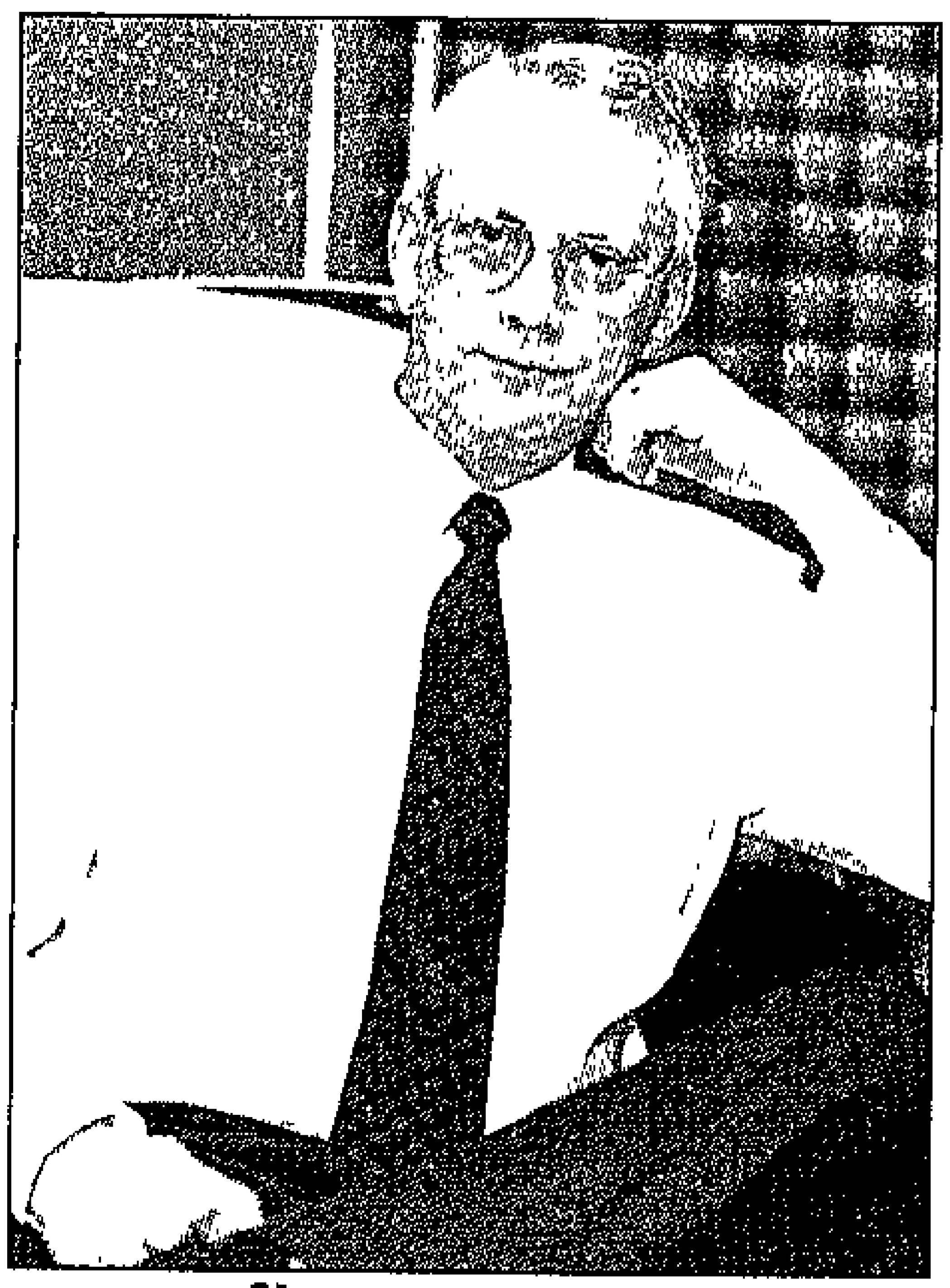
Citibank, with 14 offices in Africa and 95 round the globe, has applied for branch status. Citibank left SA in 1987, selling its SA operation — now Firstcorp — to First National Bank.

An application for branch registration has also come from the State Bank of India.

Barclays, which was obliged to sell its stake in Barclays SA, now First National Bank, plans to establish a subsidiary.

The newcomers will concentrate on triple-A clients, says Absa CE Danie Cronje. "And, on the retail front, where Absa dominates," he says, "it is unlikely that they would be able to compete with the established national networks of the local banking groups.

"If they wished to move beyond the top end of the market, an enormous investment would be needed."



Shaw . . . *we kept up with the best*

SA banks have not been waiting to take on competition at home.

As their clients' business interests move abroad, they are following. Since 1991, all the major groups have extended their representative office networks.

FNB made a major acquisition in the UK; it established a branch in Zurich and a subsidiary, FNB (Asia); and it took over offshore banking and trust operations in the Bahamas and Jersey. It also gained operations in Botswana and Swaziland.

Standard established a bank in the UK, as well as in New York and Hong Kong, and took over banks on the Isle of Man and Jersey. It also made major acquisitions in Africa.

Nedcor, which has been banking in some form in London since 1906, established a base on the Isle of Man. And its operations in Asia have been upgraded.

The most recent foreign acquisition is by Absa, of Hamburg-based Bankhaus Wolbern from the stable of the troubled French group, Credit Lyonnaise.

Says Cronje: "This supplements Absa's banking in London, Hong Kong and Singapore. The group expects to open offices in New York and Shanghai soon."

The sheer weight of cumulative change has forced banks to restructure.

As the needs of the newly internationalised financial markets and the complex retail market crystallise, they are adopting a functional approach.

At least two banks have established separate operations to cater to the mass market. The Perm, a division of Nedcor Bank, has opened the Peoples Bank and Standard Bank has established E-Bank. The other banks have also clearly delineated various markets and tailor-made the services to meet specific needs.

Similar moves are being made at the other end of the market.

An example is the recent transformation of Standard Merchant Bank to Standard Corporate & Merchant Bank to provide a complete range of services to the bank's corporate clients.

"We have realised that we have to ensure a clear focus on the markets which we serve rather than try to be all things to all people," Shaw points out.

The banking skyline of 1995 is very different from that of 1985 — and much the better for it. The sector is lean, keen and well positioned to move into the 21st Century. ■

LIFE OFFICES (58)

Health warning

FM 26/5/95

Slap on the wrist — or cause célèbre?

The Life Offices Association (LOA) has been challenged to prove to the Competition Board that its activities are not a threat to the public interest. The board confirms writing to the association but is playing down the importance of the inquiry. "It is possible our investigation will show industry agreements serve the public purpose," says board chairman Pierre Brooks.

The LOA is, however, nervous. Member offices are bound by a string of agreements, some of which constitute price-fixing. At this stage, LOA director Jurie Wessels would comment only that the industry agreements, "if taken as a whole," add up to a code of conduct.

With the financial and legal resources available to the LOA — all major life offices are members — it will not present a soft target for the board's investigators.

Wessels

The issue is whether the LOA constitutes a cartel. And, if it does, do its activities detract from the legitimate interests of other parties, including consumers?

Certainly, some aspects of the association suggest a cartel, though it's possible a sound case can be made to prove these aspects are there for the public weal. There is a management committee and about 30 specialist committees which deal with matters ranging from taxation to health — and disciplinary codes.

The committees tend to be dominated by representatives of the large offices, which have more resources and can release more brainpower to work on industry concerns. Membership of the LOA is not mandatory for a life assurer but a nonmember cannot expect its opinions to be heard by the legislators and regulators.

Flowing from the committee structure, there are more than a dozen agreements, which their apologists describe as self-regulation. In most cases, these agreements are rigid and flouting them invites rejection from the ranks.

If there is a cartel flavour, it can be found particularly in four of the agreements:

- ❑ The stop order commission agreement;
- ❑ The benefits illustration agreement;
- ❑ The replacement agreement; and
- ❑ The S-register disciplinary code.

The first regulates at 2,5% the commission payable to an employer for collecting and paying over premiums.

Brooks . . . *industry agreements*

And, when a life office agent or broker is quoting potential return on investment, the figure must be within limits set by the benefits illustration agreement. When inflation was rampant, the parameters were compound 15% and 12%. Now the limits are 12% and 9% — reduced only after strenuous objections by Liberty Life, which argued that changing the illustration when inflation rates changed gave the impression of an investment return "undertaking" rather than an illustration.

In practice, many agents ignore the official percentages and point to the historic performance of their principals — invariably better than the figures in the agreement. To counter that practice, LOA members have to repeat the agreed-on illustration when they confirm a proposal.

The replacement agreement is another which seems sound practice. It was introduced to deter life brokers from upsetting existing savings portfolios by introducing new policies, replacing old ones and reaping the commission benefit.

So the agreement provides that a broker replacing a policy gets no commission. The amount that would have been paid by the new life office is shared by the original broker and the life office which has lost the premium flow from the original policy.

But when Crusader Life collapsed and IGI Life was thought to be in some danger because of the demise of the short-term IGI company, some brokers — in good faith — protected clients by switching them to products of other life offices. They were penalised.

The issue became heated and one prominent broker, Brian Benfield, and his partner were — mercifully, for only a brief period — stigmatised by being S-registered.

To be S-registered means no life office may use the services of the victim, as a marketer, for five years. Ironically, Benfield had actually chaired such disciplinary procedures when he was still MD of AA Life. The procedures applicable until the Benfield issue were reminiscent of Star Chamber tribunals, with no opportunity for the accused to confront the accuser. The procedures have now been modified.

Several other agreements will intrigue the Competition Board. They cover advertising standards, the interpretation of the official commission regulations, Aids testing, deferred compensation, the common register of impaired lives, suicide exclusions, disability cover limitations and a protocol on disclosure of medical information.

The LOA's defence is predictable. The agreements that exist, it will be said, are in the consumer's interests. Meanwhile, they will show ample evidence that the life offices compete fiercely among themselves. They regularly introduce new products with built-in barriers to entry by competitors. They price business, especially pension and provident fund administration, keenly. They cannot even agree, except in some minor respects, how to price business which carries extra risk from the Aids pandemic. They do share information about medical histories of individuals but could argue this is a reasonable precaution against fraud.

The Financial Services Board, official regulator of the assurance industry, encourages the LOA to self-regulate and the LOA is seen by some monitors as a model industry organisation. ■

Nedcor opens eyes to the new game on Diagonal Street

JIM JONES (58) BD 30/5/95

AT FIRST glance, Nedcor's $110m issue of global depositary receipts (GDRs) might seem little different from other recent foreign capital-raising exercises by SA corporates. In reality, the strategies behind it make the issue one of the more significant to have been made in foreign markets by an SA firm.

Nedcor has set out to tack a whole new layer of international shareholders onto its share register, thereby creating for itself an international equity currency. The instrument chosen was a global depositary receipt, a user-friendly form of equity traded in dollars but fully fungible into Nedcor ordinary shares.

There have been other recent convertible debt and equity issues and attempted issues. In the latter part of last year, Stanbic backed out when the market proved unreceptive to its proposed rand-denominated convertible bond issue and after an international road show managed by Morgan Stanley had flopped.

Earlier last year, Liberty Life was embarrassed when Merrill Lynch only managed to place considerably less than 5% of Liberty's $320m convertible bond issue in the US. Lynch had promised to place $100m. Liberty's reputation in the US suffered for a while and the SA Reserve Bank became concerned over the possibility that equity or convertible bonds sold by SA companies abroad into weak hands would flow back to this country and result in a drain on foreign reserves.

In contrast, Nedcor has built a strong North American base by placing shares in the hands of 20-odd leading US institutional investors who are likely to support other issues as Nedcor expands abroad. While the core of the book was built in the US, this was a global issue with most of the balance being sold in the UK. The beginning of a long-term relationship had been established.

Ironically, while Old Mutual has at times been a pernickety shareholder opposed to attempts by Nedcor or, more particularly, The Perm to enter the local insurance market, it is fully supportive of Nedcor's strategy to internationalise itself. Nedcor is set on following its customers as international trade expands, and is keen to build onto its asset management, investment banking and securities trading businesses. And, while Old Mutual and Nedcor might have bumped heads at home, there is scope for co-operation abroad. The issue substantially strengthens Nedcor's risk-weighted capital ratio to about 11,25%, providing a solid foundation for its expansion initiatives here and overseas. While the proceeds of this issue can, in the main, be left in hard currencies to augment Nedcor's international growth and acquisitions, the group is planning to push hard at expanding in areas where it is weak at home — instalment credit and insurance-related products — and in rolling out its smart card initiative.

Old Mutual and other life assurers penned into SA by exchange controls are increasingly concerned at the restrictions on their ability to diversify asset bases internationally. And the assurers' concern is matched by that of a growing number of policy holders who realise that total reliance on SA is not only inappropriate but also downright foolhardy in today's financial world.

SA business has to become increasingly international. And while we are years behind comparable countries, government's foot-dragging over removal of exchange controls continues to hobble our efforts.

That Nedcor has achieved what it has reflects on its own ingenuity and that of its financial advisers, Fleming Martin.

Nedcor initiated its plan to raise foreign dollar-denominated equity capital early in 1994, before the changing political climate had persuaded US investors to start building positions in the SA market. Newly appointed CE Richard Laubscher led a road show to the US in July to introduce Nedcor to the top 100 US fund managers. He was not looking for investment then, he simply wanted to raise his bank's profile abroad.

That would not have been as easy as it seemed had it not been for the relationships established by Fleming Martin's Lloyd Pengilly in New York this past six years. Martin & Co had been the first SA stockbroking firm with the foresight to establish its own offices in London and New York rather than simply forge links with foreign brokers. Initially it teamed up with Macintosh to create Macintosh Martin as its offshore arm. Subsequently Martin entered into a partnership with Robert Fleming, the London investment house, when Fleming acquired Macintosh's interest in Macintosh Martin. Fleming's particular skills, honed by its Far Eastern arm Jardine Fleming, were in selling emerging market investments into the savings industries of the developed world.

As it was, Laubscher's July roadshow heightened US portfolio managers' awareness of Nedcor as a growth stock and they beat a path to Pengilly's door for shares. Nedcor was on the map.

And now, while many other Johannesburg brokers are happy making a fast buck by selling shares in their business to foreign brokerage firms, to whom they largely provide research, Martin's relationship with Robert Fleming has developed into a full partnership modelled on the successful Jardine Fleming formula. The combination of research, distribution and placing power was to prove crucial in the Nedcor issue.

More to the point, the partnership with Fleming was part of Martin's strategy to be the leading (and so far the only) SA brokerage to move beyond stockbroking and to become a broadly skilled investment house.

But to get back to the Nedcor issue. By early this year when Nedcor was ready to market new equity, the consensus among most investment banks was that US investors were pulling in their horns after Mexico's problems and, in any event, US investment houses were not buyers of banking shares. The popular view was that the market was closed.

Had the Fleming Martin partnership not existed, Nedcor's issue might have been more difficult. American brokerages are not particularly interested in the secondary distribution of SA stocks. The market is too small to make the trade interesting. And Liberty's Merrill Lynch experience showed that solid backing would be necessary from the book runner. The capital of Robert Fleming stood ready to support the Nedcor issue in the event that the US buyers failed to come to the party. That was only a remote possibility as the US fund managers had been carefully targeted as Fleming Martin knew they were in a portfolio-building mode.

The Nedcor deal has proved one thing to Martin. It has positioned itself correctly for the new era that will dawn on the Johannesburg Stock Exchange on November 8. While local banks will enter the broking business, they are unlikely to find the going particularly easy. What they and others will need are international distribution capability and international corporate finance skills.

Of course international investment banks will be targeting the Johannesburg market, too, but they are likely to have difficulties unless they can tie up with local broking partners. They are going to have to prove that they are interested in establishing long-term relationships, and are not simply interested in the lucrative primary issue business.

SA corporations are estimated to be planning new issues totalling about $1bn. This will go a long way to satisfying the growing demand for SA scrip from emerging market funds and overcome the problem of liquidity in dealing in the local market. Major SA corporations need foreign capital to expand here and abroad and their logical route is to follow that taken by Nedcor.

Times are changing for Diagonal Street. The Nedcor issue has opened people's eyes to the fact that international distribution and international mergers and acquisitions capabilities are the new game in town.

Life industry reminded of its promises

ST(BT) 28/5/95 (58)

By SVEN LUNSCHE

THE Competition Board has asked the life industry to provide it with details on its practice of quoting the same potential return on investment to all policyholders.

Pierre Brooks, the board's chairman, the practice may "technically" constitute "collusion on conditions of supply of goods, products or services".

"We want to establish the details of this practice and whether there is a good public interest or reason to justify it," Dr Brooks says.

He emphasises that the board has acted on inquiries from individuals and that the matter "is not of major competition policy concern at present".

Insurance sales agents and insurance brokers are required to quote a potential return of investment on products such as endowment policies or retirement annuities of between 9% and 12%.

"We need this agreement to protect policyholders from being sold products on what amounts to a promise," says Jurie Wessels, director of the Life Offices Association, the industry's umbrella body.

"The range of return is simply an illustration. Life offices still compete vigorously on product details and past investment performance," he says.

Mr Wessels says the agreement was drawn up in the early 1980s with the backing of the Registrar of Insurers. The LOA is drawing up a response to the board's inquiry.

JURIE WESSELS

Dr Brooks says the request may be expanded to include other agreements entered into by life offices under the auspices of the LOA, such as those regulating commissions payable to employers.

Mr Wessels emphasises that those agreements are in effect a code of conduct for the industry, are limited to the marketing sphere and supported by the Financial Services Board, the official regulator for the industry.

Life insurers are also facing renewed pressure from the tax authorities, with the Katz commission on taxation hinting a hard-line approach when the retirement industry comes under scrutiny for its second report due out in November.

Commission chairman Michael Katz said on Friday he would be looking at a holistic approach towards the retirement industry, comprising pension, provident and retirement funds.

The government backed away from capping pension fund contributions — a major Katz recommendation when the commission released its first report earlier this year.

Capping or other forms of taxation are set to be back on the table for the second report. Commission member Pierre du Toit said at a seminar this week: "The degree to which the retirement industry has come to make a charge on the public coffers seems to have moved out of proportion with the social needs of our redefined inclusive society.

"Already at the time of the Margo Commission it cost the fiscus something like R10-billion of lost revenue to subsidise the retirement of about 7% of the population," Mr du Toit said.

He warned, however, that any reform of retirement industry taxation would have to be acutely aware of the role the industry played in the economy, especially with regard to savings and investment.

The Katz commission will also investigate VAT on financial services and the taxation of lump-sum benefits as part of the retirement industry inquiry.

Bank independence not unlimited, committee told

CT(BR) 31/5/95 (58)

BRUCE CAMERON

POLITICAL EDITOR

The independence of the South African Reserve Bank is not unlimited, director general of finance Estian Calitz has told a parliamentary committee.

The Reserve Bank's independence came under fire from Rob Davies, one of the committee's members, in a document submitted to the Constitutional Assembly last week sparking a major public debate, which affected the financial markets.

At a hearing of the parliamentary finance committee yesterday, Calitz said the Reserve Bank had the independence to use policy instruments but shared with the government the goals it pursued.

Calitz said there was almost daily contact between the Bank and the ministry of finance or his department.

He said major policy decisions were not taken in isolation by the Reserve Bank but in consultation with the minister of finance.

"It is done with responsibility and sensitivity, particularly to the political responsibilities of the minister," Calitz said.

There were also formal meetings every two to three months between the Reserve Bank and relevant government departments.

Cosatu slams Reserve Bank

(58) CT 31/5/95

SPECIAL CORRESPONDENT

JOHANNESBURG: The monetary policy of the SA Reserve Bank directly contradicted the aims of the RDP, Cosatu said yesterday.

It said the policy stifled growth, limited job creation and placed a heavy burden on ordinary people through high interest rates.

The union federation said it would campaign for the transformation of the bank, which consisted of appointees of big business and the old regime.

It wanted the bank to be broadly representative and responsive to society and to adopt monetary policy which was in line with the needs of the new democracy.

The union also rejected an announcement by Mineral and Energy Affairs Minister Mr Pik Botha that he intended to privatise Mossgas, saying the government had undertaken not to sell public assets without consultation.

The campaign against privatisation would be a major focus of the mass action starting on June 5.

Star 31/5/95

Banks big and small glow

(53)

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

Glowing financial results for both big and small banks in the past weeks — reflecting growing demand for credit as the economy picks up as well as the restructurings during the recession — vindicated the run-up in the banking sector index during the first quarter.

Analysts agreed the main features of the results were the strong growth in advances, which had been accompanied by a squeeze on margins, generally more moderate bad debt provisions and lighter tax bills as the effects of the transitional levy eased.

One analyst said a common misconception that banks made obscenely large profits needed to be corrected. The banks' profit margin is only 1% and if they are not doing well it is impossible to finance the economic upturn or attract foreign investment.

Growth in advances, or money lent out, ranged widely among the smaller banks from 9,7% to 25%. Among the bigger banks, the figures ranged from 19,4% to 18,3%.

FINANCE - GENERAL

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JUNE - AUGUST.

R400m new credit fund planned

(58)

By Thabo Leshilo

CT(BR) 1/6/95 Staff Writer

A new R400 million National Credit Guarantee Fund (NCGF) is to be set up by the department of trade and industry to encourage lending by institutions to small, micro and medium enterprises (SMMEs), representatives of the department said yesterday.

Speaking at a National African Federated Chamber of Commerce and Industry (Nafcoc) forum on SMME funding in Johannesburg, Makgoshi Sindane, the fund's co-ordinator, said the functions of the fund were being investigated by the Small Business Development Agency (SBDA), established by the department to investigate support mechanisms for small business.

She said the new fund was necessary because the existing funds, the SBDC's Small Business Credit Guarantee Corporation (SBCGC) and the USAid loan guarantee programme, reached only a limited segment of the market.

The SBDA would also investigate the functions of the Small Business Development Bank (SBDB) or Apex facility, a wholesale financing institution announced this week by Trade and Industry Minister Trevor Manuel.

Sindane said the fund would form part of the SBDB, to be capitalised jointly by the government, private sector and foreign donors.

"The credit guarantee activities of the SBDC will continue to run until such time that the NCGF is in operation, following which the NCGF and the SBDC will negotiate the portfolio transfer of the SBCGC to ensure the smooth transition and avoid gap funding," she said.

Explaining how the fund would work, Terry M[illegible]biri, a member [illegible] putting it together, said the fund would indemnify retail lenders up to 60 percent for losses.

Focu

Afgen plans shut down

sowetan 1/6/95

(58)

RESTRUCTURING Operations to resume in a year — shareholders:

By Mzimkulu Malunga

STRUGGLING INSURANCE OUTFIT African General Insurance is to close down operations temporarily at the end of next month.

The company's shareholders have decided to close the current book and relaunch Afgen afresh in about a year's time.

Two weeks ago, Afgen's shareholders issued a brief statement saying the company was to be streamlined, giving rise to speculation that the company could be in trouble. However, insurance sources ruled out a possible bankcrupcy.

But early this week *Sowetan* learned that the decision to restructure entailed retrenching all of Afgen's 30-member staff, closing the current book and shutting down operations until a new business plan has been finalised.

"We had to take this decision because the company is just not viable at the moment due to lack of capital and a poor track record," says Aegis Insurance Company's Rudolf Pretorius, adding that his company would try to employ some of the retrenched Afgen staff.

He says if the company is to compete with other insurance companies it has to be refocussed.

When the company is relaunched, the entire administration will be transferred to Aegis.

Afgen's chief operations officer Vusi Sithole is also leaving the company.

If the shareholders did not agree to close operations and start afresh, says Pretorius, it would have been too costly to sustain the company in its current form.

The company has capital of only R3 million and shareholders decided not to come up with a financial rescue package to cover losses as they did three years ago.

Aegis and SA Eagle put up R7 million in 1992 to bail out Afgen after it experienced cash flow problems.

Aegis and SA Eagle together hold 48 percent of Afgen with the majority stake held by the Foundation for African Services and Future Bank.

However, SA Eagle is selling its stake in the company and Aegis has offered to buy SA Eagle's shares, a factor which would push its shareholding in Afgen to 62 percent.

Pretorius says they want Afgen to remain a black-controlled company, so when the company is relaunched Aegis will come down to 48 percent.

Even if Fabcos and Future Bank are unable to buy the 14 percent, Aegis will look for a consortium of black people to come in as shareholders.

Insurers recognise potential of pollution liability

(58) BD 2/6/95

Susan Russell

THE increasing willingness of courts both here and abroad to award damages to the victims of pollution had led to insurance companies drastically reassessing their attitude to cover against this kind of liability, Johannesburg attorney Michael Judin said.

In a paper for the SA Institute of directors, he said in the past most SA insurance companies did not bother to include pollution in their policies except where the insured was involved in operations that were potentially hazardous to the environment.

However, in recent years an ever-increasing number of pollution victims had become more assured of their legal rights with the courts increasingly amenable to awarding compensation. Offenders were also finding it increasingly difficult to evade liability.

Judin said that with an alarming increase in damages claims caused by pollution, representing huge losses for insurance companies, they were drastically reassessing their previous "laissez-faire" attitude.

Despite the growing awareness of pollution liability SA, like most countries, did not have the insurance mechanisms to deal with the consequences of environmental damage.

Judin said the local insurance market was now being put under pressure to acknowledge the grave potential of liability from pollution.

"In SA insurance companies rely on the fact that their policies cover liabilities that arise from an accident, which may be defined as a 'sudden, unforeseen event'.

"This excludes operative causes such as the accumulative effects of hazardous waste dumping, or the emission of toxic smoke from chimney stacks, where nuisance arises from deliberate acts of pollution."

Most policies now included an exclusion clause in respect of damage caused by unforeseen action resulting in pollution or contamination.

"In addition insurance companies will not indemnify their clients against the costs of cleaning up damage caused by pollution unless caused by a sudden accident during the period of insurance," he said.

Struggling Afgen is to close down temporarily

(58) BD 2/6/95

Theo Rawana

BLACK insurance company Afgen, which had been plagued by cash flow problems for some time, was to close temporarily, before being relaunched in a year, GM Niall Atherton said yesterday.

He said the company would have to retrench its staff of 30 and close down until a new business plan had been finalised.

Afgen, bailed out with R7m by SA Eagle and Aegis Insurance when it experienced cash flow problems in 1992, now held capital of R3m and shareholders had decided to come up with a financial rescue package, Atherton said.

Aegis and SA Eagle together hold 48% of the company, with the majority 52% stake held by the Foundation for African Business and Consumer Services and African Bank.

Atherton said the closure was by no means a liquidation, but the company's shareholders had decided to close the current book and relaunch the company within a year.

Aegis would attempt to employ some of the retrenched staff. Afgen would be relaunched with the entire administration transferred to Aegis.

Atherton said Afgen had been struggling since its establishment in 1989. "We are too small and do not command enough income. We have a client base of about 7 000.

"There is going to be a viability study before we come back," he said.

African bank fails to elect new chief

(58) wm(BM) 2-8/6/95

The African Development Bank meeting to elect a new president turned into a 'circus'. **Kevin Rafferty** in Abuja, Nigeria, reports

A MEETING of governors of the African Development Bank broke up in disarray in Abuja, Nigeria, this week after failing to elect a new president.

The governors will meet again in the headquarters city of Abidjan, Ivory Coast, in August.

Kwesi Botchwey, Ghana's much-respected finance minister, came out of a meeting with his governor colleagues and declared with disgust: "It's like a circus in there."

The bank is badly crippled. Members of its executive board have announced that they can no longer work with outgoing president Babacar Ndiaye, from Senegal, whose term expires in August. He, in turn, has accused some executive directors of wasting the bank's money and others of cheating on their expenses and medical bills. He suspects one of money-laundering.

A handful of regular bank executives have already been dismissed for fraud and a senior official said there could be as many as 100 sackings.

Election of a new president to succeed Ndiaye, who has served a record 10 years, was supposed to be a landmark event, restoring credibility and helping Africa gain a new lease of economic life. There were five candidates — from Lesotho, Mauritania, Morocco, Nigeria and Uganda — and the winner had to have a majority of the votes and also a majority of the African votes, which account for about 65 percent of the total.

But the election was a perfect example of the political, regional, linguistic, religious, even colonial divisions which have scarred the continent.

Although two candidates, Ugandan Richard Kaijuka and Mauritania's Mohammed Lekhal, pulled out of the race after the first two rounds, none of the others won an absolute majority of votes. The final voting was between Timothy Thahane of Lesotho and Morocco's Omar Kabbaj, with Nigeria's Seyyid Abdulai, third, refusing to withdraw.

Kabbaj claimed he was the moral victor because he had a larger share of the African votes. But Thahane said he had got close to a majority. France said Thahane was not qualified because he did not speak French. Southern Africans said that Kabbaj should not be standing at all because Morocco has left the Organisation of African Unity, the bank's proge[illegible]

Alge[illegible] refused to vote for the Moroc[illegible]. Nigeria claimed that, as the bank's [illegible]est member, with 10 percent of t[illegible] shares, it should choose the presi[illegible]nt.

Meanw[illegible]ile, South African delegates, in Abuja as observers, asked openly why they should put their money in a bank which, despite its triple A rating, squanders its funds and squabbles about everything.

IFC buys 8,8% of African Life

(58) ARG 3/6/95

JOHANNESBURG. — The International Finance Corporation has invested R41 million in African Life Assurance, according to a statement released by the assurer.

The IFC, the private investment arm of the World Bank, would hold 6,8 million shares or 8,82 percent of the shares in issue. The parent company Real Africa Investments (Rail) would retain control with 46,6 percent and the Southern Life Association Limited would hold 22,8 percent, the statement said.

IFC South African representative, Vincent Rague said, "this is our opportunity to align ourselves with the development of black-associated and formerly disadvantaged groups"

Don Ncube, executive chairman of RAI said he was "flattered that the IFC has chosen African Life, and indirectly Real Africa, with which to form an alliance and achieve its objectives in Southern Africa".

"The deal is a sizeable investment and we hope to see similar involvement by other investors in the powerhouse of Southern Africa," Mr Rague said.

Strike postpones Askin hearing

FLORENCE. — An Italian Appeals Court hearing on whether South African businessman Julian Askin should be sent home to face charges of fraud was postponed on Friday because of a strike by lawyers.

The Court of Appeals in the Tuscan city of Florence rescheduled the extradition hearing for July 10.

It had already been postponed from April 27 because of the strike and earlier delayed several times for procedural reasons and because Askin, who has heart trouble, was too ill to attend.

South Africa is seeking the extradition of Askin, former chairman of the Tollgate Holdings group, to face eight charges of fraud totalling R29 million.

Askin, a South African who travels on a British passport, was arrested last October in Florence.

New law on cards to promote informal sector

ARG 3/6/95

COLIN DOUGLAS
Business Staff

A NEW law to promote the fortunes of informal businesses in the Western Cape is on the cards, provincial economics ministry officials say.

Trading regulations should be relaxed and local authorities should be obliged to help informal entrepreneurs, said Tonie Botha, acting director-general in Economic Affairs Minister Chris Nissen's department.

The provincial government was looking to the small and medium business sector to provide most of the 50 000 new jobs the Western Cape needed each year to keep up with population growth.

Powers of regulation under the Business Act are to be devolved to the provinces next month, and Mr Nissen held a consultative meeting with interested parties in Cape Town this week to plan the province's approach to the issue.

"The greatest problem with the Business Act is the regulation of the informal sector," Mr Botha said.

"We have to free the informal sector to grow as much as possible.

"If we are to get the economy right, today's informal sector will be tomorrow's formal sector and today's unemployed will be tomorrow's informal entrepreneurs. It's got to be a dynamic process."

The economic affairs ministry had begun negotiations with the Cape Town City Council and other major municipalities to urge them to give greater backing to the informal sector.

The Western Cape government was considering introducing legislation that would visibly promote the interests of the informal sector and place an obligation on local government to provide amenities and facilities for informal traders.

"The facilities required would be much like those of Cape Town, but the money collected by the Cape Town City Council from these facilities has never been ploughed back into the informal sector.

"Informal traders have complained, with some justification that they have been short-changed."

Strong arguments for the liberalisation of business regulation were presented in a report by the interprovincial task team on economic affairs, which represents the governments of all nine provinces.

"Laws which prohibit the carrying-on of business without a licence raise a barrier which restricts people from entering the economy — they criminalise economic activity," said the report, tabled by Mr Botha at this week's meeting.

"Those most in favour of licensing laws are often existing traders who wish to avoid competition from new traders, even though competition may benefit consumers.

"Introducing laws to license more trades would increase the powers of the government concerned, but would not increase economic activity in the province."

It was doubtful whether licensing laws were necessary at all, the task team said, as people still had to obey health laws, building regulations and town planning schemes.

The Western Cape government was unlikely to impose licensing requirements on any businesses except those, such as arms dealers and food traders, which posed a potential danger to the public, Mr Botha said.

On hawking, the task team also adopted a liberal approach, saying it should, in principle, be allowed in every part of a municipal area.

The team recommended that provincial legislatures give local authorities the power to control, but not restrict, hawking.

Cape Town City Council spokesman Ted Doman said regulation of informal traders was essential if the appearance of the city was to be maintained and pedestrians were to be able to move around the city without obstruction.

The scrapping of business licensing regulations three years ago had been undertaken against the council's will and advice, [illegible]

International banks 'show their confidence in SA'

Samantha Sharpe

(58) BD 5/6/95

SA's four major banking groups had garnered about R2,5bn in short-term loans from the international market in the four months to June, an indication of the confidence of the international banking community in SA, banking sources said at the weekend.

They said the pricing of the one-year syndicated loans, which ranged between 55 and 50 basis points over the benchmark London interbank offered rate (Libor), had fallen steadily over the period.

First National Bank was the first of the big four to attempt to attract general purpose funding in the international syndicated loans market since 1985, with $200m raised through a one-year revolving credit facility mandated to the Fuji Bank.

Nedcor raised $175m through a one-year syndicated revolving credit facility arranged by Chemical Bank, with Dresdner Bank Luxembourg SA, National Westminster Bank, Fuji Bank and Sanwa Bank as lead managers.

Standard, meanwhile, secured a $130m revolving credit facility, arranged and underwritten by Commerzbank Aktiengesellschaft and Sanwa Bank. The loan for $100m was oversubscribed by 30%.

Absa ventured into the lending game in March with a $70m floating certificate of deposit issue, originally targeted at $50m.

The bank moved beyond the short-term market, with the three-year issue comprising two $35m tranches, with a coupon price of 75 and 50 basis points above the Singapore interbank offered rate.

World Bank's IFC boosts Aflife with R41m investment

(58) CT(BR) 5/6/95

By John Spira
Gauteng Business Editor

The International Finance Corporation (IFC), the private investment arm of the World Bank, has injected R41 million into African Life Assurance.

The investment, all of it fresh capital, has a host of positive ramifications, not least of which is the demonstration by the global organisation of its confidence in South Africa's economic potential.

To give effect to the deal, African Life has issued 6,8 million new shares to the corporation, equivalent to 8,82 percent of the assurer's issued share capital. Real Africa Investments, Aflife's holding company, retains control with 46,6 percent, while Southern Life remains the second-biggest shareholder with 22,8 percent.

Vincent Rague, the International Financial Corporation's South African representative, comments: "This is our opportunity to align ourselves with the development of black-associated and formerly disadvantaged groups. We hope to see similar involvement by other investors."

Don Ncube, Real Africa's chairman, is "flattered that the IFC has chosen African Life — and indirectly Real Africa — with which to form an alliance and achieve its objectives in southern Africa".

Aflife chief executive Bill Jack says the IFC capital injection will facilitate Aflife's expansion into Africa through the corporation's contacts in Africa. "We shall be making an announcement in this regard in the near future."

Further, the association with the IFC will help Aflife with its broad strategic thinking.

Jack says that Aflife has doubled its market share in the past 10 years. "Rapid growth places strains on the cash flow of any organisation. We've managed our business carefully and succeeded in husbanding our cash resources but the cash injection from the IFC will ease the strain of the further substantial growth we expect to achieve in the years ahead."

Small means big in rural areas

(58) ST (BT) 4/6/95

By KEVIN DAVIE

FARMED OUT ... Conrad Strauss, chairman of the presidential commission into rural financial services

THE informal rural economy makes a relatively minor contribution to gross domestic product, but a sound rural economy stands to benefit about half the population.

Standard Bank's Conrad Strauss, chairman of a presidential commission into rural financial services, says he believes the informal sector probably contributes no more than 5% to GDP.

This indicates that the informal rural economy makes a small contribution to total economic activity.

Dr Strauss says this sector is nonetheless socio-politically significant as about half the population lives in rural areas.

Rural development, and its financing, impacts strongly on the rest of the economy through urbanisation, for instance.

While the government may assist rural dwellers with subsidies during the start-up phase of land reform and other programmes, it is vital that financing packages aim to be sustainable, says Dr Strauss.

A key factor in ensuring success in rural financing strategies should be affordability.

"There has to be a low-cost infrastructure. Where banking services for the poor have worked in countries such as Indonesia, costs have been kept low by services such as the scooter bank."

But South Africa's high crime rate means that guards, armoured vehicles or buildings may be required to provide banking services in outlying areas.

The commission, set up in January, has three task groups. One will establish the financing needs of rural communities. Another will look at the existing institutional structure which services rural communities, while a third will consider the legal framework which governs rural financial services.

The commission hopes to complete its work this year or "as soon as possible thereafter".

ANC may relent on Bank

Adrian Hadland (58) BD 6/6/95

CAPE TOWN — The ANC has indicated it is prepared to reconsider its proposal that the constitution should allow government to play a more decisive role in setting the SA Reserve Bank's longer-term objectives.

Recent ANC proposals suggested the constitution differentiate between the short-term "operational independence" and the longer-term "goal independence" of the Bank with the added caveat that broad policy objectives be determined in consultation with the finance minister.

In the light of opposition from Finance Minister Chris Liebenberg and Bank governor Chris Stals, ANC MP Rob Davies said yesterday the proposals would be referred back to the party's principals.

As the suggested amendments had come from an ANC policy conference in December, ANC members of the sub-theme committee investigating the treatment of financial institutions in the constitution did not have the mandate to reverse the decision, Davies said.

Briefing the committee yesterday, Constitutional Assembly technical adviser Cyrus Rustomjee said Liebenberg and Stals said in meetings last week they favoured

Continued on Page 2

Bank (58) BD 6/6/95

Continued from Page 1

retaining the wording of the current constitution in which no distinction in the type of independence is set out. Both also argued that forcing decisions to be made "in consultation with" government would hamstring the Bank.

Liebenberg and Stals said major changes to the current constitutional provisions would also have a negative effect on investor confidence.

Rustomjee said no central bank was absolutely independent. "The term independent is not precise and can allude to various relationships between a central bank and a government. There are many dimensions to independence." Some central banks were given specific, quantifiable goals but were allowed full discretion as to how these should be achieved. Others were given only general objectives but were limited in their application of the instruments of monetary policy.

Rustomjee advised constitution-makers to revert "as close as possible" to the original wording but said subsidiary legislation should provide for a dispute resolution mechanism while setting out more clearly the relationship between the finance minister and the governor.

Liebenberg had also said he was unhappy the constitution stated the Bank's primary objective was the protection of the currency's internal and external value.

The location of exchange rate policy decision-making was still being debated internationally, Liebenberg said. The primary objective should, therefore, state only that the Bank should protect the value of the currency rather than both its internal and external value.

Party representatives agreed to consult with their principals on these issues before Stals and a finance department representative are called to give further evidence before the committee next week.

Meanwhile, Stals said in an interview with Business Day Tonight the Reserve Bank could never be completely independent of government. Co-ordinated monetary and fiscal policy was essential for fiscal discipline. "In the longer term a lot depends on who the governor of the central bank is, who the minister of finance is and who the head of state is."

The relationship between these three institutions changed from time to time and it was difficult to write it in the constitution or define it as an Act. "It depends on how successful the central bank is. I think it is something that one should see rather as flexible over time," Stals said.

'Confusion of terms' in Bank row

BY BRUCE CAMERON
POLITICAL EDITOR

58) CT(BR) 6/6/95

Chris Liebenberg, the minister of finance and Chris Stals, the governor of the Reserve Bank, have warned against constitutional changes which could undermine the Reserve Bank's independence.

The warnings, relayed to a constitutional subcommittee yesterday by constitutional assembly technical adviser Cyrus Rustomjee, came after a row over withdrawn ANC proposals to limit the autonomy of the Reserve Bank.

Rustomjee held meetings with Liebenberg and Stals following confusion in the subcommittee over the status and interpretation of issues affecting the Reserve Bank.

In a report to the subcommittee, Rustomjee said there was a lot more agreement between all the parties than was perceived. A lot of the confusion was caused by definition of terms.

Rustomjee said Liebenberg and Stals favoured retaining the wording of the interim constitution on the Bank's independence. They warned that "any substantive changes now will have an impact on confidence and expectations and would imply a change in mindset".

Stals's view was that the bank was accountable to parliament because it was from parliament it had received its mandate.

Rustomjee said Liebenberg was satisfied there were suitable checks on the bank, including requirements in subsidiary legislation to report to parliament annually and the need for regular consultation with the department of finance.

The minister said if detailed wording was used in the constitution about consultation he would prefer the words "after consultation with" rather than the stronger "in consultation with". According to the interim constitution "in consultation with" means the minister and the governor would have to concur.

Aflife takes aim at southern Africa

(58)

Amanda Vermeulen

BD 7/6/95

AFRICAN Life (Aflife) planned to have R1bn in recurring income and 5-million people covered by its policies by the year 2 000, CE Bill Jack said last night.

Addressing the Investment Analysts' Society, he said long-term strategy included financial services expansion.

In under five years, the group should have operations in Botswana, Lesotho, Swaziland and Zimbabwe, partly using the R43m investment in Aflife by the World Bank's private sector arm, the International Finance Corporation (IFC), which now holds 8,8% of the assurer and has a well-developed southern Africa database.

Other goals included developing business opportunities in individual life and group benefits for employers and the trade unions, as well as with other companies and organisations connected to its major shareholder, the Real Africa group.

It would diversify its financial services into asset management for employers, the trade unions, public funds and unit trusts. Aflife also aimed to double its market share in the next five years.

(2) whether the said person's contract is to be renewed after its expiry in June 1995; if so, what are the relevant details?

N681E

The MINISTER OF HOME AFFAIRS

In reply to the first part of the question, as I communicated in my written reply to the hon member on 24 April 1995, my ministerial adviser performs an advisory service in respect of four specific functions, as well as assisting me on any other matter or task which I might instruct him to perform from time to time.

I find it difficult to understand the level of specificity the hon member requires over and above that which I have already given her. For example, the first of the four functions is, and I quote from my previous reply, "to follow legislative, constitutional and institutional activities and processes at national and provincial level and to report and/or advise on any matter which may be related to my functions, tasks and responsibilities".

I would have thought this was self-explanatory. But since it clearly is not, allow me to expand a little, and state that since I am Minister of Home Affairs and a member of the Government of National Unity, my ministerial adviser is required to advise me on anything and everything pertinent to my Department's legislative and administrative programme. He is also required to read and analyse the often complex documentation which is submitted to me in preparation of meetings which are germane to my ministerial responsibilities. *Inter alia*, this entails advice on all Bills, reports and memoranda. Moreover, he is required to advise me on all matters relating to the constitution-making process, with which I, as a Minister and a member of Cabinet need to be conversant. This latter task includes reading and analysing the many thousands of pages of documentation and submissions which are produced in connection with the work of Theme Committees.

Now I trust the hon member does not expect me either to give to herself copies of each of my ministerial adviser's memoranda to me or transcripts of all our discussions on every Bill that has come before this House or which are yet to be tabled in this House. I trust also that she does not expect me to betray Cabinet confidence by revealing to her the nature of the advice I receive or the form in which I receive it as regards Cabinet issues.

But allow me to reassure the hon member that I do manage to keep my ministerial adviser busy, and that I receive a constant stream of information and opinions from him, particularly on legal and constitutional issues, since he is a constitutional lawyer.

In reply to the second part of the question, I must inform the hon member that my ministerial adviser's contract will be extended to 31 August 1996 at the same terms and conditions. I have informed the Minister of Public Service and Administration that I have extended my adviser's contract to the end of August. I hope that the hon member will demand the same details from the drove of ministerial advisers who are presently employed in all Ministries.

National housing bank: creation/functions

18 Mr M J ELLIS asked the Minister of Housing: (58)

Whether her Department is planning to create a national housing bank; if so, (a) under whose control will the bank fall, (b) what will be the principal functions of this bank, (c) what will be the relationship of this bank with banks operating in the private sector and (d) when is it envisaged that the said bank will become operational?

Hansard 7/6/95

N682E

The MINISTER OF HOUSING:

No, my Department has no plans to create a national housing bank.

The Department, however, is planning to establish a National Housing Finance Corporation which is likely to:

(a) be controlled by an independent board of directors;

(b) have as its main functions,

- the mobilisation of funds for retail housing finance, at the wholesale level, both locally and internationally,
- the management of programmes aimed at the expansion of growth of retail housing finance capacity in the country, with specific focus on the lower end of the income market, and
- the management of risk interventions such as the Mortgage Indemnity Scheme and credit enhancement programmes,

(c) relate to banks operating in the private sector in a facilitatory capacity, aiming at facilitating their sustained involvement at the lower end of the housing market, at the required scale in terms of the housing challenge facing South Africa; and

(d) become operational, following consideration of a detailed proposal and approval by Cabinet, during the latter half of 1995.

*19 Mr M J ELLIS—Health [Question standing over.]

Salaries of magistrates

*20 Mr J A JORDAAN asked the Minister for the Public Service and Administration:

(1) Whether his Department has received any proposals from magistrates that their salaries fall under the Department of Justice rather than his Department; if so,

(2) whether his Department intends taking any action with a view to the implementation of these proposals; if not, why not; if so, why?

N685E

The MINISTER FOR THE PUBLIC SERVICE AND ADMINISTRATION:

(1) and (2) No, the statutory powers for the determination of the salaries of magistrates are currently vested in separate acts. Magistrates of the former RSA are employed in terms of the Magistrates' Act, 1993, and their salaries are determined by the Minister of Justice, in consultation with the Magistrates' Commission, and after consultation with the Public Service Commission and with the concurrence of the Minister of Finane. Magistrates of the other former public services are currently employed in terms of the Public Service Act, 1994, and their salaries are determined in terms of the latter Act and the Public Service Labour Relations Act, 1994. According to information the Department of Justice is currently in the process of effecting the employment of the latter magistrates in terms of the Magistrates' Act, 1993.

Privatisation of state-owned corporations

*21 Mr K M ANDREW asked the Minister for Public Enterprises:

Whether her Department has targeted or intends targeting any specific state-owned corporations for privatisation; if not, why not; if so, (a) which corporations, (b) which such corporations are to be (i) fully and (ii) partially privatised and (c) on what basis was it decided to target each such corporation?

N686E

The MINISTER FOR PUBLIC ENTERPRISES:

No. A Task Team is engaged in determining guidelines according to which public enterprises may be restructured. The end result of this restructuring process will be determined by these guidelines.

(a), (b) (i) and (ii) and (c) Fall away.

*22 Mr K M ANDREW—Finance [Question standing over.]

For written reply:

Office of Commissioner for Customs and Excise: staff members retired/retrenched/made redundant

238 Mr K M ANDREW asked the Minister of Finance:

(1) Whether any of the 50 most senior staff members of the Office of the Commissioner for Customs and Excise were retired, retrenched or made redundant or voluntarily took early retirement during the latest specified period of two years for which information is available; if so, how many such officials (a) retired at normal retirement age, (b) were retrenched or made redundant and (c) voluntarily took early retirement during (i) the said period of two years and (ii) the latest specified period of six months for which information is available;

(2) what was the total sum paid out in respect of (a) redundancies and retrenchments and (b) voluntary early retirements during each of the above periods?

N490E

(3) No

Additional information

The MEC for S[illegible] and Security, Reverend C J Mtetwa in KwaZulu-Natal, took immediate steps to address the disruption of the Budget Committee meeting. He undertook

(a) to arrange for the appointment of a joint team to investigate this disruption,

(b) to reassess the security arrangements, and

(c) to deploy additional personnel

A short, medium/long-term proposal was accepted on 19 May 1995 by the Parliamentary Committee on the strategy to address the security situation. The acceptance of the proposal in essence, resulted in Parliament resuming their duties on Monday, 29 May 1995

Mr L T LANDERS: Mr Deputy Speaker, arising out of the hon the Deputy Minister's reply, will he also tell the House whether these self-protection units were armed and whether these are the same self-protection units which said on television this past Monday that they would kill 1 000 people per day? Secondly, given the fact that it is the IFP's stated intention to convert their self-protection units to become the new peace committees in KwaZulu-Natal, would he agree that KwaZulu-Natal can ill afford to have peace committees run by the IFP's self-protection units which have little or no respect for democratic institutions, for peace and stability and are quite clearly there for a quite different purpose?

The DEPUTY SPEAKER: Order! The hon member's follow-up question must relate to the principal question posed. I would like to ask the hon the Deputy Minister please to respond to the first part of the hon Mr Landers's follow-up question

The DEPUTY MINISTER FOR SAFETY AND SECURITY: Mr Speaker, I require notice of the questions which the hon member has now raised. I cannot answer them ad lib

Mr L T LANDERS: Mr Speaker, arising from the hon the Deputy Minister's reply, is he then in a position to tell this hon House whether the IFP's self-protection units had expectations of being funded by the new provincial legislature, because in the past they were paid out of public funds emanating from what was then the KwaZulu legislature?

The DEPUTY MINISTER: Mr Speaker, questions directed at the IFP should not be addressed to the Minister for Safety and Security. We do not speak for the IFP in that Ministry [Laughter.]

Mr W A HOFMEYR: Mr Speaker, arising out of the hon the Deputy Minister's reply, he was asked to comment on the circumstances surrounding the incident. I think the question of whether these people were armed or not clearly relates to the circumstances at the time. Therefore, I think we can indeed expect the Deputy Minister to answer that question

Secondly, may I ask whether the police are investigating any charges arising from this incident—whether any people have been charged—and whether he can provide any other relevant details in this regard?

The DEPUTY MINISTER: Mr Speaker, I can say that the MEC for Safety and Security in KwaZulu-Natal took immediate steps to address the matter of the disruption of the Budget Committee meeting. He arranged for the appointment of a joint team to investigate the disruption, to reassess the security arrangements, and to deploy additional personnel

A proposal relating to dealing with the matter in the short term, medium term and long term was accepted on 19 May 1995 by the parliamentary committee that is working on a strategy to address the security situation. The acceptance of this proposal resulted, in essence, in the legislature's resuming its duties on Monday, 29 May 1995

As far as arms are concerned, I think it is quite clear that the self-protection units did not have arms on them that could be seen by anybody, otherwise they would never have been allowed into the complex. They may, of course, have had concealed weapons on their person. I cannot really respond to that.

The DEPUTY SPEAKER: Order! We can now move on to Question 2. We have had a number of follow-up questions, but I see the hon member Mr Hofmeyr wants to ask a further question. Does he have something new and pressing to put to the hon the Deputy Minister?

Mr W A HOFMEYR: Mr Speaker, I asked about charges. Is any person going to be charged or has anyone been charged?

The DEPUTY MINISTER: Mr Speaker, I have no instructions or guidelines on that

IEC: office equipment/furniture/vehicles

*2. Mr M F CASSIM asked the Minister of Home Affairs

(1) Whether all (a) office equipment, (b) furniture, (c) vehicles and (d) other assets acquired by the Independent Electoral Commission during the period of its existence have been made over to any government departments; if not, what is the position in this regard; if so, to which departments;

(2) whether he will make a statement in regard to the winding up of the IEC?

N666E

The MINISTER OF HOME AFFAIRS

(1) Hon member is referred to my written reply to Question 194 in the National Assembly, a copy of which will be furnished to the hon member for his information. A limited amount of office equipment, computer equipment (including specialised computer equipment) and furniture has been retained by the IEC for present use as well as for use by a future electoral administration. The bulk of office equipment and furniture was, however, made over to the Department of Home Affairs which in turn, with very limited exceptions, made it over to the various new provincial administrations. The IEC has retained two minibuses, two pick-up trucks and one car for its present activities. Over and above the vehicles stolen and not yet recovered, all other vehicles were returned to dealers in terms of buy-back agreements

(2) Cabinet has in principle approved the dissolution of the IEC and its supersession by a Transitional Electoral Administration, which will continue winding up the affairs of the IEC. A proclamation in this respect will be issued once the Auditor-General's report on the financial affairs of the IEC has been fully considered. This is expected in the near future.

IEC: cost incurred

†3. Mr M F CASSIM asked the Minister of Home Affairs:

Whether the full and final cost to the fiscus incurred in respect of the Independent Electoral Commission has been calculated; if not, when is it anticipated that such cost will have been calculated; if so, what was the cost?

N667E

The MINISTER OF HOME AFFAIRS

It is not possible to distinguish the cost in respect of the Independent Electoral Commission from the total cost incurred by the Independent Electoral Commission in respect of the ten elections held in April 1994

In the latter regard, an amount of R912 131 326 was expended by the IEC for the period ended 30 September 1994. Provisional figures for the period 1 October 1994 to 31 March 1995 indicated expenditure of R6 412 714 and income of R33 162 928, which in the main consists of recoveries which have been made

†4. Mr J W MAREE—Justice.† [Question standing over.]

†5. Mr J W MAREE—Justice.† [Question standing over.]

South African Law Commission: MVA Fund

†6. Dr P J WELGEMOED asked the Minister of Transport:†

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(1) Whether he took legal opinion from the South African Law Commission in connection with the principle of an upper limit in respect of claims instituted against the Multilateral Motor Vehicle Accidents Fund; if so, what does this legal opinion comprise; if not,

(2) whether he intends taking such legal opinion; if not, why not; if so, when?

N670E

The MINISTER OF TRANSPORT

(1) The matter relating to the upper limit of claims instituted against the Multilateral Motor Vehicle Accident Fund ("capping") has been included by the South African Law Commission in its programme. I have requested the Law Commission to investigate this complex and sensitive issue in order to obtain their objective report on the matter. The Minister of Justice must still approve the said programme, and the matter is therefore in the process of being investigated by the South African Law Commission.

(2) Falls away.

Sentrasure buffeted by claims

By Charlotte Mathews

Investment Editor

Short-term insurer Sentrasure reported an underwriting loss of R45,9 million in the year to February, against the previous year's R7,3 million, after a sharp surge in the size and number of claims. Sentrasure was formerly known as Sentraboer.

The group's premium income rose by 36 percent to R318,9 million after net claims surged 86 percent to R269,8 million from R144,8 million the year before.

A net after-tax loss of R29,3 million was made, against last year's R19,8 million profit.

Claims for crop fires totalled R6,6 million against R248 502 in 1993/94. The value of claims for burglaries rose by 76,6 percent, while the value of claims for vehicle thefts and hijacking climbed by 146 percent.

The group's operations have been based on insuring farming assets. It announced last year it planned to list on the JSE. In view of the latest loss plans for a listing have been postponed, possibly for a couple of years.

The chairman of Sentrasure, Pierre Maritz, said yesterday the group planned to build on its strength in the agricultural sector and to expand its capital base.

Sentrasure would extend a full range of financial services to the agricultural sector and had already begun broking long-term products.

The group's capital could be boosted by a rights issue to existing shareholders — the co-operatives — or by bringing in a new partner.

Maritz said the first month of the new financial year had been more positive, partly due to a policy to withdraw from unprofitable areas of business.

(58) CT (BR) 7/6/95

Tax on deferred interest probed

By Bruce Cameron

Political Editor

A full investigation is to be held into the taxation of deferred earnings in the multi-billion rand derivatives market.

Kosie Louw, from the Inland Revenue commissioner's office told the parliamentary committee on finance yesterday that plans to change the system of taxation on income from interest swaps, set out in the draft tax legislation, were being withdrawn.

The issue of the derivatives market with its many instruments would be dealt with holistically, probably in next year's budget.

Interest swap instruments were included in the draft taxation legislation, which changed the system of taxation.

A complex system of taxing both interest accrued and incurred daily on a yield to maturity basis is detailed in the draft legislation.

'New retail markets needed'

By Maggie Rowley

Property Editor

Retailers would have to reduce their dependency on their formerly narrow support bases and access new markets if they were to achieve sustainable growth, Pepkor's chairman, Christo Wiese, said in the group's annual report released this week.

He said democratisation was bringing significant and positive changes to South Africa's retailing environment, making this task easier than in the past.

Pepkor's main role, he said, had shifted from the day-to-day management of its autonomous operating subsidiaries to developing growth opportunities for mass market retailing, not only locally, but elsewhere in Africa, as well as internationally.

Referring to Pepkor's overseas operations, Wiese said the recently acquired British chain Poundstretcher was being returned to profitability. Once this had been achieved, Pepkor planned to use Brown & Jackson as a vehicle for further expansion into mass market retailing internationally.

"In addition, Africa is on our doorstep. With our understanding of mass market consumer needs with retail models such as Pep Stores ideally suited to low income communities and with our manufacturing strengths and distribution networks, we believe Africa suits us like a glove."

Improved trading ties with neighbouring countries had seen Pep Stores recently open an outlet in Lusaka with several more being planned for Zambia during the current year.

Operations were also expanding in Zimbabwe, he said.

Unemployment 'to rise in next five years'

CT (BR) 7/6/95

By Audrey D'Angelo

Cape Business Editor

Unemployment will rise for the next five years or more because the economy cannot be restructured overnight, says Ockie Stuart, director of the Stellenbosch Bureau for Economic Research.

He was responding to a warning from Laurie Schlemmer, former vice-president of the Human Sciences Research Council, at a conference organised by Sanlam this week. Schlemmer said black unemployment would continue to rise unless growth in gross domestic product averaged at least 4 to 5 percent.

Stuart said he thought Schlemmer's figures were too low.

"If we don't change the structure of the economy, we need growth of 6 percent or 7 percent to [illegible] new entrants to the [illegible]. We haven't got a snowball's chance of that, and therefore unemployment — not only black unemployment — will continue to increase," he said.

"This is, of course, a matter of definition. We are talking about employment in the formal sector.

"A number of the statistically unemployed will find jobs in the informal sector or be self-employed. But that is not a healthy development in the economy."

Stuart said the economy had been growing for two years. "However, a return to political instability could prevent the GDP from posting annual 3 percent growth rates or more in the short term."

He said yesterday he did not think the political situation had deteriorated to a point where it would harm the economy.

That would happen only if foreign investors took capital out of the country — and the latest figures gave no indication that this was happening.

BD 7/6/95

Crime 'paralyses insurers'

Samantha Sharpe

(58)

THE SA insurance industry had fallen victim to an unprecedented crime wave which had paralysed the individual and the insurer, agricultural insurer Sentrasure said in its latest annual report.

Sentrasure MD Pierre Maritz said the number of claims submitted for burglary rose 31% compared with the previous financial year, with the value of these claims up 76,6% in the same period.

The rise in car theft and hijackings in the 1994/95 financial year was greater — 67,7% more claims with a 146% increase in value.

"Sentrasure has already, on a number of occasions, pleaded for intensified government action, and we have committed ourselves to using every possible forum to seek ever tougher action," Maritz said.

Despite a record increase of 36% in premium income — from R234,9m to R318,9m — the company showed a net after-tax loss of R29,3m compared with a R19m profit in the previous year.

Sentrasure had also suffered a significant increase in claims for crop fires to R6,6m compared with R248 500 previously.

The company had also paid out one of the biggest claims in its history — R28m — for the fire which devastated the SA Agricultural Union's tower block in Pretoria.

But its action plans, which aimed to address and phase out high-risk business, were already bearing fruit, with a better underwriting year expected in 1995/96.

Thebe to expand banking services

Amanda Vermeulen (58)

THEBE Investment Corporation yesterday announced its next step in expanding its financial services operation, Msele, into a medium-sized bank offering a full range of services from merchant banking to low-cost housing loans.

The transaction would see Thebe-aligned Citizen Bank Holdings acquire the Bank of Transkei (BOT), the Transkei National Building Society (TNBS) and the Bophuthatswana Building Society (BBS).

The enlarged Citizen Bank Holdings, now named Msele Bank Holdings, would be 30% owned by Thebe, 15% owned by Absa — which owned 50% of the Bank of Transkei — about 6% owned by FirstCorp and 49% by the public. Citizen Bank would be renamed Msele Bank.

Msele Bank would own 100% of BOT, TNBS and BBS, which would for the time being retain their operating identities. The three businesses were acquired at relative net asset values totalling about R131m. Total assets of the new group would be about R1,6bn.

Msele Finance Holdings would be acquired by Citizen Bank Holdings (CBH), and merge with Citizen Bank's corporate services division to form Msele Merchant Bank — SA's first black merchant bank, Msele GM Litha Nyhonyha said yesterday.

He said the Eastern Cape government held 24% of BOT and would be offered cash for its stake. Eastern Cape citizens, who owned the other 26%, would be offered the option of shares in CBH or cash for their shares. The owners of the two building societies would be offered a mixture of cash and CBH shares.

Citizen Bank CE Edgar van Deventer said the company would focus on the provision of mortgage finance, commercial banking and merchant banking. The bank would also apply for a foreign exchange licence, and was continuing its negotiations with the Airport's Company about foreign exchange bureaus in the international airports. BD 8/6/95

The enlarged group would continue to focus on providing loan financing for low-cost housing, and raising funds in capital markets at more competitive rates. Msele was currently in the fund management industry in a joint venture with Investec, the capital markets with FirstCorp and venture capital fund management with Nedcor. These three joint ventures would remain a non-banking subsidiary of CBH.

African life warns of slow growth

Samantha Sharpe

58

BD 8/6/95

THE life assurance industry could be the engine of growth for the reconstruction and development programme, African Life chairman Don Ncube said in the latest annual report.

Ncube said the industry's role as a provider of long term finance was well suited towards driving the government's RDP.

"We must, however, be aware of our responsibility to policyholders to ensure the maximum possible investment return commensurate with security," he said.

Ncube warned that current growth forecasts for 1995 of between 3% and 3,5% would be insufficient to ensure a growing income for each South African, with a growth rate equal to that achieved by the countries in southeast Asia essential.

"This will ensure economic growth necessary for the creation of stability in society through the successful implementation of the RDP." The company posted a 75% increase in total premium income to R295,2m, with investment income rising 46% to R33,5m in the year to March. Its total income was 72% higher at R328,7m.

Focus on Bu

Elite Tunguru group to fold up

58

By Mzimkulu Malunga

Tunguru members will all lose what they have invested

Sowetan 8/6/95

THE NATIONAL ASSOCIATION OF Cooperatives Societies of South Africa's major cash cow, Tunguru Investment Club, is to dissolve.

The disbanding of Tunguru is going to have far-reaching implications on Nacssa and its associate operations like Letsema Investment Corporation as well as the parent company, the Centre for Black Economic Development (CEBD).

Nacssa, Letsema and Tunguru are all brainchildren of CEBD. Nacssa concentrated on the funeral scheme while investments to carry CEBD's empowerment mission went through Tunguru and Letsema.

The CEBD board is to meet in due course to decide Letsema's fate. The company has incurred losses amounting to almost R200 000 at its KwaNdebele coffin manufacturing. The plant has not been operating for almost a year now.

It was bought for R100 000 early in 1993 and 80 percent of the money that purchased the plant came from Tunguru.

Tunguru members, many of whom have been making monthly investments since the club's inception in 1990, have lost out.

This decision, which was taken at a meeting held at Lesedi Clinic last Sunday, came as a shock to Tunguru members because all along they had been made to believe that their investments were safe.

The R250 000 Tunguru funds are going to be used to pay the cost incurred by other CEBD operations.

Individual investments in Tunguru ranged between R2 000 to about R20 000.

It is not clear how many members comprise the club but at its inception they numbered well over 200 people, before a sharp decline in 1993.

Tunguru's members included many leading black professionals ranging from doctors to accountants.

On the other hand, the Nacssa funeral scheme is to be sold to Pual Gama, who took over as CEBD's chief executive following an unceremonious departure of the then CEO, Sam Muofhe, after a fight with the company's chairman Dr Nthato Motlana.

Although Gama declined to give figures of how much he has been offered the funeral scheme, sources suggest it has been offered to him for R200 000.

Early this week he held meetings with CEBD chairman Nthato Motlana to finalise the sale deal.

Once the deal has been clinched, Nacssa will operate as a private company owned by Gama.

He says he intends running it as a short-term insurance company.

As for Letsema, its fate lies in the forthcoming decision by the CEBD's board.

However, there is almost a certainty that Letsema will suffer the same fate as Tunguru and all those who invested in it will lose out as well.

Some societies had invested thousands of rands into Letsema over and above their participation in the Nacssa funeral scheme. For instance, an East Rand burial society had invested R10 000 directly into Letsema.

Formed in 1990, the CEBD was intended to become the engine for black economic empowerment.

However, things did not go as planned and investments did not flow as projected, a factor which led to the under capitalisation of the organisation's business ventures.

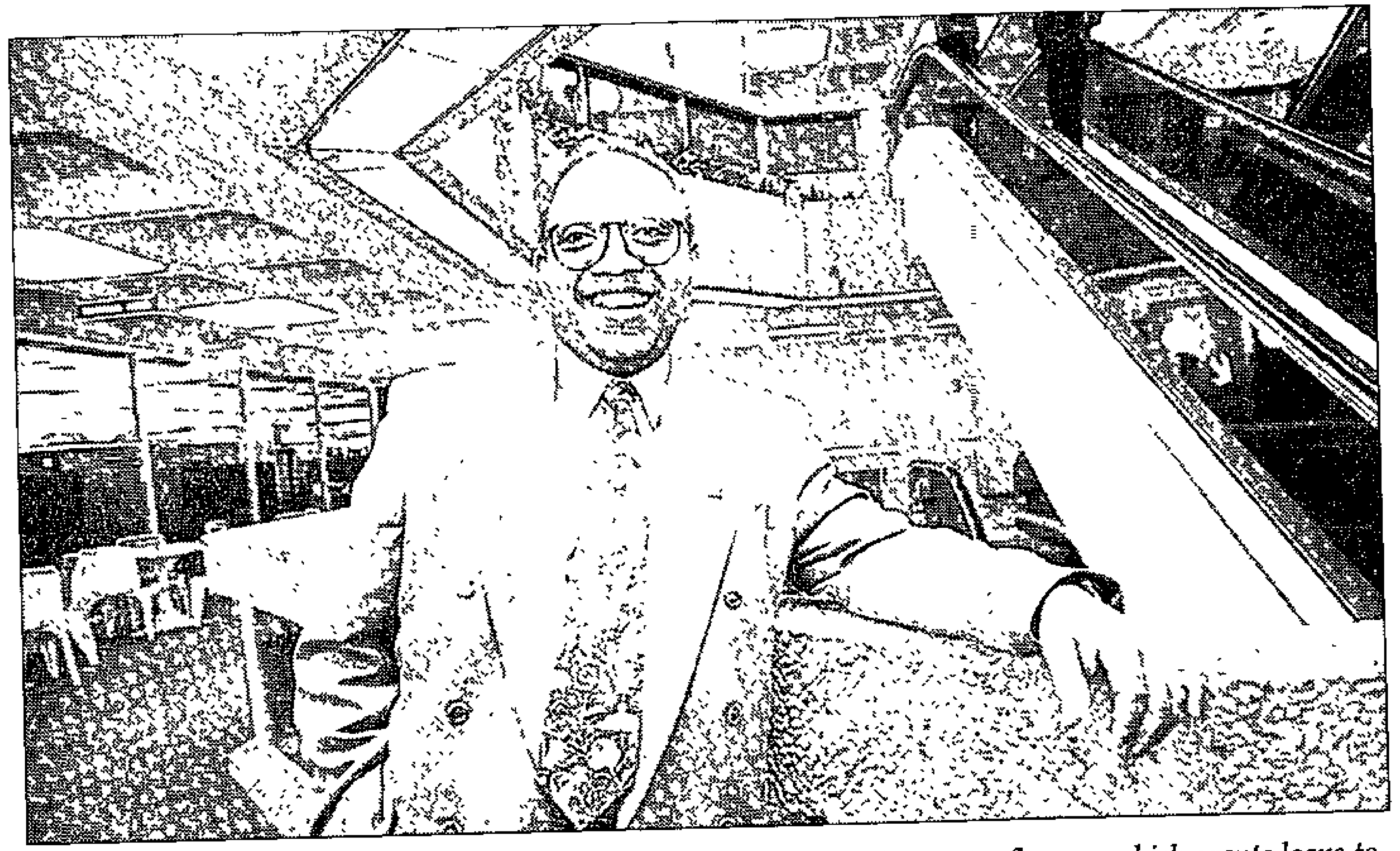
Eventually, the company found itself stuck with a half a million rand overdraft.

The overdraft was cited as one of the central issues which sparked a fight between two central figures in the birth of CEBD, Motlana and Muofhe.

The fight between Motlana and Muofhe in the middle of last year marked the beginning of an end to what was otherwise a "noble idea".

Bank pulls out the stops to help micro business

(58) (80) CT (BR) 9/6/95



LENDING A HAND *Abbey Mahlalela, head of Standard Bank's micro sector finance, which grants loans to aspirant micro entrepreneurs*

PHOTO JOHN WOODROOF

BY THABO LESHILO

South Africa's banking community has been much-maligned for not financing micro enterprises. This, however, is changing and more banks are showing an interest in this market

At least one major bank has a successful project funding micro businesses directly, while others are seeking creative ways of being involved. Some, however, are still wary of the risks and unprofitability of this sector, having lost money in past experiments in this market.

Standard Bank started a pilot project offering loans between R2 500 and R6 000 in Katlehong at the height of the violence in that area in May 1993.

The experiment has been so successful that it was extended to Soweto in February last year. Abbey Mahlalela, head of the bank's micro sector finance, put the repayment rate for the 450 clients at 90 percent. Last year's lending budget of R750 000 has been increased fourfold.

Phase two of the project involved granting loans of R6 000 to R30 000 to finance equipment for the entrepreneurs. If all continues to go well, the project may become national next year.

Empathy

"It's been very successful. But, we keep chopping and changing to see what works and what doesn't," said Mahlalela.

He said lending in this sector required that bankers adopt a different mindset.

"Here the best lender is a converted banker — somebody who empathises with and understands micro business. You must forget it if you are only going to work by the rule book," he said.

Mahlalela said for the pilot project, lending decisions were based more on applicants' good character and capacity to run a business than on collateral and capital.

To qualify for a loan, the business should be at least six months old and the applicant should be involved in the business on a full time basis, have proof of permanent residence and deposit at least 20 percent of the amount being applied for into a pledged account from his own pocket.

Mahlalela said the costs of servicing this sector were huge and although the bank charged an average interest rate of 40 percent it could still not break even.

These high interest rates had been criticised by micro entrepreneurs and small business bodies, saying they made finance inaccessible. Mahlalela said the high interest rates were unavoidable because of the high cost and complications of funding this sector.

The most expensive cost item which made micro loans expensive was the salaries that had to be paid to the staff which serviced emerging markets.

The employees had to be of the same calibre and earn the same as those working on large loans to corporations.

Failure

The pilot project in Katlehong and Soweto followed a disastrous venture started by the bank in the Western Cape and Johannesburg in 1992, offering loans between R100 and R1 000 through a non-governmental organisation.

The project had to be abandoned in mid-1993 because of the high default rate and when it was discovered that some "clients" did not even have businesses.

Willie Holl, marketing manager for emerging business markets at First National Bank, said the bank's micro business lending ventures had failed in the past because of extremely high administration costs.

The bank currently restricted its business loans to a minimum of R30 000 but was investigating helping micro businesses by lending money to non-governmental organisations.

"We have to find smarter ways and means of making loans to this sector," Holl said.

"We recognise micro businesses as extremely important commercial customers of the future."

Victor Nosi, head of the Absa Foundation, said the foundation was involved with micro businesses through funding the Get Ahead Foundation, which is a non-governmental organisation which provides loans and training to micro businesses.

Man accuses bank of racism

By Russel Molefe

Loan refused to white man on the grounds that there are 'too many black people' living in block of flats

A WHITE JOHANNESBURG man claims he was denied a loan to buy a flat by the United Bank because the building in which the flat was situated had "too many black people".

Mr Issac Friedman told *Sowetan* that he applied for an extra bond at the bank's Braamfontein branch two weeks ago to purchase a flat in Joubert Park, which is also known as Lower Hillbrow.

A fuming Friedman said he received a telephone call from one of the staffers at the bank (whose name is known to *Sowetan*) a week ago, informing him that his application had been turned down.

When he asked why it had been turned down he was told the building in which he wanted to buy a flat had "too many black people".

He later went to the bank personally and the reason for turning down his application was repeated.

He said he was not a credit risk since he could conform to all the requirements set by financial institutions for the granting of a loan.

"It is very unfair for people to be denied loans by financial institutions on racial grounds. The building is where I want to buy a flat and whether there are blacks staying in some of the flats is not the financial institution's business.

"Well, there is nothing I can do now but I want the public to know that other financial institutions do practise racism," Friedman said.

But a spokesman for Amalgamated Banks of South Africa, Mr Harry Kennedy, said the bank did not practise discrimination. He said every person applying for a loan was judged on his credit standing. Kennedy however declined to reveal the reasons for turning down Friedman's application.

(58) 8/6/95 sowetan

Cost containment helps Saflife's performance

Samantha Sharpe (58) BD 9/6/95

STRONG cost containment and healthy growth in investment income outflanked a fall in net premium income to help Saflife post a 66% surge in its attributable surplus to R14,81m in the year to March.

CE Ben Gildenhuys said he was pleased with the group's performance and confident Saflife would at least match, if not outperform, the latest results in the next financial year.

Net premium income fell 22% to R69,94m. But Gildenhuys said the group had deliberately adopted a strategy aimed at improving the quality of its business — a move which had included a reduction in its sales force.

While this had contributed to the fall in premium income in the short term, sales had already started to pick up, with net premium income expected to grow in the months ahead.

A 12,4% rise in investment income to R28,43m was attributable to underlying asset growth and good investment performances, Gildenhuys said.

While the group's total income slipped to R98,37m compared with R115,18m at the same time last year, management had curtailed expenses and brought the group's operating surplus to R10,65m compared with an operating deficit of R4,43m in March last year.

A non-recurring item of R4,2m — released by Fedlife in terms of its purchase of the Safrican Funeral Association from Saflife in 1993 — brought the net taxed attributable surplus to R14,81m. This translated to a 20,1c rise in net taxed surplus a share to 50,1c.

There was no dividend declaration, although Gildenhuys said the group would shortly make a capitalisation issue.

The rationalisation carried out over the past 18 months had allowed the group to focus on its quality core business.

Saflife's newly created investment vehicle, which would lead the group's foray into investment banking, had not made a contribution to the latest results, he said. But the R40m company was expected to add substantially to the group's future profits.

On the balance sheet side, the group's actuarial surplus on its life fund had risen to R28m compared with a previous R19m, Gildenhuys said.

Reserve Bank status 'a balancing act'

CT (BR) 12/6/95 (58)

BY BRUCE CAMERON
POLITICAL EDITOR

The row over the independence of the Reserve Bank to set monetary policy is not a straightforward issue of right or wrong — neither is it only an ideological argument. It is a finely balanced act in which co-operation between monetary and fiscal authorities is essential if the economy is to prosper.

At the moment, the independence of the Reserve Bank is synonymous with its governor, Chris Stals, who is a firm believer in protecting the value of the rand. But who will follow Stals? What happens if his successor is softer on the issue but the government is not? How then will the current supporters of absolute Reserve Bank independence feel?

And then, as Stals has often pointed out, if the government continues to spend more than it receives and has to borrow to make up the difference, the government is responsible for placing the pressures on the capital market that will force up interest rates.

The bank, he argues, follows market trends rather than sets them.

The argument about central bank independence takes place the world over and different combinations are used in different places. In New Zealand, for example, the government can overrule the central bank but the government is also obliged by its constitution to stay within deficit parameters, which makes setting monetary policy much easier.

Some logic has been brought to the entire debate by Cyrus Rustomjee, technical advisor to the constitutional assembly, who briefed an assembly subcommittee on the issue.

Rustomjee correctly pointed out that there can be no finite definition of Reserve Bank independence. A necessary tension was required between the government and the central bank. The question was how to attain the correct balance in that tension.

Elected representatives of a country delegate authority to central banks either through legislation or by way of the constitution, which means that no central bank is ever completely independent.

Rustomjee said the consequence of delegated authority was the notion of central bank accountability.

In the case of an act of parliament, the bank is accountable to parliament, normally through the minister of finance; and to parliament and society if the delegation comes from the constitution.

The delegation also sets the degree of autonomy, and it "is in this area that much of the debate and much of the confusion about the independence of the central bank arises".

Rustomjee pointed out that much of the debate centred around the now-rejected Philips curve.

The theory was that there was a balance between unemployment and inflation. If a government sought low inflation, the resulting pressures on the availability of money for expansion of the economy pushed up unemployment.

If government wanted to reduce unemployment it allowed lower interest rates and higher inflation. This required a political decision.

Once this short-term trade-off was discredited the objectives of central banks internationally narrowed to focus on price stability, which made it increasingly feasible to delegate responsibility for monetary policy to an autonomous central bank .

Rustomjee said the important decision for the subcommittee of the constitutional assembly was what form the accountability should take. The questions were:

☐ Should the accountability be written into the constitution or into subsidiary legislation;

☐ If the accountability was defined in legislation should it contain specific monetary targets, or in the current form of setting the task of the bank as preserving the internal and external value of the rand;

☐ Should the bank have goal or instrument independence. The goal of preserving the internal and external value of the rand has been set by interim constitution. But the bank still does have goal leeway because numerical targets are not set. The interim constitution grants the bank full discretion to deploy monetary policy to attain the goal.

Rustomjee said it would be difficult to define the concepts exactly in a constitution and recommended that the distinction should not be made in the constitution but be left for subsidiary legislation;

☐ How consultation should be defined. In the interim constitution the definition was vague in stating there there should be consultation. This could mean "in consultation with" the government (ie the minister of finance), which would mean that concurrence would be required; or the weaker form of "after consultation", which would leave the final decision to the Bank. Both Minister of Finance Chris Liebenberg and Stals (in interviews with Rustomjee) preferred the weaker form; and

☐ Conflict resolution mechanisms. Rustomjee said there were two choices. one with no formal override system, such as in Germany, Switzerland or the United States, one with directives or override mechanisms such as in New Zealand, Australia and Canada.

In South Africa there was no conflict resolution either in the interim constitution or in subsidiary legislation. It was assumed if there was a conflict between the minister of finance and the bank, the governor would resign. Rustomjee recommended that there should be override mechanisms, but these should be in legislation rather than the constitution.

Rustomjee said that there was already considerable agreement in the constitutional subcommittee.

The agreement included provisions that the bank should be above party political, day-to-day interference; the independence should be enshrined in the constitution; and the bank should be accountable to society at large.

Rustomjee recommended the committee should stick as closely as possible to the interim constitution, retaining the relatively narrow mandate for the bank to preserve the internal and external value of the rand effectively conferring a form of "instrument independence"; that the controversial suggestion that the constitution should contain a clause requiring concurrence between the bank and the minister of finance be withdrawn; that in conferring constitutional independence attention should be given to accountability clauses either in the constitution, but preferably in subsidiary legislation; and the constitutional clauses be kept as simple as possible.

Liebenberg wants new goal

BRUCE CAMERON
POLITICAL EDITOR

Chris Liebenberg, the minister of finance, has recommended that the goal of the Reserve Bank set down in the interim constitution be changed.

The goal of the Bank at the moment is to preserve the internal and external value of the rand.

Liebenberg wants the goal in the constitution to be the "preservation of the value of the rand".

The director general of finance, Estian Calitz, said in an interview with Business Report at the weekend that although the two concepts were closely connected, preserving "the value of the rand will give the more demanding mandate".

He said there could often be a contradiction in preserving both the external and internal value of the rand.

"If you have an inflation rate your one rand today is not worth one rand tomorrow."

But in keeping down inflation, external factors, such as inflation rates differing from that of South Africa, could affect the value of the rand.

If South Africa's inflation rate was higher than another country, the rand would lose its external value; but if the inflation rate in South Africa was lower, the rand would gain in value.

German bank opens in SA

CT(BR) 15/6/95 (58)(63)

By John Spira

Commerzbank, Germany's third-biggest bank, with assets of R910 billion, has an exposure of nearly R5 billion to South Africa.

The German bank's huge involvement in this country was announced in Johannesburg yesterday by Martin Kohlhaussen, chairman of the bank's board of managing directors.

Commerzbank, based in Frankfurt, has converted its representative office in South Africa into a fully-fledged branch — the first branch of an international bank to open business in this country for many years

Kohlhaussen said much of his bank's funds that were at risk here related to German multinational trade. Commerzbank financed about 20 percent of such trade, compared with between 13 percent and 14 percent worldwide.

"However, our activities in South Africa will not be confined to trade with Germany.

"We hope to do business with third countries, bearing in mind especially our involvement in a large number of countries throughout the world "

Kohlhaussen said that during the first five months of the year, Commerzbank had been the leading international bank raising Euroloans for South African organisations.

On foreign perceptions of South Africa, Kohlhaussen believed this country was not doing enough to sell itself to the world. 'There's been little marketing of your achievements. What you need is a strong sales pitch "

He said the South African government should not complain about the absence of any meaningful foreign investment.

"True, you have 40 million people, a good infrastructure and offer opportunities to the north. That's why we are cementing our presence here Yet, you are competing with several other countries for international capital and you don't offer a great deal in the way of incentives, your productivity is poor and you do not boast a large pool of skilled labour

"You can't do much about the two latter factors in the short term. But what you can and should do is offer incentives to the foreign investor — as do several other countries."

MSELE BANK (58) FM 16/6/95

Strength from diversity

Possibly the biggest challenge faced by Msele Bank, the new banking entity which has emerged out of the financial services group established last year by the black-owned Thebe Investments, is to limit its exposure to loans, principally in housing, in the former black homelands.

Most of its subsidiaries, including Citizen Bank, the Bank of Transkei, the Transkei National Building Society and Bophuthatswana Building Society, grew out of the old homeland system.

This problem is recognised by Msele GM Litha Nyhonyha, who says the banks in the group are "vulnerable to regional economic conditions and need to be more diversified in their services and products."

ithout a track record, it remains to be se.. whether Msele can diversify its banking activities successfully into foreign exchange, treasury and merchant banking as it intends — and apply the economies of scale needed to keep costs down and improve access to capital.

In its favour, it does have strong shareholders in Absa (with 15% overall) and irstCorp Merchant Bank (about 6%). Thebe has 30% and the public the rest. It's hoped the two banks will ensure diversification works by demanding prudence and providing expertise in key areas.

Existing joint ventures through Msele Finance with Investec (fund management), FirstCorp (capital markets) and Nedcor (venture capital) show the group can use the skills of established institutions.

The Msele restructuring involves the renaming of its listed entity, Citizen Bank Holdings, as Msele Bank Holdings. This will wholly own Msele Bank Limited and Msele Finance Holdings. Existing banks and building societies will continue to operate as divisions of the banking arm.

The group has total assets of R1,6bn and deposits of R1,2bn.

Patrick Lawlor

THE RESERVE BANK

A fine line

(58)

FM 16/6/95

At the heart of the debate over central bank independence is what monetary policy can realistically be expected to achieve. Cyrus Rustomjee, technical adviser to the Constitutional Assembly, dealt with this issue in a presentation to the assembly last week.

"Previously, the central bank was held responsible for many macro-economic issues, including price stability and the attainment and maintenance of full employment. Developments in macro-economics, and in financial markets, however, challenged the rationale for vesting a spectrum of responsibilities with the central bank. Consequently there has been an international shift towards more independent central banks, closely focused on maintaining price stability."

SA has followed this trend, requiring the Reserve Bank only to maintain the value of the currency.

Recently there has been pressure from those who believe there is a trade-off between employment and inflation and would like to see the Bank become a tool of government policy. The SA Communist Party made submissions along these lines to a subcommittee of the Constitutional Assembly in February (*Currents* February 24).

As a step in this direction, it asked for the interim constitution to be amended. Section 196 now states that the Bank "shall perform its functions independently (provided) that there should be regular consultation between (it) and Minister responsible for national financial matt[illegible]." The SACP would like "consult[illegible]en" changed to "in consultation with." This is based on the interpretation that the latter implies agreement is reached.

The proposal was adopted by the ANC and the proposed changes were drafted.

Now Rustomjee has recommended "reverting as closely as possible to the wording of the interim constitution (which) accurately reflects the necessary and inherent tension implicit in the delegating of a central facet of macro-economic policy, by government, to an autonomous body such as an independent central bank." He proposed "detailed mechanisms for consultation (should be considered for inclusion) in the subsidiary legislation."

Essentially, what has then to be decided, is how the central bank is to be held accountable and how conflicts between it and the government can be resolved.

The choice of mechanism for conflict resolution lies between a formal and public override, as practised in New Zealand, Australia, Botswana, Canada and the Netherlands; or an informal negotiation as in Chile, Germany, Switzerland and the US.

The argument in favour of a public override, Rustomjee points out, is that it gives the governor grounds to resist political pressure. Without it he would be forced either to capitulate to pressure behind the scenes or engage in a public confrontation which might lead to either the governor or the Minister of Finance resigning. Against this is the possibility that the political cost of using the override may not be enough to deter politicians.

This debate, however, may be academic. The approach adopted in theory, could have little influence on the degree of pressure exerted on the central bank. ■

Self regulation of life offices in the pipeline

CANDIDLY CAMERON

New regulations should include all financial services, not just the life assurance industry

(58) CT(BR) 19/6/95

By Bruce Cameron

The Life Offices' Association is on track to win two battles and compromise on a third in the debate about better regulation of the financial services industry.

The three issues are:

☐ New regulations should not be limited to the life assurance industry alone, but should include all financial services, excluding the securities market, which operates under separate regulation.

☐ Regulation should not be controlled by government bodies, but rather be self regulated through industry bodies.

☐ Regulation should be aimed at protection of the investor by ensuring that there is no loss of funds due to harmful practices by an intermediary (such as a sales person) or a company.

The position has been revealed in a discussion paper, drawn up after months of consultation between members of Investment Business Advisory Committee chaired by the Chris de Swardt, deputy governor of the Reserve Bank.

Financial services industry participants have been given until July 22 to report back after which the committee will submit a report making recommendations to Chris Liebenberg, the finance minister.

The 36-page discussion paper is essentially a document dealing with broad principle and leaves many issues of detail unresolved

The life offices have won ground on the first issue, which is essentially a battle between the assurance industry and the banks.

The operations of banking and life assurance industries have increasingly merged on the investment front. The life industry has taken over from the banks as the custodian of the nation's savings. The banks are fighting back, but under a different set of rules.

The life offices have called foul and the committee agrees that everyone should be playing by the same rules if investors are to be properly protected.

On the second issue, experience in Britain and Australia has shown that tough statutory regulation, although it has cleaned up the industry in those countries, has cost investors dearly. The cost of administering the regulations has been passed on to investors, pushing up the price of life assurance.

The third issue is closely linked. In both Australia and Britain the regulation has forced the industry to follow strict codes, which punishes an offender, but has not always recompensed an investor who has lost money.

The committee's members agree there is a need for greater regulation of investment services in the non-securities field but a balance has to be found between costs and effectiveness.

Low intensity regulation is less costly but also less effective. Against this high intensity regulation is more effective but also more costly.

The committee wants to take a middle route of medium regulation. The regulation, the committee said, should be centrally directed by the regulatory authorities. The authorities should use a form of regulation that will ensure the regulatory net is cast sufficiently wide, uniform norms and standards apply and regulatory rules are adequate to achieve acceptable minimum standards of investment service efficiency.

Medium intensity regulation is essentially self-regulation, with the regulating authorities delegating the regulatory powers to recognised industry bodies.

"Medium intensity regulation does not incorporate compliance requirements by the regulatory authorities, but a recognised self-regulatory body will expect its members to adhere to its rules and discipline members to promote adherence."

There are still concerns about a number of issues, including competition between conflicting interests of self regulatory bodies and that stricter regulation will create new barriers to entry for prospective investment service providers.

The committee said the instruments of regulation should cover:

☐ Entry requirements aimed at ensuring fit and proper advisers and intermediaries. This would include integrity, competence and financial standing.

☐ Registration requirements would strengthen the fit and proper standards and create a mechanism for disciplinary procedures.

☐ Business requirements based on a code of conduct, applicable to both intermediaries and the institutions. It would include issues like the suitability of advice, advertising and allowing for a cooling off period for investors on initial investment decisions.

☐ Disclosure requirements should also be covered. There have been some significant advances on the type of information that should be provided by both the service provider and the product clarity is still lacking. It is hoped that disclosure to investors will include qualifications of the intermediary as well as costs, surrender values and historical performance of products:

☐ Client-fund requirements to protect the funds of clients,

☐ Dispute settlement and claim settlement procedures,

☐ Compensation procedures, and,

☐ Mechanisms to deal with harmful business practices.

In these instruments lies a battlefield of its own, which is likely to see the banks, the life offices and the intermediary organisations attacking each other as they seek to give them greater definition.

A major issue to be resolved will be registration of intermediaries. The committee wants compulsory registration of advisers and intermediaries with a "recognised" industry association or organisation.

This raises the question of liability if things go wrong. In other words who pays in the case of an independent broker — the institution, the broker or the association of which the broker is a member? If it is the broker, will there be an indemnity fund or will there be some form of reserve requirement?

The committee recommended that the regulatory structure should have the Financial Services Board at the top and the creation of a new post — the registrar of investment services. The registrar would be empowered through new legislation to regulate investment services and to delegate responsibilities to the self regulatory bodies.

The proposed legislation would provide for an Investment Service Co-ordination and Registration Office. The office would be responsible for co-ordinating regulation carried out by self-regulatory bodies, ensuring the rules of the bodies comply with directives of the registrar, maintaining a register of members of the bodies and facilitating liaison between the registrar and the bodies.

The committee's members would be from the various self regulating bodies. A key part of the proposals is the appointment of ombudsmen.

These ombudsmen should have more teeth than the existing office of the ombudsman of the life assurance industry who has had to use the force of moral persuasion rather than enforceable authority to protect the interests of individuals against the might of the industry.

"Ombudsmen's decisions must be enforceable but subject to revision by courts of law," the committee said.

New kid on the block

Although he acknowledges it is an impossible task, president-elect of the African Development Bank Timothy Thahane thinks Africa will emerge from economic crisis. *Sowetan* staffer **Mzimkulu Malunga** reports

(58) Sowetan 19/6/95

FROM September 1 Africa's most powerful financial institution, the African Development Bank, will have a new president — and it is likely to be Lesotho's Timothy Thahane.

Born at the foothills of the Maluti mountains 55 years ago, the Canadian-educated economist is confident Africa will emerge from its current economic crisis.

In fact, he believes Africa can produce economic giants that match those in other parts of the world. "It is not impossible, but we have to work hard," says Thahane.

After four rounds of voting for the ADB's presidency at the bank's 32nd annual meeting in the Nigerian capital Abuja last month, he received most votes.

Although his 48,58 percent of the vote was not enough for him to win the presidency, he is confident that when another round of voting takes place at the Ivory Coast capital Abidjan on August 25, he will emerge as Africa's top development banker.

Thahane says he was approached by a number of African countries to stand for the presidency to replace Dr Babacar Ndiaye whose term as president came to an end. After intensive diplomatic consultations, his candidacy received the unanimous backing of the 11 states which form the Southern African Development Community.

Most of Thahane's support came from non-African members of the ADB — mainly industrialised nations and some developing countries such as China, Brazil, Argentina and India.

These countries are the donors of the African Development Fund, a soft-loan arm of the ADB which lends mainly to poor African countries that cannot qualify for commercial loans.

Due to prolonged disagreements between African and non-African members of the board of executive directors on the ADB's credit policy, the soft-loan fund has not been replenished for the past 18 months. This means that the poor African members of the bank have not been able to borrow from the ADB in the past one-and-a-half years.

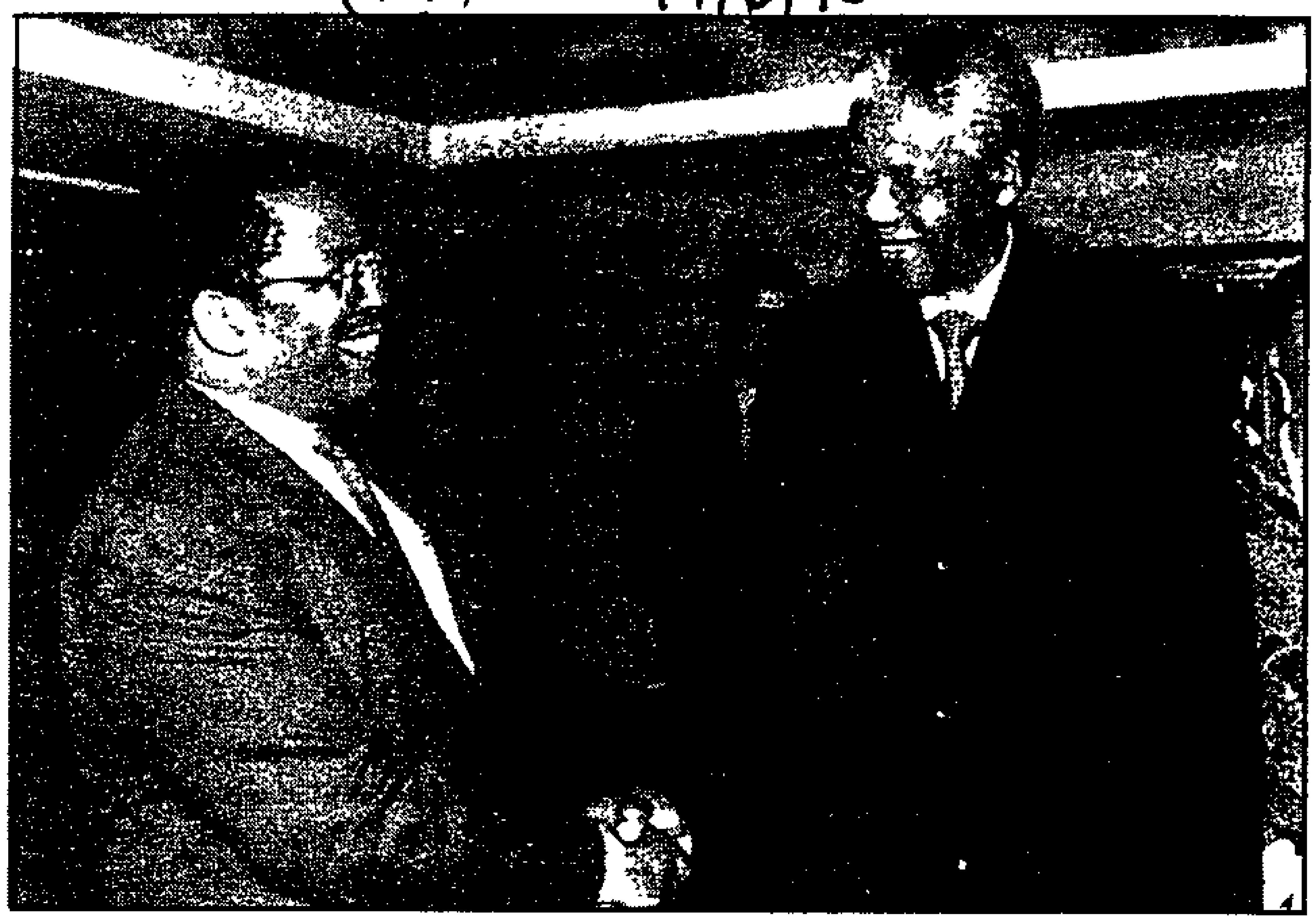
Founded under the auspices of the Organisation of African Unity in 1963 to underpin political gains with economic development, the ADB group comprises the ADB itself, the ADF and the Nigerian Trust Fund (formed by Nigeria when it had lots of oil money).

Mobilisation of resources, particularly for the ADF, will be top of Thahane's list of priorities - if he becomes the bank's president.

Although consensus was reached during the Abuja meeting which set the stage for the ADF's replenishment, Thahane says the new president will have to ensure that deadlocks which saw the [illegible] hout funds are not repeated.

With the exception of northern African and some southern African countries, most African states are not credit-worthy and therefore cannot qualify for commercial loans from the ADB, hence the ADF becomes their lifeline.

Introducing managerial reforms and clearing the ADB's arrears will also be high on Thahane's agenda. The bank, he says, needs to redefine its role if it is to respond properly to the development challenges facing Africa today.



FLASHBACK ... Timothy Thahane welcomes President Nelson Mandela on his first visit to the World Bank in Washington DC in 1991.

The continent needs to give urgent attention to economic management, diversification, development of the private sector, education, agriculture and institution-building if it is to break out of the economic crisis which has plagued Africa since the beginning of the 1980s.

Thahane says it is encouraging to see a growing commitment to democratisation and economic openness among African governments these days.

"There is a strong commitment to economic revitalisation in Africa now," he says, adding that experience he gathered as a diplomat and an international economic technocrat could help give momentum to this new realism

On the controversial issue of the [illegible] structural adjustment programme (SAP) spearheaded by the World Bank and the International Monetary Fund, Thahane says structural adjustment in itself is not bad.

The world's richest economies like the United Kingdom, Germany and the United States consistently restructure their economies in order to be in line with the changing competitive global environment. South Africa's Reconstruction and Development Programme is another form of SAP because it seeks to re-focus the direction of the economy.

In Africa, SAP has been more harsh because it was introduced in situations where the economy had deteriorated badly, with prices reaching for the sky and spending by governments well above revenue levels.

However, he admits that in the early years of SAP not much attention was given to the poor. As a result, the IMF and World Bank now talk of safety nets which are supposed to be a cushion for the poor when countries undergo adjustment programmes.

During 1973-74, Thahane served as Lesotho's ambassador to the European Economic Community (now European Union) before joining the World Bank as an alternate executive director for the Africa Group. Between 1978 and 1980, he left the bank to become Lesotho's ambassador to the United States before returning to the World Bank as a vice-president and secretary for the bank and its private sector arm International Finance Corporation.

FNB opens branch in Khayelitsha (58)

First National Bank, which opens an agency in Khayelitsha today, is believed to be the first commercial bank to set up shop in the vast, sprawling black township on the edge of Cape Town.

Clifford Flandorp, manager of the Lansdowne branch, which will be the "parent" of the new agency, said yesterday that FNB would open a full branch in Khayelitsha before the end of the year. It would be in a shopping centre due for completion in the last quarter.

"But the Khayelitsha Business Association asked us to open an agency before then because it was so badly needed by them and by pensioners." — Audrey D'Angelo

CT (BR) 21/6/95

Nedcor projects rise in BoP deficit to R8,1bn

(58) CT (BR) 22/6/95

BY AUDREY D'ANGELO
CAPE BUSINESS EDITOR

The current account of the balance of payments is now forecast to record a deficit of R8,1 billion this year, or about 1,6 percent of GDP, according to Nedcor economists in their latest guide to the economy.

And both exports and imports will continue to rise this year and next, they report.

But the rise in imports appears to be due largely to fixed investment spending. If this continues there is no need for worry, says Dennis Dykes, Nedcor chief economist. "Expenditure of this nature normally is easily financed (matched by capital inflows on the balance of payments) and is of course vital for sustaining and improving economic growth.

"However, should the mix of the increase in imports start shifting more noticeably towards consumer goods, it is likely to be viewed with more concern by the monetary authorities."

Nedcor forecasts growth in GDP of 2,9 percent this year and 4 percent next year, with gross domestic expenditure rising by 4,2 percent this year and 4,8 percent next year.

It also forecasts growth in personal consumption expenditure of 3,1 percent this year and 3,9 percent next year, and growth in gross domestic fixed investment of 11,5 percent this year and 12 percent next year.

Exports are expected to rise by 4 percent to R97,2 billion this year and by 3,6 percent to R110,9 billion next year. Imports should rise by 9 percent this year to R88,6 billion and by 6,5 percent next year to R102,8 billion. As a result, the trade balance will slip to R8,6 billion this year from R13 billion last year.

The deficit on the net services account will rise to R16,7 billion this year from R15 billion last year but the capital account is expected to rise to R9 billion this year and R11,5 billion next year compared with R5,2 billion last year and a deficit of R15 billion in 1993.

Nedcor expects the gold price to average $386 an ounce, or R1 429, this year and $396, or R1 608, next year.

It expects the rand to average R3,705 to the dollar and R5,7 to the pound this year, and R4,056 to the dollar and R6,077 to the pound next year.

Inflation, as measured by the consumer price index, is expected to average 10,3 percent this year and 11,7 percent next year.

Pension funds may face sex discrimination suits

Samantha Sharpe (58) BD 23/6/95

EMPLOYEES and pension fund trustees could face legal action for gender discrimination in pension and provident funds, SA's largest life offices warned.

They said SA's Bill of Rights endorsed the equality principle, a factor which could prove troublesome to employers using discriminatory practices in their pension or provident funds.

While there was debate about the Bill of Rights application to relationships between individuals and entities, disputes involving pension funds could also be brought before the Industrial Court

Southern Life legal advisor Rifke Gellman said in the latest Southern Life Viewpoint a number of pension and provident funds contained provisions which differentiated between male and female members.

She said gender provided for different retirement ages, with benefits, membership qualifications and contribution rates also related to sex.

Old Mutual assistant GM Henk Beets said such gender discrimination would qualify as unconstitutional not because it was "discrimination per se" but because it was "unfair discrimination".

Although some practices could be justified in terms of accepted norms and practices and actuarial principles — gender discrimination was based on females living longer than males — they would need to be addressed in the light of constitutional developments.

Some of these practices could also come under attack from the Industrial Court when it applied the spirit of the constitution and precedent-setting international law in making a decision, Beets warned.

Old Mutual assistant GM Chris Newell said discrimination also existed in many pension funds, which provided enhanced benefits for executives.

JUBILATION *Local business owners, pensioners and well-heeled bank executives crowd into FNB branch and join in dancing and singing praises after the first bank in Khayelitsha opened its doors for business* PHOTO TOM HOOD

Songs of praise for first Khayelitsha bank

CT (BR) 23/6/95 (58)

By Tom Hood

Special Writer

Business people in the sprawling township of Khayelitsha, near Cape Town, yesterday flocked to their own newly opened bank branch on its first day of trading, rather than have to travel to a more distant branch in an established section of Cape Town.

And pensioners — who have to get up at 4am to queue to collect their pensions in cash — opened savings accounts in readiness for having the money paid in directly.

Clifford Flandorp, manager of the Lansdowne branch of First National Bank (FNB), said its new Khayelitsha agency had a busy start.

In addition to deposits by members of the Khayelitsha Business Association, seven people had opened new accounts.

The branch, the first of two planned for Khayelitsha this year, has ATM, foreign exchange and all other banking and financial services, according to its new branch manager.

Two hundred people, including well-heeled city banking executives, pensioners, local business owners and hawkers, crammed into the branch on Wednesday with musicians and sang hymns and songs of praise and toyi-toyied after the official opening and a spit-roast braai.

Local traders often had to keep as much as R50 000 overnight in their shop safes if they could not move the cash to Bellville or Mitchell's Plain, said Victor Mbauli, president of the Khayelitsha Business Association.

FNB had planned to open a large branch at the end of the year in a new Sanlam shopping centre, but pressure from traders led to a branch being opened earlier.

Robberies had been drastically reduced after the police put two-way radios in many of the 1 100 spazas and shops and connected them to a special police patrol car, he said.

This had also created goodwill between local people and the police.

Pension business from thousands of pensioners will be targeted by the new branch.

People paid more than R10 in taxi fares to collect pensions of about R25 from banks in Mitchell's Plain and robberies happened daily, said a pensioner.

For years all the major banks had been asked to provide a banking service and only FNB had been prepared to take the risk, said Mbauli.

The chairman of the local business association, Joe Kalu, asserted: "We want to prove to outside people, by looking after the bank and supporting it, that they are wrong about Khayelitsha being dangerous."

(58)

Metlife listed in Namibia: South Africa's Metropolitan Life insurance company said yesterday it would be listed on the Namibian Stock Exchange on June 28. The listing would enable Metlife to extend its policyholder base in neighbouring Namibia more actively and allow shareholders to benefit more directly in the success of the organisation, it said. Metlife has been operating in Namibia since 1970.

CT(BR) 23/6/95

Medical schemes form life assurance group

(58)

Samantha Sharpe BD 26/6/95

SEVERAL major medical aid schemes and administrators have joined forces to create a new black empowerment player in the SA life assurance industry — BonLife Assurance.

The life assurer said its shareholders would comprise medical aid administrators Medscheme and NMA Administrators which administer over 60 funds, black medical aid fund Bonitas, Sanitas and Bensure Management Services.

BonLife chairman Paul Luthuli said the company, capitalised at more than the R10m legally required for a long-term insurance license, would target two relatively unexplored markets — high and low income earners.

"Middle income South Africans are among the most heavily insured in the world. BonLife has no desire to focus on this over-serviced market, although BonLife cannot neglect this area," he said.

BonLife MD Christopher Cunningham-Moorât said that over recent years the medical aid movement had witnessed the intrusion of life companies into the low-risk segment of the medical market that addressed dread-disease and hospital insurance cover. This had left medical aid schemes to cope with the costly end of the medical security spectrum.

"The formation of BonLife can thus be seen as a reversal of this trend — encroaching vigorously as it does into the assurance market."

Cunningham-Moorât said the company was in discussion with several other medical aid societies to involve them in BonLife. "What is remarkable is that no other life office appears to have sought an alliance with the medical aid societies. Here you have huge captive markets which are ripe for life products."

He said BonLife had taken advantage of the important changes sweeping through the SA life industry, with unprecedented demand for innovative life products from trade union members and the growing black middle class.

Marketing would be conducted through the unions, employer associations, medical aid societies, insurance broking houses and some individual brokers.

This would keep operating costs to a minimum, making it possible to offer minimum monthly premiums at the entry level of R40 — well below the R75 minimums of other assurance companies, he said.

Luthuli said the company was expected to grow into a huge force in the life industry, and was perfectly positioned to administer a national health insurance scheme.

Debate on autonomy of Reserve Bank turns ugly

(58)

Star 26/6/95

BY BRUCE CAMERON

PERSONAL attack by NP MP creates crisis in debate over future of Reserve Bank

A Constitutional Assembly debate on the future autonomy of the Reserve Bank has broken up in acrimony after a National Party member, Dr Francois Jacobsz, launched a personal attack on the chairman of a Constitutional Assembly subcommittee.

The sub-committee, chaired by ANC member Dr Rob Davies, was appointed to deal primarily with the issue of Reserve Bank autonomy and accountability.

A row erupted earlier this month when Davies tabled and later withdrew an ANC document at the committee on the future of the bank.

Jacobsz claimed that Davies had not stuck to an undertaking to keep him informed by tabling the document and was also critical of the contents of the document.

Jacobsz repeated his criticism of Davies in the department of finance budget debate in Parliament on Thursday, sparking the bust-up in the constitutional sub-committee.

The meeting of the sub-committee opened with ANC member Gill Marcus tabling a motion, which effectively put further workings of the sub-committee on hold until the issue could be resolved.

Marcus said: "As ANC members of this theme committee, we have become increasingly concerned at the spate of personal attacks through the media on the chairperson.

"The statements made by Jacobsz in the finance debate continued this line of attack, calling into question the integrity of a member of Parliament".

Marcus accepted vigorous debate over policy positions and differences were within the norms of acceptable debate but said "it is unacceptable to single out the chairperson for views that he expressed that reflect his organisation's position and then further impugn his integrity".

The document stated the position of the ANC.

Marcus moved that all further work be halted until the issue could be resolved by the management group of the sub-committee's controlling committee.

She also reserved the right of the ANC to refer the issue of the autonomy of the Reserve Bank to the main constitutional assembly committee if agreement could not reached.

Jacobsz denied he was attacking the personal integrity of Davies but was merely informing Parliament "of what had happened" and implied the media was responsible for the personal attacks.

"This has developed into something far greater than I anticipated."

Samantha Sharpe (58)

E Bank 'not independent'

STANDARD Bank yesterday officially launched its delivery channel to the mass market, the E Bank, which would be a brand name within the group.

In a surprise move, retail and commercial banking GM Denzil Busse said E Bank would not become the independent banking operation initially planned.

He said the recent restructuring of the Standard Bank group had led to a change in the bank's strategy to capture its share of the low-income market, with E Bank set to become an integrated part of existing operations.

Standard Bank would channel all its lending under the national housing initiative through E Bank, with the emphasis on personal interaction to ensure clients and the bank understood each other and their respective obligations.

The bank had 200 outlets planned for by the end of next year. BD 27/6/95

New assurance group launched: A new life assurance group, BonLife, with a substantial base of medical aid fund shareholders, was officially launched at a function in Johannesburg yesterday. Bonlife said it had 400 000 clients and would focus on the low-income and high-income markets for life assurance and employee benefits. Its minimum monthly premium would be R40. (58) CT(BR) 27/6/95

BANK FOR THE PEOPLE *E Bank GM Bob Tucker, Gauteng finance and economic affairs MPL Jabu Moleketi and Standard Bank's MD of retail and commercial banking Denzil Busse at yesterday's launch*

PHOTO JOHN WOODROOF

CT (BR) 27/6/95 (58)

Standard's E Bank lures with home loans

BY SUDARSAN RAGHAVAN

SPECIAL WRITER

Standard Bank yesterday formally launched a new division armed with sophisticated security technology designed to attract more low-income customers and capitalise on the government's national housing initiative.

"E Bank is the delivery channel of Standard Bank to the mass market," said Bob Tucker, general manager of the new division. During E Bank's pilot phase, the operation was managed as a separate entity. Now it will be a division within Standard Bank, focusing on low-income customers.

The bank is betting on a simplified system to entice customers whose primary banking needs are depositing and cashing cheques.

Initially, E Bank will offer two products. First, a savings, transaction and investment account called E Plan, stacked with customer incentives such as automatic life insurance, discount shopping vouchers, and monthly draws with cash prizes. It will also offer home loans.

In addition, the project is serving as a guinea pig for high-tech security systems such as finger printing and facial imagery recognition devices to help stem high levels of ATM fraud.

E Bank was timed to coincide with the kickoff of the government's mass housing subsidy and private loan scheme programme.

imports for some time and Subaru brings us a quality niche product

being appointed countrywide in the next 18 months," Hartog said.

Fewer short-term insurers making profit

CT(BR) 27/6/95 (58)

BUSINESS STAFF

Only a third of short-term insurers made a profit last year, according to the latest annual figures released by the Registrar of Insurance in the Financial Services Board Bulletin for the first quarter of this year.

This compares with the half of short-term insurers who made profits in 1990, the year when the Registrar became concerned about the solvency of the industry because inadequate premiums were being charged. From 1990 insurers were obliged to submit quarterly figures to enable the Registrar to monitor trends.

Claims as a percentage of premiums grew to 79 percent in 1994, higher even than the 78 percent recorded in 1990.

In 1990 the solvency margin of the industry in general was 44 percent, which had fallen to 39 percent last year despite capital injections of R204 million to the industry during that period.

The industry's net premiums came close to doubling to R7,8 billion in 1994 compared with 1990's R4,2 billion, while the underwriting loss had lifted to R407 million, or 5 percent of net premiums, compared with R252 million or 6 percent in 1990.

Investment income now barely covers underwriting losses, the bulletin said.

As a percentage of net premiums, investment income was 7,4 percent last year from 11,5 percent in 1990.

The increase in net premiums, which was 12 percent year-on-year in 1990 — causing alarm among the regulators — and showed an adjustment of 25 percent in the following year, was 16 percent in 1993 and 15 percent in 1994.

Share prices climb as SA bank sector springs to life

(58)

BD 28/6/95

Samantha Sharpe

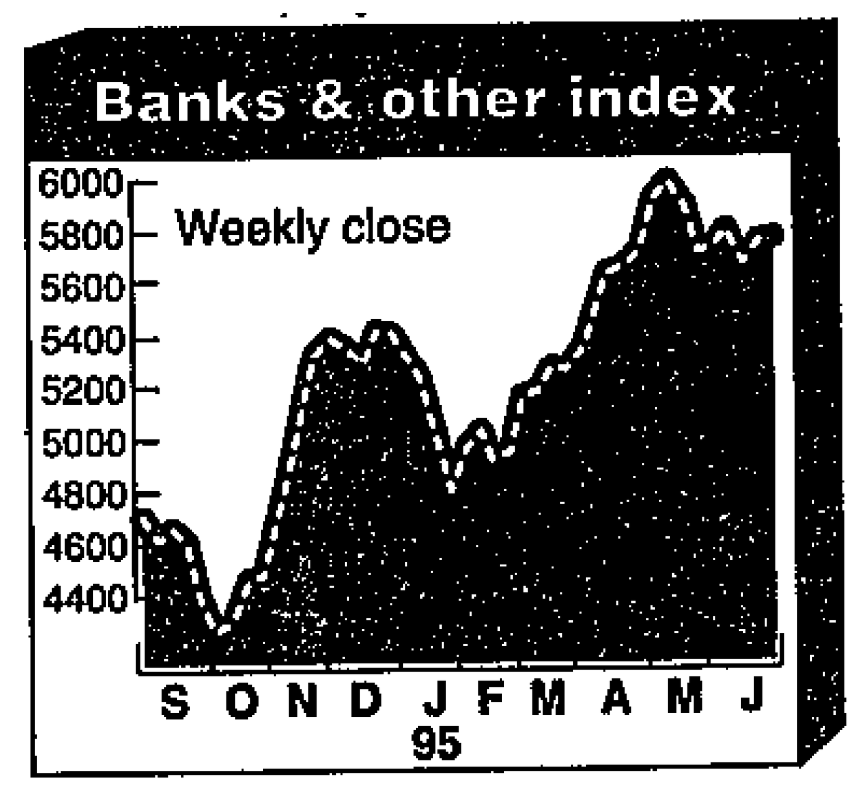
SA's banking sector had shown renewed signs of life in June with most shares notching up healthy increases and the JSE's banking index rising 83 points to 5 773 in the past month, banking analysts said yesterday.

The Standard Bank group's share price gained R2 in the past month to close at R132 a share yesterday, with Absa climbing R1 during the month to finish at R14,50 a share.

Nedcor, while losing 50c yesterday to close at R45,50, was still priced R1,75 higher than a month ago, with First National Bank the only banking group to lose ground in June. It ended the day unchanged at R23.

But the analysts warned that the marginal increase showing in bank share prices in the past few weeks was by no means an indication that prices would continue to rise in the longer term.

They said the uptick in bank share prices in June was largely a reaction to the previous two months when the sector's share prices slipped from record highs.



Analysts said the sector had enjoyed a substantial rerating in the six months to March when the four major banks enjoyed — on average — a 41% increase in their share prices, and the banking index rose more than 1 000 points to 5 344.

This had pushed the sector's price earnings ratio from 50% to 82% of the industrial average — an indication of how much investors were willing to pay for the shares — and a clear signal that they had rerated to their full extent.

One analyst said there were several danger signals which were pointing to a tougher time for SA's financial institutions.

Competition from overseas banks, albeit limited to merchant and investment banking and securities trading, was likely to put pressure on banking margins.

The introduction of money market funds could push costs even higher, while Reserve Bank warnings about a clampdown on credit extension to the private sector also boded ill for the sector's bottom line.

However, Edey, Rodgers & Company banking analyst David Southey said banks would probably be able to meet a perceived margin squeeze, which usually threatened in an environment of rising interest rates.

This would primarily take place through increased volumes, he said. "A lot of the banks are confident of earnings and dividend growth of more than 20% for the year to September or December," he said.

Powers of FSB a cause for concern

CT(BR) 28/6/98 (58)

By Bruce Cameron
Political Editor

The Financial Service Board, which controls most of the country's financial institutions, should answer to the government, the influential parliamentary finance committee has been told.

The legal adviser to the Johannesburg Stock Exchange, Peter Leon, told the committee that the JSE was concerned about the FSB's lack of accountability and the whittling away of powers of the minister of finance under the FSB Act to set policy.

Leon's evidence to the committee follows similar concerns expressed recently by the Life Offices Association in the debate over greater disclosure in the life assurance industry.

Excessive

Two years ago the LOA and the JSE both made representations to the then minister of finance, Derek Keys, without success, on what they perceived to be excessive powers of the FSB.

Leon said yesterday the FSB did not have to report to either the parliamentary finance committee or to parliament and the question was whether policy was being set by the FSB or the minister.

The power of the FSB caused a number of problems, including that involved in recent litigation over the listing of futures on individual shares in the derivatives market.

The chief executive of the FSB, Piet Badenhorst, had claimed the JSE did not have the right of appeal against his decisions.

Leon said the position of the FSB raised regulatory issues of procedural fairness and accountability.

Banks under fire over home loans

(58)

CT 28/6/95

By Maggie Rowley

Property Editor

The National Association of Home Builders and Urban Developers has criticised banks for their lending criteria for low-income housing loans which, the association says, may "be unconstitutional".

Daan Roelvert, the association's executive director, said yesterday that about 96 percent of its members, undertaking low-income housing projects, had had applications for homes in the low-income sector turned down in the past few weeks.

He said attempts last week by the association to persuade banks to change their lending criteria, which seemed to "openly discriminate against low-income households", had been unsuccessful.

If this situation continued, about 90 percent of developers and contractors would withdraw from the low-income housing market, and thousands of prospective owners would be left homeless.

Roelvert said major discrepancies in the banks' lending policies included higher-than-normal variable interest rates set for the low-income sector.

These varied from 20 percent on bonds up to R25 000 to 19 percent for bonds from R25 001 to R50 000, and 17,5 percent on bonds from R50 001 to R65 000. Against this, the prevailing rate on larger home loans was 17,25 percent.

"Under the changed criteria, employees with company subsidies or government guarantees will only benefit from about 17 percent onwards of the subsidy for which they qualify.

"Furthermore, many banks are now testing low-income bond applicants for affordability as if they were taking out a 10-year bond at a fixed interest rate of 22,5 percent," he said.

In response, Jopie van Honschooten, convener of the task team of the Association of Mortgage Lenders, said they had made it clear to all stakeholders, including the government, that it could only re-enter the low-cost housing market on a purely commercial basis.

"These commercial grounds require us to assess the cost and risk of this exposure without cross-subsidisation of these loans. Cross-subsidisation would also not be sustainable, as it would result in 20 percent of home loans having to cross-subsidise about 80 percent of borrowers," he said.

He agreed that the more stringent criteria now being applied by the banks had reduced the size of the loan for which an applicant could qualify. This was due to higher interest rates being charged to cover the cost of the administration and the lending institutions' exposure to risk.

"However, it must be borne in mind that the banks granted few loans to this sector in recent years, and these criteria were negotiated with other stakeholders," he said.

Banks compete for black clientele

(58)

Sowetan 29/6/95

By Mzimkulu Malunga

Prospective home owners say despite sweet talk banks remain conservative

FIERCE competition is hotting up between major banks as each tries to capture a bigger slice of emerging markets and tap into the government's housing programme.

This week's launch of the E-Bank by Standard Bank has fuelled the fires of competition.

Standard's competitor Nedcor has already launched its People's Bank and Absa is known to be in the process launching its own version of the E-Bank and People's Bank. There is also the Community Bank, which ironically, was a brainchild of Mr Bob Tucker who now heads Standard's E-Bank.

All these institutions are quick to emphasise that their newly launched banks are not shadows of existing divisions but a new innovation. They say the new banks will break away from some banking traditions in this country while maintaining efficiency and technological discipline.

While all the banks that have ventured into this market so far believe there could be good returns, some doubt the wisdom of this view, particularly because statistics released by the banks themselves show that only 30 percent of the low income group qualify for home loan finance.

Even with the Government's subsidy scheme in place, most people in the low income group are unlikely to meet the banks's requirements for loans.

Those who are sceptical about the banks' newly found flexibility say banks remain as conservative as ever.

Banks on the other hand are convinced that with an unprecedented housing programme about to take off there is a big market waiting to be tapped. Whether the market is big enough will be determined once the housing wheels start rolling. By that time there could also be some indication as to which financial institutions will have the upper hand at the market place.

Emerging Black Business

African Bank success did not come easily

(58) Sowetan 30/6/95

AFRICAN Bank is an example of success and self-development born out of discrimination. When Dr Sam Motsuenyane addressed a meeting of black businessmen in 1964, he so stimulated his audience on the need for a black bank that they passed the kitty around and collected the princely sum of R70 as seed money.

This was at the launch of the National African Federated Chamber of Commerce at the Orlando YMCA in Soweto.

"I had just returned from the United States and delegates asked me how black Americans were raising capital. The delegates were discussing the hardships they faced from banks.

"I told them black Americans started their own banks after decades of being discriminated against by the white controlled ones.

From rock bottom

He says the R70 then started a national fund for a black bank. This resulted in the African Bank, which today has assets amounting to hundreds of millions of rands.

African Bank thus fought its way from rock bottom to what it is today, poised as it is for a greater role in the economy.

"Our struggle is like that of the Afrikaners. Volkskas had it tough against the English banks and actually started as a cooperative. We struggled for 10 years to raise the first million needed to register the bank. From then on we had to contend with MC Botha, then minister for bantu administration and development.

"After struggling for a long time, we got the Government to agree that the bank could be started outside the then homelands. Recounting the years of struggle, Motsuenyane says the first hurdle was the black community. Mr Richard Maponya, who was elected first president of the National Federated Chambers of Commerce (Nafcoc), gave his members the task of going out into the black community to raise R18 million.

Preaching the black bank

"The population of blacks at the time was 18 million and we naively expected every black to donate R1. We left the congress preaching the black bank. We were convinced it would be a matter of time before it was established. Our efforts, however, did not even raise R100 for the first year.

Nafcoc appointed economist Dr Bergzy, a Hungarian refugee, to do a feasibility study. Bergzy identified major problem areas:

- R1 million was needed to register the bank;
- The organisation did not have trained managers to run the institution; and
- It took confidence to make a bank take off, and for people to start putting their money in it.

Says Motsuenyane: "When this man gave his report at our next meeting, he told us we had no chance of success and detailed the problem areas. We gave him a standing ovation for having told us the truth, and resolved to press on regardless.

"We stimulated our regions, but it was still tough going. It took us 10 years to raise the R1 million". The bank was finally launched in 1975.

While struggling to raise the R1 million needed for

Activities:	Life assurance. Subsidiaries involved in pension and provident fund administration, property and publishing.

Activities: *Life assurance. Subsidiaries involved in pension and provident fund administration, property and publishing.*
Control: *Real Africa Holdings 51%*
Chairman: *D M J Ncube MD. W A Jack.*
Capital structure: *70,3m ords Market capitalisation R45,7m.*
Share market: *Price R6,50 Yields 3,4% on dividend, 5,2% on earnings; p:e ratio, 19,3, cover, 1.5. 12-month high, R7,35; low, R5,75c. Trading volume last quarter, 915 000 shares.*

Year to March 31	'92	'93	'94	'95
Total assets (Rm) ..	259	313	427	554
Life fund (Rm)	164	180	228	350
Premium income (Rm)	69,7	104,7	168,3	295,2
Invest income (Rm) ..	16,5	19,8	22,9	33,4
Taxed profit (Rm) ..	11,0	13,8	17,5	23,3
Earnings (c)	18,7	22,5	27,0	33,6
Dividends (c)† . ..	12,0	14,8	18,0	22,4

† Share capitalisation offer

AFRICAN LIFE (68) FM 30/6/95

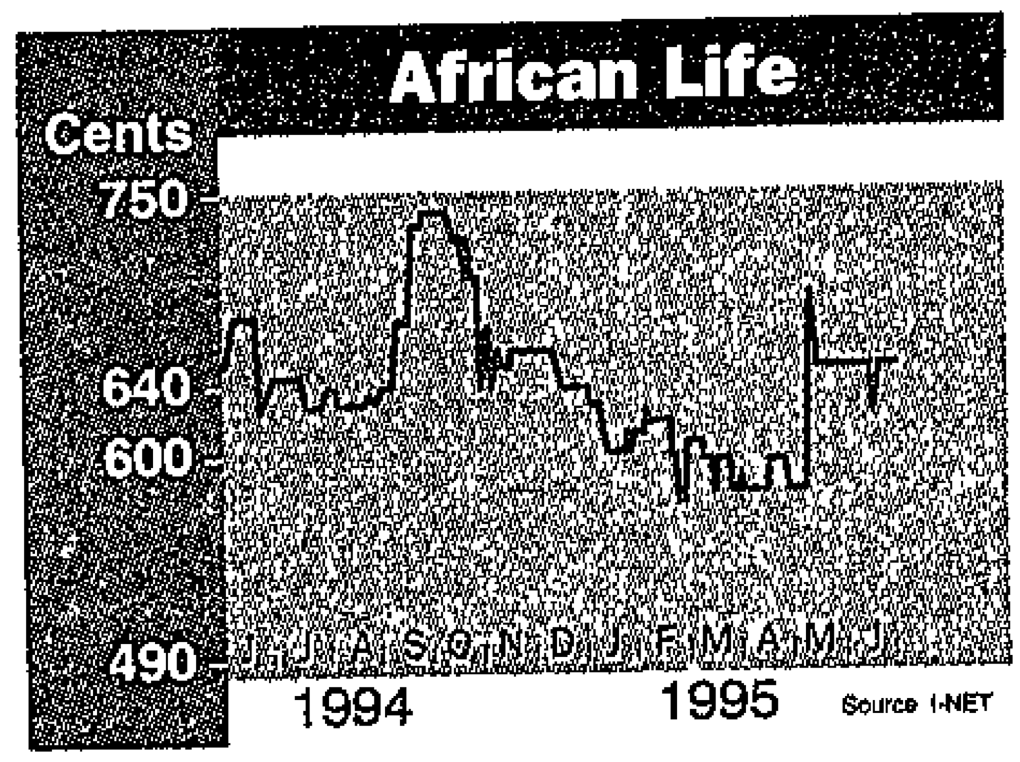
Looks underrated

African Life (Aflife) showed record growth over financial 1995. Bolstered by a second-half surge, total premiums advanced by 75% over the year with strong 72% growth in new business.

Recurring premiums, the benchmark for life offices, increased by 41% to R203m, outpacing the 36% average compound growth of the past 10 years.

Growth at this rate can be expensive, so it's encouraging to note the selling expenses trend easing. After more than doubling in the previous period, selling expenses increased 41% (R70m).

CE Bill Jack attributes the growth to the launch of new products, which, helped by increasing support from independent brokers, contributed materially to the strong inflow of new business. Apart from its focus on niche markets, Aflife has plainly been gaining market share, probably from the two large mutuals.



Though growth at this rate would normally place strain on the capital base of an assurer the size of Aflife, the company appears to have followed a successful strategy, largely through offering scrip dividends to shareholders for the past six years, thereby retaining income as business grows.

If the growth trend continues, Aflife will require further capital resources later. For instance, though life funds are adequately covered by investments and current assets of R541m, the ratio between the two is closing.

But there seems to be no immediate concern, especially as Aflife is to receive an investment of about R40m (roughly 8,6% of its share capital) from International Finance Corp.

Since the change of control from Southern Life to Real Africa Holdings, Aflife has apparently been identified by overseas investors as a vehicle for investment in black economic empowerment.

There is also the possible option of a rights issue to fund growth, though this does not seem likely in the short term.

Jack refers to a number of strategic moves likely to happen this year, including joint ventures, expansion further into asset management (Aflife plans to launch unit trusts) and forays into Africa. Details are sparse but it could be a busy year as Aflife spreads its wings into broader financial management.

The share, however, is a puzzle. Appreciation has been lacklustre over the year — only about 5%. That looks out of kilter with the growth recorded in results and future prospects. Jack forecasts an increase in recurring premiums of at least 25% this year, which must be conservative.

The share price may have run ahead of itself in previous years when strong gains were shown but it still appears underrated.

Aflife is possibly being overlooked because of its relatively small size. That could offer value to investors prepared to look beyond the large life companies which dominate the sector.

Shaun Harris

ISSUES

COMPANY AND TERMS:	Last day to register	NIL PAID LETTERS: Listing begins	Issued	Listing closes	Last day for splits	Date offer closes	FULLY PAID LETTERS OF ALLOTMENT: Listing begins	Issued	Listing closes	Last day for splits	Shares listed	Shares issued	PRICES OF LETTERS (cents): Take up price	Price Jun 19	Price Jun 26
W & A — Proposed rights offer 278 new preferred ord shares at 500c each (after the consolidation of 50 existing ord shares into 1 new ord) for every 100 ords held	30 6 95														

RESULTS AND DIVIDENDS

		Pre-tax profit Rm 1994	1995	% change	Earned cents per share 1994	1995	Paid 1994	1995	Sector	Dividends Amount cents	Register by	Payable about
Adonis	I	0,06	1,3	+2062	2	21	#	6	Clothing	*6,00	14.7.95	11.8.95
Anbeeco	P	3,2	5,3	+68	10	24	4	7	Electronics	†4,00	14.7.95	11.8.95
Anbeeco	D	—	—	—	—	—	—	▲30	Electronics	▲30,00	30.6.95	—
CMS	P	2,8	3,7	+30	●6	●8	2	▼3	Electronics	▼‡3,00	14.7.95	—
Conafex	I	$0,41	$2,3	+462	●4c	●49c	—	—	Ind Holding	—	—	—
Delcorp	I	n/d	n/d	—	●26	●18	8,5	6	Ind Holding	*6,00	28.7.95	1.9.95
Delfood	I	82,9	55,3	-33	●26	●18	8,5	6	Food	*6,00	28.7.95	1.9.95
Delhold	I	n/d	n/d	—	●26	●18	8,5	6	Ind Holding	*6,00	28.7.95	1.9.95
Invicta	P	❑	♣10,5	—	❑	♣●15	#	♣4	Dev Cap	†3,00	1.9.95	20.9.95
Karos	P	(1,0)	5,3	—	●(10)	●7	#	2,65	Beverages	‡2,65	7.7.95	21.7.95
Monteagle	I	$0,41	$2,3	+424	●4c	●32c	—	—	Ind Holding	—	—	—
Nasionale Pers	P	155,7	226,3	+45	●88	●109	8	12	Printing	‡12,00	21.7.95	4.8.95
Omnicor	P	♠148,8	185,1	+24	♠●131	●161	60	▼45	Printing	▼†29,00	7.7.95	9.8.95
Sondor	P	4,6	5,8	+27	12	15	5	5,5	Engineering	†3,00	7.7.95	21.7.95
Spescom	P	♥2,7	♥4,4	+62	♥●13	♥●21	♥4	♥5	Electronics	**2,50	23.6.95	7.7.95
Tempora	D	—	—	—	—	—	35	52	Invest Trusts	‡52,00	30.6.95	14.7.95
TML	P	49,4	74,5	+51	192	121	82	87	Printing	†59,00	7.7.95	21.7.95
Transpaco	P	(0,34)	1,0	—	(5)	7	#	#	Paper & Pack	—	—	—

I = Interim # = Dividend passed. * = Interim dividend P = Preliminary. † = Final D = Dividend. ▲ = Reduction of capital ● = Weighted earnings per share $ = US Dollars c = US cents. ▼ = Cap award option. n/d = Not disclosed. ❑ = Not comparable ♣ = 15 months. ‡ = Annual ♠ = Figures restated ♥ = 12 months ** = Second interim

LIFE ASSURANCE

The seven deadly sins

(58) FM 30/6/95

Seven marketing and underwriting practices used in the life assurance industry are putting the long-term profitability of life offices at risk. The warning appears in a confidential Life Offices Association circular.

Drafted by the LOA's Medical & Underwriting Standing Committee, and signed by Sanlam's chief medical officer Altus van der Merwe, it has been circulated to all life offices and warns of these major risk areas:

- Competitive forces that allow anti-selection and substitution of HIV blood samples;
- Nonmedical limits that are too high;
- Fraud and multiple identity documents;
- Erosion of sound business principles;
- Pressure from sales intermediaries to waive essential underwriting requirements;
- No penalty for unethical conduct; and
- Practices that put the industry's right to underwrite at risk.

In an earlier report, Van der Merwe castigated the Aids lobby which, he argued, by campaigning against Aids testing, was undermining the right of life offices to decide which risks they should accept. This time he goes much further, blaming the life offices for accepting risks which have not been effectively screened.

"Where blood specimens or other medical data are collected, it is obvious that not all stakeholders are considering proper identification as vital. Marketing advantage is gained by not insisting on cumbersome identity procedures.

"Unless there is a complete buy-in, by all stakeholders, that proper identification (from proposal to claim stage) is crucial to the survival of the industry, no company can ensure that its business is conducted on sound principles."

Van der Merwe says life offices agree to follow entrenched principles but "when it affects possible volumes of business or loss of premium income, the agreements go by the board.

"There seems to be a pernicious attitude within companies where irregularities are blatantly accepted."

Regarding fraud, he asserts that many "dead" people have subsequently applied for new identity documents.

Of anti-selection — the practice of seeking life cover by proposers who know they are not in sound health — Van der Merwe says: "The only way in which an Aids victim can provide for his family is to obtain large sums of life cover. This is as easy as finding a (blood) collection depot or venesectionist (blood samplist) who is not 100% cautious (or who is prepared to collaborate for a fee)."

Intermediaries, he says, put pressure on underwriters to waive requirements, including HIV tests.

"Due to potential loss of business, no company can solve this."

And on the subject of questionnaires, where there is often misrepresentation, Van der Merwe says: "The life assurer will nowadays only reduce the sum assured in proportion to the premium that should have been paid in the correct category. So, with no penalty to the life assured or to the intermediary, there is nothing to be gained by being truthful."

Other life assurers, none of whom would be quoted, conceded that all the malpractices do exist, that their own companies had taken precautions against anti-selection and that the total cost to the industry involved is "probably not more than 1% of claims." ■

BANKING

Aggressive and expansive

(58) FM 30/6/95

A tough Scottish banker's move into SA could have intriguing consequences

Not many South Africans knew that sitting at Ellis Park on Saturday watching the Springboks snatch a last-minute victory was a tough Scotsman who presides over the bank that when last ranked in 1993 made more money than any other in the world and is, in terms of assets, about the Thirteenth largest.

Sir William Purves is a rugby fanatic who enjoys a tight and aggressive game. And some say that is precisely how he runs his business.

He was on his first visit to SA and he remarked last week, with more fortitude than dismay, that he'd spent a good deal of his time here informing our dignitaries about HSBC Holdings, of which few had even heard, and of its rise to prominence.

With assets of more than US$300bn, HSBC Holdings is within the league of Mitsubishi, Credit Lyonnais and Deutsche Bank. Its acronym is by design relatively little known, for the bank has various names throughout the world. At its original home in Hong Kong it is simply "The Bank," in the East it's "Hongkong Bank," in London it's affectionately known as "Hongers and Shankers" and in America as the "most enduring vestige of Britain's imperial rule."

Recently HSBC acquired its first African asset, 51% of the stockbroker Simpson, McKie Inc, owned through James Capel, the 200-year-old stockbroker that Hongkong Bank acquired in the Eighties in London.

The bank itself is no novice. It was formed 130 years ago in Hong Kong by a Scotsman, to operate on sound "Scottish banking principles." Sir William Purves is the personification of that founding philosophy, which stresses what he calls "relationship banking."

He himself is known for his commercial dexterity, swift but considered decisions, frugality of management and audacity of acquisition. In these circumstances it would be unusual if he did not trail intriguing anecdotes — and he does.

Simpson, McKie's Bill Yeowart recounts how, as a soldier in the Korean War, Willy Purves at 19 outwitted the enemy and won the Distinguished Service Order — and hasn't lost his momentum since. *Business Week* has written of how his 30-man platoon survived an assault by 7 000 Chinese soldiers. I did not have the audacity to ask Sir William (63) about his youthful heroism. He is the sort of Scotsman whose reply it is sufficient to imagine.

Since acquiring Britain's third largest clearer, Midland Bank, HSBC has become a force not only in Britain but in Europe — so much so that the Bank of England requires it to have its group HQ in London. So, after 40 years in the East, Sir William has had to move there too.

When in Hong Kong he was said to be the most powerful man next to the Governor and that even now he still has enormous influence, which could continue even after 1997. His bank is the largest foreign one in China where he has close ties with the ruling elite.

He first joined the bank as a "foreign officer" (in those days the Portuguese were the clerks and the Chinese employees were supervised by a comprador) after his military service. And he has indeed kept on charging: by 1970 he was chief accountant, by the Eighties CEO and as group chairman he still has global ambitions.

Today the bank has "international officers" — men and women graduates schooled in the many disciplines needed in an institution so large and diverse that it extends over 68 countries. But the collegiate traditions of its Scottish antecedents have fostered an ease of personal communication that allows for rapid decisions, effective delegation and little bureaucracy. That is at the heart of its philosophy of relationship banking.

Hong Kong continues to provide more than half of the group's profits. It dominates with its subsidiary Hang Seng Bank consumer and business lending in the colony and controls close to half of the colony's deposits. Its capital-to-assets ratio is among the strongest of any bank.

Hongkong Bank began to attract international interest in the early Eighties, when it countered a bid for the Royal Bank of Scotland by Standard & Chartered (the British former shareholders of SA's Standard Bank Group). Neither won. At the time it was a phenomenon too rich for the British Monopolies and Mergers Commission.

But in the mid-Eighties, Hongkong Bank acquired James Capel, which today — with merchant bank Samuel Montagu, which came with the later acquisition of Midland, and its own Wardley — constitutes an investment banking operation that includes London, Tokyo, Hong Kong and New York.

This expanding focus was not novel. After the loss of its branches in China after World War 2, it had in the Fifties and Sixties spread its interests into the Middle East and India.

The Seventies saw the need for further expansion in North America, especially in the New York markets. The outcome was a major investment in 1980 in the Marine Midland, which nearly doubled the group's assets, and 1987 saw the acquisition of the remaining shareholding.

There was a further expansion in Canada through the formation of Hongkong Bank of Canada in 1981; and a co-operation agreement with California's Wells Fargo Bank, later leading to the formation in 1995 of the Wells Fargo HSBC Trade Bank, which increased the group's influence in California.

***FM* Editor Nigel Bruce and HSBC's Sir William Purves**

After the frustration of its bid for the Royal Bank of Scotland, Hongkong Bank bought a small interest in Midland Bank and entered a three-year co-operation agreement. After a rival bid by Lloyds Bank for Midland, Hongkong Bank finally won control in 1992, thereby again doubling its assets through acquisition.

The group has a network of more than

THE ANDERSEN LINE

Cost of protecting Sasol Synthetic Fuels on the proposed reducing scale[1]

	Floor price US$/barrel equivalent	Proposed protection Rm (nominal)
1995/96	19,06	777,4[2]
1996/97	19,06	726,2
1997/98	18,01	522,6
1998/99	18,01	320,5
1999/2000	16,97	nil

1 Assuming a continuation of the present oil price

2 This represents the annual level of protection provided by the proposed new floor price if it were in place for the whole of the 1995/96 financial year. It would be R888,7m if the proposed changes are only introduced in January 1996

SOURCE: ARTHUR ANDERSEN

Britain's North Sea fields) hovers at US$17-$19/barrel — notwithstanding the sealing off of Iraqi supplies from world markets, the disasters in the Russian oil industry and the continued decline of the ageing US industry. Nobody seriously expects this to change before the next century — unless, of course, religious fanaticism or unbridled nationalism overturns the Middle East before that.

On the demand side, though, the world economy is charging ahead in an unprecedented fashion, despite stagnation in Japan, turmoil in the former Soviet Union and modest rates of growth in Western industrial states.

China, India, Indonesia and Brazil, to mention only the four giants of the developing world, are achieving industrial growth rates mostly well into double digits. Their capacity to produce oil is either negligible or modest.

The impact of this vast wave of industrialisation on oil demand has yet to be felt. Don't forget the newly industrialising world has a total population of well over 2bn. Even if Iraq and the former Soviet Union come back strongly as exporters, we can expect the market balance to tilt in favour of the producers within a few years of the turn of the century.

SA, as no-one needs to be told, lacks its own oil. But it has enough coal (admittedly of low grade) to last 300 years at present rates of consumption. Our economy will remain coal-based, allowing for the component of imported crude oil.

Sasol, with the aid of a corps of gifted chemical engineers, has brought to technical maturity the world's only commercially effective process for converting coal or natural gas into liquid fuel. Using the synfuel trains as a starting point, Sasol has become an increasingly important and profitable producer of petrochemicals. Through Natref, Sasol also participates in crude oil refining.

Nevertheless, synfuel — now produced by subsidiary Sasol Synthetic Fuels (SSF) — remains its core business, supplying about a third of SA's liquid fuel requirements. Questionable Mossgas provides another 10%.

Kruger . . . *prepared to open books*

The high cost of Sasol's process necessarily implied protection from the outset. The mechanism has gone through several mutations over time. It is based on a complex formula involving the purchasing power parity of the rand and the dollar — rather than the actual exchange rate. At the end of the calculations, the level of protection is determined according to a notional base price for crude oil, reduced in two stages from $23/barrel to the current $21,40. In Sasol's 1993-1994 financial year, this base resulted in the payment of just over R1bn in assistance to Sasol.

The report showed that SSF's operating margin for that year was 20,7% with protection; it would have been 3,3% without any protection.

Within benchmark companies internationally, the margins were: 9,4% overall; 3,8% in oil refining; 10,1% in chemicals; and 14,5% in integrated oil companies. Evidently, the current formula is delivering over-generous protection; but abolition would swing the balance the other way.

Arthur Andersen favours a continuation of the mechanism but with a reduction in the base price over five years to a level just under $17/barrel (see table). At the current oil price, this would extinguish State assistance to Sasol completely in the financial year 1999-2000.

The complex basis for Sasol's assistance opens the door to calling it a subsidy — which could expose it to countervailing duties on its chemical exports. Arthur Andersen nevertheless favours retaining the mechanism because it is far less of a burden on the petrol price than the main option — protection through a tariff on imported oil.

Arthur Andersen says the entire risk of excessively low oil prices should not be borne by the State. It proposes a gradually increased cap on future protection, expressed as a percentage of the in-bond landed cost (IBLC) of crude oil. Protection would be limited to 30% of IBLC in the first two years of adjustment, 25% in the next two years and 20% in the final year (1999-2000).

The report also concludes that the current cost of protection for Sasol's synfuel is significantly less than the economic value of the output — less, too, than the foreign exchange gains achieved.

We can see no fewer than four good reasons for Sasol to be given enough support (in another sense, enough time to do without support) to enable it to stay in the synfuel business:

- ❑ As a force in being against the day when market forces drive up oil prices again;
- ❑ As an insurance policy against political disasters in the Middle East — a far from insignificant risk, as the attack on Mubarak demonstrates;
- ❑ As a future source of large earnings from licence agreements. The latest version of synfuel technology — the fixed fluidised bed reactor — can produce petrol economically from low-priced natural gas even at the present oil price. When oil becomes expensive, it will pay to apply the technology to cheap coal worldwide; and
- ❑ As an important element in the economy, achieving forex savings of around R5bn a year. The cost of protection, measured on each litre of petrol sold, is modest, at less than 3% of the retail price of petrol. It will decline commensurately with Sasol's diminishing share of supply of refined products. Why? As the liquid fuel market grows, crude oil will provide most of the extra feedstock.

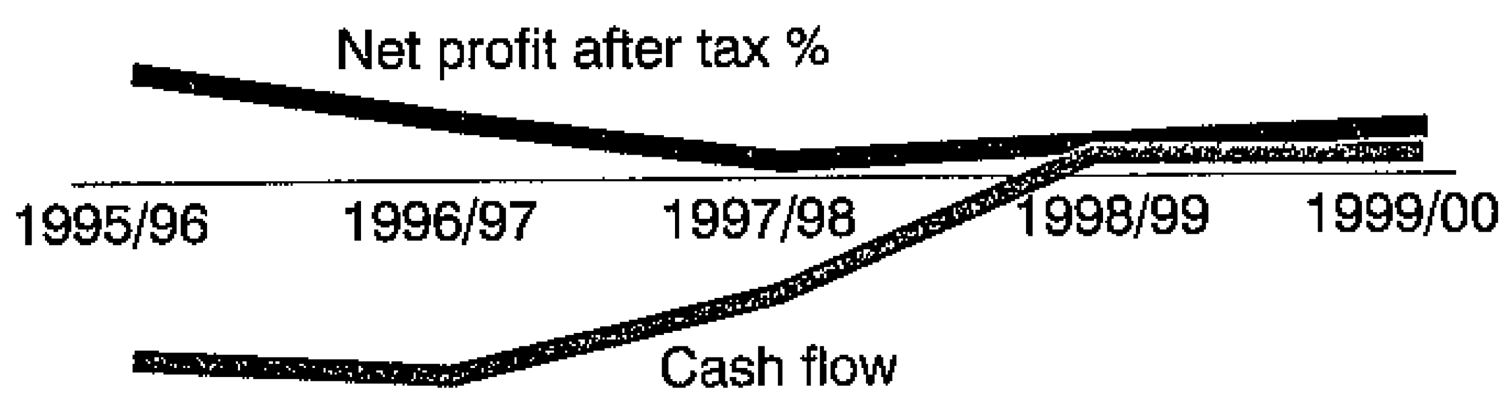
SA would not gain if the Secunda plant were closed down as it is hard to see how the resources involved could be switched to other activities. Notably, low-grade coal would stay in the ground.

Nor is it easy to imagine the oil companies setting up large inland refineries to replace Secunda. Further, the loss of about R5bn of forex earnings would depress the rand and tend to cancel out the benefits from cheaper petrol and diesel.

To quantify a level of protection (in what-

KEEPING HEAD ABOVE WATER

Profitability of Sasol Synthetic Fuels on the proposed reducing scale of protection



1 Base case with transfer pricing, efficiency, inland transport cost differential and protection adjustment

2 The weak cash flow until 1998/99 results from projected heavy capital expediture and the repayment of the Central Energy Fund loan

SOURCE: ARTHUR ANDERSEN

3 000 offices covering the Asia-Pacific region, Europe (through Midland), the Middle East and the Americas. The continent where it was conspicuous by its absence (until James Capel acquired the holding in Simpson, McKie) was Africa.

There are some interesting dimensions to the group's colourful history, including war, revolution and nationalisation.

It is no stranger to the financing of governments. In the 1880s it was banker to the Hong Kong government and sole or joint banker for British government accounts in China, Japan, Penang and Singapore — and it issued its own bank notes.

Hongkong Bank handled China's first public loan and thereafter most of the country's public issues. By 1910 it was what today would be called the lead bank in the China Consortium for international lending to China. In the Thirties it played an important role in helping to stabilise the Chinese national currency.

In whatever country it operates, the Hongkong Bank Group presents its interests as a local bank. It works as a federation of franchises, each of which strives to be a loyal local citizen as well as foster close relationships with its customers.

It is a strategy that masks (but enhances the importance of) the strong prudential and swift decision-making processes arising from its traditional roots in Hong Kong. Clearly, this is a strategy intended to mitigate nationalistic sensitivities to a group run by Scottish managers out of Hong Kong.

To the outsider, it seems that awareness of political or national susceptibilities has been as important to the group as the close relationship it attempts to develop with its customers. It is not a subject on which Sir William Purves will be drawn.

But to be acceptable to Beijing as well as to the controversial Hong Kong Governor, who is attempting belatedly to foster democracy in the colony, suggests extraordinary adroitness.

To satisfy the banking xenophobia of the Americans, cope with the European desire for regulation and with Chinese suspicions of the West, while presenting the group as an international undertaking that spans many frontiers, indicates an extraordinary understanding of political prejudice and nationalistic fervour. To turn it to commercial advantage suggests a rare ability to present enlightened self-interest in its most appealing light.

Of course, attitudes towards what might be seen as a vestige of British imperialism are much less brittle in the East than they are in Africa. Sir William himself observes that he has never been personified as the embodiment of past oppression.

The telling advantage, he believes, that Asian and Far East countries have had over Africa during the past 50 years is a high standard of education, which has consolidated growth by enhancing competitiveness. He sees education as being the first priority in Africa.

Sir William was not in SA just to watch the rugby, though to him it was probably motive enough. Over the past week he has led a 17-man mission to scrutinise local projects — and he plans to return quite soon.

And presuming that HSBC may find in SA sufficiently attractive prospects to countenance an acquisition, the chances are that it will be sizeable and have willing sellers.

Our largest banking group, Absa, still lacks coherence; Standard Bank and assurer Liberty Life have so coalesced that a predator is likely to be repulsed.

The relationship between Nedbank and Old Mutual has many similarities to the links between Standard and Liberty. I would rule them out as likely prospects for an international raider.

But Anglo American acquired First National at a fire-sale price — and Anglo has declared a policy of unbundling those assets that were not developed from grass roots. And that, especially so far as Johnnies is concerned, is what it is doing.

If First National is the object of predatory instincts from abroad, in Anglo it might have a shareholder willing to sell at the right price and to sympathetic buyers. But that is conjecture. HSBC has shown an unusual ability to acquire banks in politically sensitive environments and get along with eccentric governments. It seems to have been made for Africa.

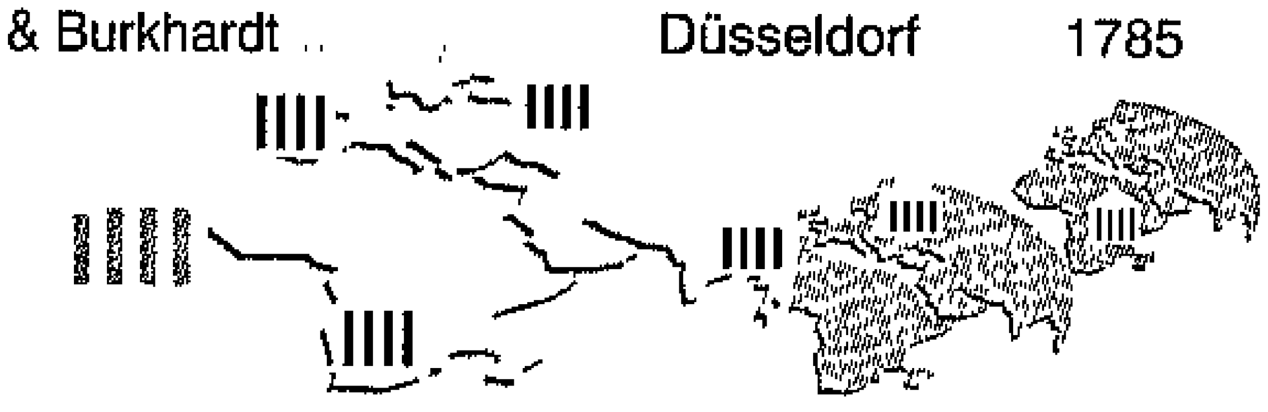
Nigel Bruce

HISTORICAL ROOTS

Hongkong Bank Group

Origins of principal companies in the HSBC group

Company (ranked by asset value)	***Birthplace***	***Date of Origin***
The Hongkong and Shanghai Banking Corporation Limited	Hong Kong	1865
Midland Bank Plc	Birmingham	1836
Hang Seng Bank Limited	Hong Kong	1933
Marine Midland Bank, NA	Buffalo	1850
Hongkong Bank of Canada	Vancouver	1981
The British Bank of the Middle East	London	1889
Hongkong Bank Malaysia Berhad	Kuala Lumpur	1994
Hongkong Bank of Australia Limited	Sydney	1986
James Capel Group	London	c1775
Samuel Montagu & Co Limited	London	1853
Trinkaus & Burkhardt	Düsseldorf	1785



SASOL

Worth looking after

FM 30/6/95

Sasol has a strong case for subsidy until it can do without support

Arthur Andersen, in a newly published report commissioned by the Liquid Fuels Industry Task Force, has called for the scaling down of Sasol's synthetic fuel protection formula. Within 24 hours of publication, the news reached SA of an attempt on the life of Egypt's President Hosni Mubarak. This coincidence is a harsh reminder of why the Western world — including SA — must continue to beware of reliance on the Middle East, still the world's main source of internationally traded oil.

The synthetic fuel industry originated from the need to develop a defence against oil sanctions. The lingering animosity towards Sasol as a creature of apartheid could still easily cloud the issue of the future level of protection for synthetic fuel — a decision that needs to be taken on a sound economic basis in the contemporary international context.

The collapse — in the mid-Eighties — of Opec's former stranglehold on the oil price has resulted in a price structure that has been stable and low (except for the brief surge during the Gulf War against Iraq). Now the price of Brent crude (from

Some bank fees illegal — govt

CT 30/6/95

(58)

STAFF REPORTER

THE Department of Trade and Industry has warned people to beware of fees levied by banks in respect of loans, in contravention of the Usury Act.

In a statement yesterday, the department said it had conducted probes countrywide on the recovery of fees charged by banks as part of the principal debt of particularly personal loans and instalment sale agreements, and "reports in this regard have been submitted to various attorneys-general".

"The department has found that certain financial institutions levy fees such as administration fees, documentation fees and other similarly-phrased fees ... These fees cannot be recovered in terms of the provision of the Usury Act."

A spokesman for the Department of Trade and Industry, Mr John Rosin, said the department had conducted a survey of 750 cases at various financial institutions in all major centres and concluded that the Usury Act was being contravened in some cases.

The department felt that fees charged for administration and documentation should be included in the interest levied by a bank in respect of a loan.

Richards Bay container terminal may go private

The planned new container handling terminal, which seems destined to go to Richards Bay, may be managed by a private sector operator.

This was revealed in parliament by the minister of public enterprises Stella Sigcau in reply to a question asked by the National Party MP Piet Welgemoed.

But Sigcau said Portnet had no immediate plans to allow shipping companies harbour facilities to handle their own containers to relieve current port congestion. Portnet would continue to operate the three container terminals which have been in operation since 1977, she said.

A final policy was still to be decided on the operation of a new container terminal. The terminal should be in operation by 1999. If it is decided to put the operation of the new terminal out to tender "it would be preferable to have an independent operator (and not a shipping line or cargo operator) running the terminal as that would be in the interest of optimal capacity utilisation". — Bruce Cameron

Broadacres changes name: Broadacres Investments, now listed on the JSE's diamonds sector, will change its name to Baobab Solid Growth and list on the JSE's investment trusts board from Monday. The company holds 14,9 percent of Mercantile Bank and 49 percent of Premier Freight as well as R10 million in cash.

(58)

SA urged to join African Development Bank: South Africa would benefit enormously from becoming a member of the African Development Bank as it was a major force in African finance said Kobus van Rensburg, managing director of MBB Consulting Engineers.

CT (BR) 30/6/95

Sanlam awards R22 million contract: Sanlam Properties said it had awarded a R22 million contract to Ovcon to build a mini-factory project, known as Kyalami Industrial Park, on a 3,8ha site near Pine Town, Durban. The facility would provide 17 000m² of factory space, with units of varying size.

Black businessmen in demand: David Hutton-Wilson, director of RES International Executive Search Consultants, estimated at a Geneva conference that the demand for black professionals could reach about half a million by 2013. According to reports, black businessmen enthused their Swiss and other European counterparts

Packaging company sub-divides shares: Packaging print and paper company, Holdains, said it would sub-divide its shares 10-for-1. Richard Bruyns, chief executive, said the motivation behind the split was to make Holdains shares more affordable to a broader spectrum of investors and so increase their marketability.

Motor industry hails new labour dispensation

CT (BR) 30/6/95

BY ROY COKAYNE
PRETORIA BUSINESS EDITOR

The new industrial relations dispensation for the vehicle manufacturing industry has been welcomed by industry participants.

National Association of Automobile Manufacturers of South Africa (Naamsa) executive director Nico Vermeulen said a key feature of the motor industry development programme would be the opening up of the South African market to international competition and the requirement for a continued focus on the export business.

Vermeulen said realities required employers and trade unions to join forces to control all cost items and to improve substantially the productivity of all factors of production.

Numsa auto sector chief negotiator Gavin Hartford said this agreement laid the basis for the South African car manufacturing industry to survive in the global market while at the same time significantly improving the conditions of workers.

Numsa general secretary Enoch Godongwana said the agreement was a great victory for the union in pursuing the goals of the bargaining strategy which it adopted in 1993. "Within the next three years it guarantees that enormous strides will be made in closing the apartheid wage gap and readdressing the legacy of poor education and training of the majority of workers," he said.

Gwen Prinsloo, collective bargaining manager of the SA Yster, Staal and Verwante Nywerhede Unie (Iron, Steel & Allied Industries) said the agreement's most significant aspect was it zoned in on the long-term viability of the motor industry and the economy.

She said wage rates would be linked to the consumer price index for the next two years.

CT (BR) 30/6/95

Sappi woos international investors

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

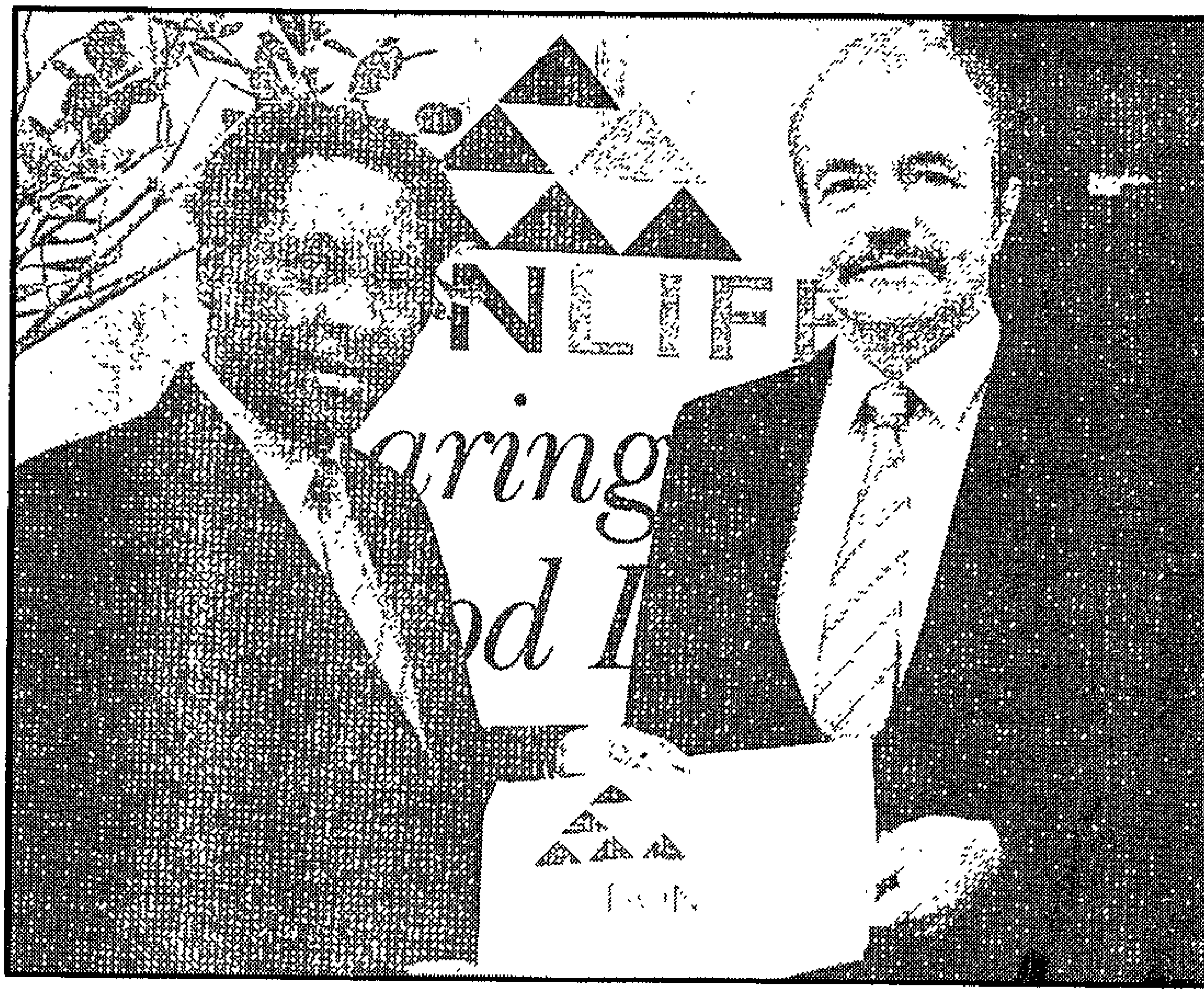
Paper group Sappi plans to issue dollar-denominated Euroconvertible notes, Eugene van As, executive chairman, said yesterday.

The notes will be convertible into Sappi ordinary shares and marketed to international investors.

The reason for the issue is that the group's funding costs have soared since last year's $1,6 billion acquisition of control of American paper maker SD Warren.

Sappi also intends to reduce debt through an initial public offering of equity in one or more of its subsidiaries "in due course".

The group plans to make a series of investor presentations in mid-July and the notes will be placed in international markets outside South Africa. The issue is subject to the passing of the necessary resolutions by shareholders and Reserve Bank approval.



NEW KIDS ON THE BLOCK: Paul Luthuli, left, and Chris Cunningham-Moorât, respectively chairman and managing director of new life assurance company Bonlife, gear up to take on the industry giants.

Bonlife makes aggressive entry into the life assurance market

(58)

ARG 11/7/95

COLIN DOUGLAS
Business Reporter

NEW life assurance company Bonlife has accused established life assurers and their intermediaries of dropping their clients in a financial planning mess, and has promised to mount an aggressive campaign to win business from them.

"Almost every client we see has been the victim of a series of intermediaries who have sold them a hotch-potch of policies that are not relevant or effective," said Bonlife Managing Director Chris Cunningham-Moorât, speaking at the company's Cape Town launch.

Charging that life assurers had exploited upper-income clients and neglected the disadvantaged, he said Bonlife had adopted a strikingly new approach that would offer clients maximum value for money.

Bonlife Chairman Paul Luthuli promised: "In five years we'll be a household name — we'll get aggressive and we'll get rid of the Sanlams, Old Mutuals and Southern Lifes."

The company would avoid elaborate management structures and expensive promotions to cut unnecessary costs and offer a life assurance product with a minimum premium, at R40 a month — less than half the existing industry floor, Mr Cunningham-Moorât said.

Intermediaries would be paid a recurring monthly rate out of premium income, because the "front-end loaded" commissions paid by most life assurers left brokers with little incentive to provide clients with service, Mr Cunningham-Moorât said.

Formed by medical aid groups Medscheme, NMA Administrators, Bonitas and Sanitas, Bonlife represented an expansion by the medical aid sector into the life business — a move partly to counter intrusion by life assurers into the medical sphere.

"Over recent years, the medical aid movement has witnessed the intrusion of life companies into the low-risk segment of the medical market that addresses dread disease and hospital insurance cover," he said.

"Criticism has been levelled at them for such limited and 'safe' cover, as it does not offer protection where it is needed most — for general healthcare consultations, medicine, spectacles and so on.

"Medical schemes have been left to cope with this costly end of the medical security spectrum.

"The formation of Bonlife can be seen as a reversal of this trend, encroaching vigorously as it does into the assurance market, where the life behemoths are most vulnerable.

"The association between health care groups and life assurance is a good one — consumers stand to gain the most."

The company, which has been granted a full operating licence with effect from today, has been operating profitably for a year among existing clients of its parent companies.

Life assurance clause raises debate on right to privacy

(58) CT(PM) 3/7/95

BY CHARLOTTE MATHEWS
INVESTMENT EDITOR

The issue whether individuals have a right to privacy is again being raised by an amended clause introduced into life assurance policies from the beginning of April.

Those wishing to buy life assurance are compelled to sign a clause which gives the life assurance company the right to disclose the policyholder's personal information to the members of the Life Offices' Association (LOA), which represents the majority of the industry.

The wording of the clause differs slightly from one life company to another. For example, the wording on Liberty Life's clause says:

"Where applicable, I irrevocably authorise that in respect of any information which may be necessary to assess risks or claims that: (a) such information may be obtained by Liberty Life from any person in possession of such information, and such information may be provided by Liberty Life to any other insurer and to the Life Offices' Association of South Africa; (b) Any person shall be obliged to divulge such information to Liberty Life or the LOA on request (c) Such information may be provided by the LOA to any other insurer (d) Such information may be obtained or given before or after my death and in such form and for such use as Liberty Life or the LOA decides and I understand this authorisation will curtail my right to privacy to this extent and (e) Any party or agent, employee or director of that party requesting, providing or receiving such information is indemnified against any claims which may arise from the disclosure or use of such information."

According to Hugh Corder, University of Cape Town professor of public law, an individual cannot sign away his constitutional rights. However, in the Bill of Rights, the issue whether these rights operate between individuals and private companies or only between subjects and the state is still unclear.

John Janks, a partner at attorneys Werksmans, said if an individual wanted to sue for invasion of privacy under common law, the courts would apply a three-pronged test.

This would be whether there was intention to injure, whether the action was wrongful, as measured by the common standards of morality prevailing at the time, and whether the action impaired the applicant's reputation and standing.

He confirmed that the situation regarding constitutional rights was still uncertain. But as the law stands, by signing this clause the policyholder was agreeing to waive his common law right to privacy.

Jurie Wessels, the association's executive director, said this was not a new clause, merely a tightening up of the wording on the previous clause.

The life offices had shared a register of "impaired lives" — those people most at risk of premature death — for decades before the association was formed, and this clause linked into that registry.

Information in the registry was encoded and only the underwriting departments in the 36 life offices had access to the code book. Questioned about the possibility of mistakes entering the system which might cause an innocent individual to be refused life assurance, Wessels said reasons for being turned down could be demanded from either a doctor or the life company directly.

The registry pre-dated Aids by a long time and that was not the justification for the clause.

There was no question of this information being used to "fix" premium rates across the industry, he said, since the various life offices rated risks differently.

"The register protects the insuring public by preventing people deliberately hiding risks and seeking insurance, keeping it affordable."

Life assurers confident of bringing other financial services in line

(58) CT(BR)5/7/95

By Bruce Cameron
ASSISTANT EDITOR

The life assurance industry believes it is winning the battle to include the entire financial services sector under the same rules.

Dorian Wharton-Hood, the vice-chairman of Liberty Life, said the life industry had been the target of demands for increased regulation while other sectors were subject to very little.

Wharton-Hood was commenting on the second draft of proposals for regulation of the financial services industry made by the Investment Business Advisory Committee, chaired by Chris de Swardt, the Reserve Bank's deputy governor.

In an interview with Business Report, he said the regulators had come around "to our way of thinking" on both extending regulation to the entire financial services field and also to the type of protection required for consumers.

Although there was now broad agreement from the regulators on these issues, he believed it would still take about two years before legislation could be promulgated.

Wharton-Hood said the life industry had for many years subjected itself to self-regulation that was not applied by competitors.

These regulations included: the Benefit Illustration Agreement, which prevented the institutions from making unrealistic projections of performance to investors; the switching agreement, which prevented brokers from swopping clients between different products to generate larger commissions; and the S-Rating system, which ensured that "rotten eggs" were banned from the industry.

The regulators had come to accept that the sweep of regulation had to be wider to prevent some players in the financial services field from falling between the two regulatory stools of the Registrar of Deposit Taking Institutions and the Financial Services Board.

He said the Benefit Illustration Agreement, the agreement on switching investments and limitations on commissions, should be extended across the financial services industry to protect the public.

On the nature of the regulations, he said it was important that regulation be complaints-driven rather than compliance-driven. In Britain, Australia and New Zealand, regulation was compliance driven.

Wharton-Hood said the wider financial services industry, including the banks, still had to give their agreement to the acceptance of the two key principles.

He said he did not agree with many areas of the proposed regulation in the latest committee draft.

Development Bank to tap local market

ET (BR) 5/7/95 (239) (68)

BY SUDARSAN RAGHAVAN

SPECIAL WRITER

After an absence of two years, the Development Bank of Southern Africa said it would enter the local financial market this year to raise funds, while denying rumours of a merger with the Industrial Development Corporation.

South Africa's return to international markets and sweeping political changes had opened up new funding opportunities, the bank said in its annual report released yesterday.

"For the first time the bank had the potential to live out its mission for South Africa," said Chris Liebenberg, minister of finance, at the release of the report.

The report gave no details of its proposed borrowing programme.

Wiseman Nkuhlu, chairman of the bank, said there had been no talks with the IDC to create a holding company, but close co-ordination with the IDC and other development bodies would be essential.

An important source of future funding would come from global financial instruments such as donors and concessionary and co-financing activities that had become available.

The level of disbursements soared to R1,15 billion, a 38 percent jump over last year and the first time they have gone over R1 billion, the report said.

"The bank, unlike private sector institutions, measured success by the level of disbursements and the type of community that was reached," said Nkuhlu.

While high project approval rates in 1992 and 1993 led to a meteoric rise in projects reaching

Development Bank chairman Wiseman Nkuhlu

PHOTO: JOHN WOODROOF

fruition last year, Nkuhlu expressed concern that low borrowing by provinces could push down the level of disbursements.

New commitments costing R863 million were given the green light for 258 new projects. A further R294 million from other public and private funds had also been approved for these projects, bringing the total committed for this year to R1,16 billion.

The primary source of income was from its development loan portfolio which rose from R2,4 billion to R5,85 billion over the past five years.

CC

Aflife results well up on last year's (58)

By John Spira CT(BR)5/7/95

GAUTENG BUSINESS EDITOR

African Life continues to surge ahead strongly, with results for the first quarter of the financial year substantially up on the same period last year.

At the company's annual meeting in Johannesburg yesterday, Bill Jack, the chief executive, said that in the three months since the close of the financial year, recurring premium income had risen by 42 percent, single premium income had soared five-fold to R36 million and total income had improved by 87 percent.

"For the first time in Aflife's history," said Jack, "we achieved income of more than R100 million in a quarter. During the three months our assets grew by R96 million to R650 million — a 17 percent increase."

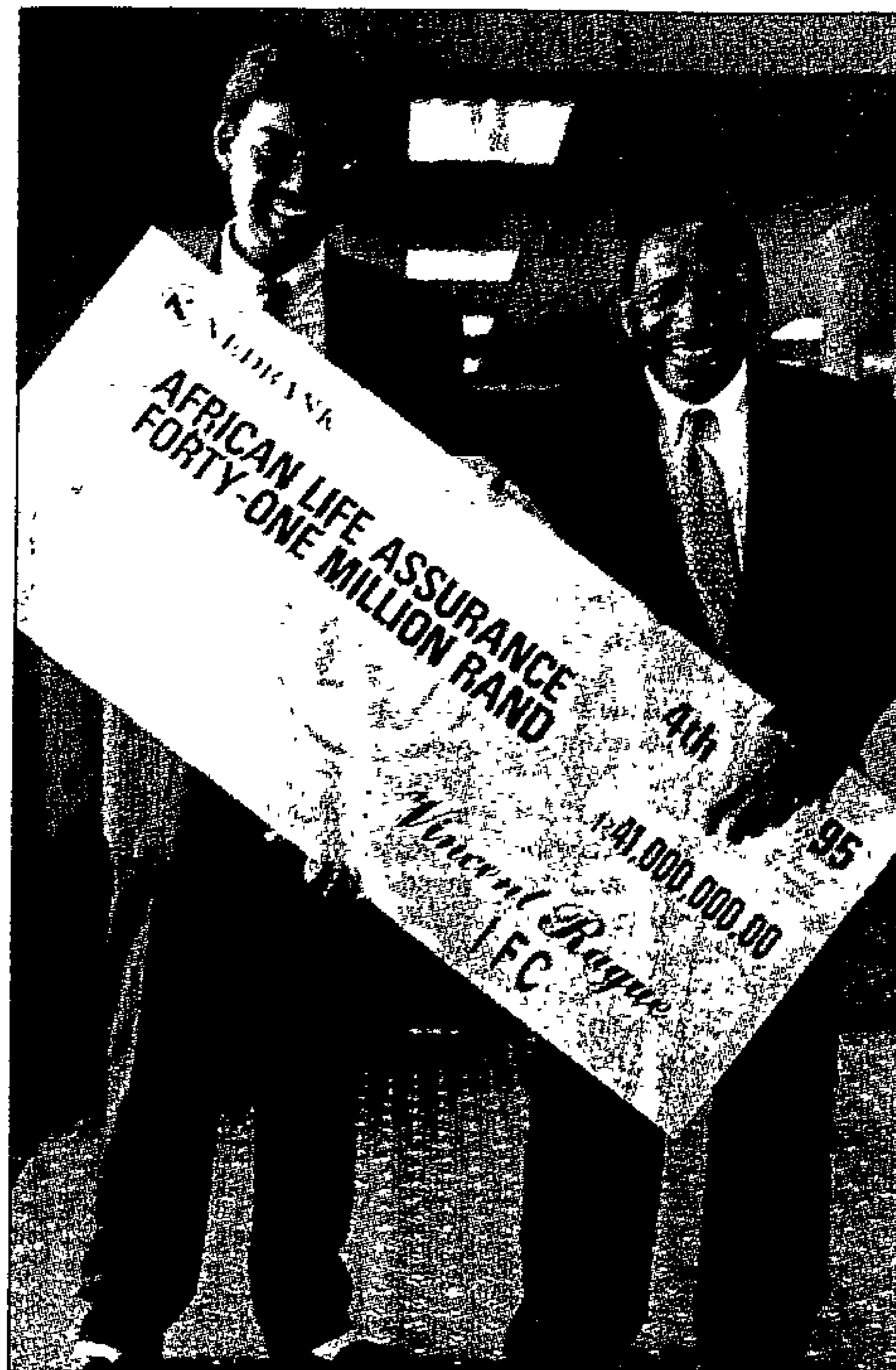
Don Ncube, the chairman, said the R41 million flowing into the company as a result of the investment in Aflife by the International Finance Corporation would help fund expansion in South Africa and throughout the continent.

"We are in negotiations with several African countries and hope to be able to announce something in the near future."

Vincent Rague of the corporation said his organisation was confident its investment in African Life would speed up the development of the South African economy.

"Given the level of development in South Africa, the availability of many skills in your country and the fact that as many as 5 million South Africans are involved in Aflife and its holding company Real Africa, we were able to justify our investment in Aflife."

Ncube hoped that the corporation's initiative would be the trigger for additional investments in South Africa. He said the corporation was a financial and intellectual resource for Aflife.



DEAL DONE *The International Finance Corporation's Roy Rajdhar (left) hands over his organisation's cheque for R41 million to the chairman of African Life, Don Ncube* PHOTO: MOTLHALEFI MAHLABE

CT(BR)5/7/95 (58)

Ncube's acumen clinches the deal

By John Spira

The slip between cup and lip was a touch and go affair on the day that Don Ncube was scheduled to clinch the deal between the International Finance Corporation (IFC) and African Life.

On his arrival in Washington DC, the Aflife chairman discovered that his luggage had gone AWOL.

"Americans are big guys and I'm small. I couldn't find a suit to fit me, so I had no option but to pitch up at the IFC offices in my jeans."

The IFC executives looked askance at Ncube's attire and then told him that while he was flying to the US, 13 people had been killed at Shell House. "And you expect us to ... R41 million in your country?" they asked.

Ncube is a quick-thinker and, by chance, he had read the local newspaper on his way from Dulles airport.

"The killing is certainly a tragedy," he replied. "But Johannesburg has a population bigger than Washington and I believe 26 people were killed in crime-related incidents here last night."

The deal was quickly signed, sealed and delivered.

Aflife results well up on last year's (58)

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Transformation moves hit snags

(58) (2007) BD 6/9/95

Robyn Chalmers

A STRONG call from the Development Bank of Southern Africa to restructure and co-ordinate SA's development finance system will be hindered for up to two years due to slow progress on internal restructuring, analysts said yesterday.

Bank chairman Wiseman Nkuhlu said this week that one of the most important proposals made by a government-appointed task team looking into the transformation of the bank was a need to co-ordinate state-funded development institutions.

"The bank's transformation into a more suitable, focused institution needs to be seen as part of the rational restructuring of the development finance system."

Finance Minister Chris Liebenberg agreed that there was a need to revisit the question of streamlining development finance in SA, as co-ordination with other agencies was becoming increasingly necessary.

However, analysts said this process could take years to bring about, largely because the majority of development finance institutions had not undergone the sort of internal transformation that the bank had.

One of the biggest such institutions, the National Housing Finance Corporation, had not yet been set up and this was likely to happen only towards the beginning of next year.

One analyst said organisations such as the Industrial Development Corporation, the Small Business Development Corporation and the Land and Agriculture Bank were making slow progress in restructuring.

"There would clearly be advantages to grouping these institutions together while allowing them to keep their separate functions, but we must look realistically at their ability to accept the level of change that would be required.

"There also has to be some investigation done into the cross-over that would occur with the proposed National Development Agency, which will fund non-governmental organisations," he said.

The transformation team's report suggested there would be considerable advantages to incorporating development finance institutions into one national institution which raised finance and co-ordinated the application of integrated policy.

The report said fund-raising capacity would be maximised, the average cost of development finance minimised and the problem of unmonitored borrowing avoided, so reducing the risk to the fiscus.

"Such an arrangement would enhance the efficiency and cost effectiveness of the development finance system and allow for the incorporation of powerful redistributive mechanisms," it said. "The end result would be the facilitation of key projects and the financing of schemes and programmes in poorer communities on the best possible terms."

However, the report said also that the feasibility of including the financing of small business, agriculture and housing under the same institutional umbrella as infrastructure and industry needed to be considered.

Bank in search of a new role

(58)

By Rory Channing

CT (BR) 6/7/95

REUTER

The bank charged with developing black homelands under apartheid could still play a key role in the new South Africa despite its image problem, a state-appointed task force said.

The task force was appointed last December to consider the future of the Development Bank of Southern Africa — set up in 1983 as a conduit to finance separate racial development in the form of black homelands.

Its original shareholders were the South African government and the now defunct Transkei, Bophuthatswana, Venda and Ciskei homelands.

The task force concluded that the bank, which had been dogged by a legitimacy crisis, now faced one of relevance

The demise of apartheid and the homeland system has left the bank in a predicament: "Only one of the original five shareholders still exists and the bank has no relevant purpose, clear client base or any special claim on development funds," it said.

However, it said: "A more focused and transformed development bank has a major role to play in the southern African region."

It proposed that the bank become a specialised infrastructure development bank, which would continue to provide wholesale funds to projects and services such as roads, sanitation, communications and electrification.

It would also aid projects and development programmes centred on the 11-member Southern Africa Development Community.

Sources of financing would vary from government and foreign grants to concessionary loans and capital market funding.

In focusing on infrastructure, the bank "would involve the private sector whenever possible in the funding and co-funding of projects," it said.

It proposed an alliance between the bank and the state's industrial development corporation, under a newly created holding company. This would allow them to keep their identities and operational independence, but their borrowing functions would be transferred to the holding company which would approach the capital market for funds on the strength of the combined, diversified balance sheet.

Various studies had estimated infrastructure funding needs at R35-60 billion over the next five to seven years.

ger range of choice and we aim provide one-stop shopping for ofessional equipment. We have) different stock items at esent."

double his company's turnover ... the year.

Telcall has expanded its sales regionally into Mauritius, Mozambique, Zimbabwe, Swaziland

tants is a company turnover of at least R2 million but less than R50 million. For more details, contact Mavis du Toit at 011-498 1234.

ds this evening at the World Trade Centre in Kempton Park, provided a ium business operators. Delegates took part in a two-day small business ires. Exhibitors came from Singapore, Romania, Russia and Saudi Arabia.

Booklets to educate on basic facets of banking

CT(BR) 7/7/95 (58)

The dearth of basic knowledge about the banking industry has led Standard Bank to produce a set of educational booklets it hopes will play an important role in addressing this shortfall.

The Get-to-Know-Banking series comprises nine booklets covering topics such as basic banking, savings and investment, electronic banking and money management.

Eric Tomlinson, the bank's general manager for personal markets, said research showed that new banking customers had a problem understanding financial services.

He said the bank's corporate clients had also expressed interest in using the series in their internal staff training programmes.

The series, written in simple English, would also be distributed to schools as well as bodies such as civics and trade unions.

A second set of booklets, covering more advanced aspects of banking, would be available in the next few months. — Staff Writer

KNOW YOUR BANK *Standard Bank's Eric Tomlinson views Standard Bank's educational b...*

PHOTO JOHN WOODROOF

Housing: Banks 'collusive'

(58) ST 9/7/95

By RAY HARTLEY
Parliamentary Correspondent

THE Minister of Housing, Sankie Mthembi-Nkondo, has sharply criticised banks for introducing stricter lending criteria which could slow the building of houses in low-income areas.

In a strong attack this weekend at a Nedcor function in Durban, Ms Mthembi-Nkondo accused banks of "complacent and collusive behaviour". The banks are key pieces in the elaborate housing policy jigsaw puzzle assembled by the minister's predecessor, Joe Slovo.

The minister's attack follows a week of tension between builders and banks over the stricter lending guidelines. The new criteria are threatening to slow down the delivery of housing under the new policy, barely a month after its June 5 launch.

Housing ministry officials have scheduled a meeting of builders and bankers tomorrow to look at ways of plastering over the cracks.

Housing director-general Billy Cobbett admitted the policy was experiencing "short-term problems", but he said the fundamentals of the policy were in place.

"Problems were anticipated, more problems are anticipated, but this does not in any way change our policy."

Adding fuel to the fire were statistics released this week which showed that fewer houses had been built in the first year of democratic government than under apartheid.

Replying to a parliamentary question, the ministry said that only 10 736 houses had been built using state assistance in the 1994/95 financial year, compared to 20 000 in the previous year. The ministry said this was the result of a complete policy reorientation.

Waiting in the wings are critics of the incremental approach, such as Gauteng's housing minister Dan Mofokeng, who fought running battles with Mr Slovo, claiming his housing strategy would not deliver quickly enough.

Mr Mofokeng was scheduled to address a meeting to "assess the RDP" today, an event which could see the launch of a fresh bout of criticism of the national housing ministry. The housing issue is expected to be high on the agenda in the coming local government elections.

Not all aspects of the housing policy are in place yet, with the Housing Finance Corporation set to go before cabinet soon for approval, and housing support centres still to be established, said Mr Cobbett.

DBSA report fails to shed sufficient light

ST(BT) 9/7/95 (58)

The Development Bank of South Africa's transformation report is likely to add more uncertainty to an organisation tainted by history and in-fighting among staff and the board, writes **SVEN LUNSCHE**.

THE government's propensity to add layers of bureaucracy where they are not necessary is reflected in the findings of a Department of Finance task force examining the Development Bank of Southern Africa.

In terms of the proposals in the transformation report, released this week, a new holding company will be established to mobilise funds for both the DBSA and the Industrial Development Corporation, while the mission of the DBSA will be redefined.

"The DBSA will provide financial support for both infrastructural projects and development programmes centred around the provision of sub-regional, national and community infrastructure," says the report.

These proposals are flawed in many respects. Most importantly the new mission statement is, by and large, a reflection of what the bank has been doing all along.

In the financial year to end-March the bank improved its level of disbursements to development projects by 38% to R1,15-billion and it is budgeting for further allocations of R1,3-billion this year. Its total development portfolio of just under R6-billion supports over 1 700 projects which have a clear development focus.

It is therefore difficult to see the "powerful synergy between infrastructure and industry" that the task group says is one of the major reason for proposing a joint holding company for the DBSA and the IDC. The latter supports clearly defined, private sector and capital-intensive industrial projects. The Development Bank on the other hand does not try its hand at projects which are not related to the provision of infrastructure or development projects.

While the task group does see the need for the bank to expand its brief to larger infrastructural projects at national and intra-regional level, even in this area it is difficult to envisage the contribution the IDC can make.

The task force, headed by current DBSA chairman Wiseman Nkuhlu, also stresses that the combined asset base of the two institutions (currently R12,1-billion) will enable the holding company to raise larger borrowings thus, "minimising the need for future capitalisation by the fiscus".

Mr Nkuhlu says the DBSA can support a growth in funding of 15% a year but would need to seek additional funds if it were to support large scale infrastructure projects.

However, according to figures provided by the task force, the group's net borrowing requirements will increase from R300-million this year to R1-billion by the end of the decade. At the same time its total assets will almost double to R12-billion, sufficient to support the envisaged borrowing levels.

The task group failed to address one of the bank's most pressing issues — the appointment of a chief executive.

While the task force team will act as the bank's board during the transition the appointment of a respectable chief executive would have done wonders for staff morale.

DBSA PROJECTED FINANCIAL SUMMARY

	94/95 R-m	95/96 R-m	96/97 R-m	97/98 R-m	98/99 R-m	99/00 R-m	00/01 R-m	01/02 R-m	02/03 R-m	03/04 R-m
Source of funds										
• Repayment development loans	552,6	317,3	370,6	419,3	558,1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
• Loan SA Government (Prov/Govt debt)		475,0	475,0	475,0	475,0	475,0	475,0	475,0	475,0	475,0
• Interest investments and cash	183,0	[illegible]	[illegible]	[illegible]	65,8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Application of funds										
• Disbursements	1 141,2	900,0	1 035,8	1 190,3	1 368,8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
• Repayment capital market loans			243,0	498,0				44,0		
• Administrative expenses	[illegible]	[illegible]	140,7	154,8	170,3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
• Cost of financing	174,8	182,7	226,6	320,1	321,8	395,1	475,1	562,6	655,5	752,5
Net borrowing requirement	[illegible]	[illegible]	746,6	1 150,6	796,6	885,1	[illegible]	[illegible]	[illegible]	[illegible]
Total assets	6 281,3	6 900,2	7 673,1	8 520,1	9 590,8	10 814,2	12 187,3	13 749,8	15 530,0	17 597,1

Graphic: FIONA KRISCH

Source: DBSA

SOWETAN Monday July 10 1995

Banks continue with 'red-lining'

Sowetan 10/7/95

(58)

By Joshua Raboroko

HUNDREDS of low-income potential homebuyers in at least 40 black residential areas, including Soweto, have been "red-lined" by banking institutions because of political instability in their areas.

The banks have also pulled back their resources in some of the areas, because of the poor quality of services and the continuing rent and bond boycotts.

The areas where banks have refused to grant loans include the rest of Soweto but Protea Glen has been exempted.

Estate agents in Gauteng said Sebokeng, Bophelong, Sharpeville and Boipatong have been affected by the "ban". Mortgage Indemnity Fund acting manager Mr David Porteous said that areas were assessed, among other factors, on their previous bond rate payment records, quality of infrastructural services, and stability. The provincial housing boards, banks and local authorities were presently reassessing various areas, including Soweto, and a decision was expected within weeks.

Banks to create more jobs

(58)(89)

Sowetan 11/7/95

Absa planning more branches in townships

By Sibusiso Mabaso

AMALGAMATED BANKS of South Africa's undertaking to reopen all its branches in Soweto and other townships will create a number of new jobs.

Absa executive director Mr Nallie Bosman said more Allied banks had been planned in other developing areas. Speaking at the launch of the newly upgraded Allied Bank in the Dobsonville shopping complex last week, Bosman said the remarkable growth of the then sub-branch to Allied Florida had compelled them to upgrade it to branch status and appoint more staff.

Bosman said during the past few months the staff at Allied Bank had been involved with numerous projects that were aimed at uplifting the community. He said Allied Bank has been flagshipped as the Absa brand for affordable housing and praised the Dobsonville staff for the important role they had played with the marketing team in making great headway with the Dream Home Project.

Bosman also announced Absa's plan to open an education centre for Dobsonville Shopping Complex, where people from the community would have access to facilities that provide borrower education. Branch manager Mr Bernard Montwedi said he would like to reinforce the bank's commitment to building the prosperity of the country through development and community involvement.

"We have embarked on a road that has no formula to success and one that Absa has never travelled. Ours is to reach out and work hard so as to be able to empower our people," Montwedi said.

Mrs Elizabeth Ngqumeya (right) of Diepkloof, Soweto, receives a R10 000 prize from Allied Bank development manager Mr David Masekela. She also won kitchen units valued at R40 000. PIC: PAT SEBOKO

'Banks may need more risk capital'

(58) CT(PR) 11/7/95

BY AUDREY D'ANGELO AND CHARLOTTE MATHEWS

Banks may need higher minimum capital adequacy requirements to cover increased risk after November, when they will be able to invest clients' money directly in the share market or in derivatives.

Reacting to comments at the weekend by Chris Stals, the Reserve Bank Governor, that the authorities were committed to relaxing exchange controls and were also reviewing minimum capital adequacy requirements for securities dealing, Rian le Roux, an Old Mutual economist, said the Barings debacle had shown that although the initial cost of investing in derivatives was low, the gearing was enormous.

As banks were going to have exposure to far riskier access they would need higher capital to safeguard depositors' interests, le Roux said.

A spokesman for Boland Bank said the present capital adequacy ratios of banks were 8 percent of liabilities, which had been calculated as adequate to protect the interests of depositors.

Stuart Tapson, the treasurer of FirstCorp, said the issue of regulation against market risk, whether exchange control risk or that associated with over-the-counter securities, was on the lips of regulators this year. The trend had been to review capital adequacy against credit, rather than market risk.

Le Roux said capital held by the banks was typically a ratio of loans and this ratio could vary according to the type of asset.

Taking account of the Barings collapse and the proposed admission of banks to the JSE later this year, it was possible that Stals was hinting that banks which became involved in in different kinds of assets such as derivatives or equity would have to increase the capital held as security.

A Reserve Bank spokesman said while the Bank was committed to further relaxing foreign exchange controls, it would not allow an outflow of capital that would deplete reserves and push up interest rates.

He was commenting on speculation that the next step would be to allow institutions to invest up to 10 percent of their funds overseas.

Banks welcome farming futures

(58) (88) BD 12/7/95

Louise Cook

BANKS with extensive agricultural lending divisions have welcomed the launch of an agricultural commodities exchange in SA, saying it would improve risk management in the agricultural sector.

Safex would start trade on July 31 in futures contracts on chilled beef carcasses and forward contracts on maize, grain sorghum, soya beans and sunflower seed.

Standard Bank agricultural division senior manager Rudi Wilsnach said futures contracts had an important role to play in extending credit to producers and agri-business companies.

"A producer such as a feed lot operator will reduce his risk considerably if he proves that he has fixed both his input costs and potential income from the sale and is left with an adequate profit margin.

"Forwards and futures contracts provide producers with the opportunity to manage their own prices according to their needs at a time when agricultural boards have relinquished price control."

He said financial institutions should be more willing to lend money to producers who manage their risk than to others who get caught in price squeezes.

Absa agricultural finance manager Chris Mostert said bankers would welcome the opportunity for farmers and agro-industries who buy inputs from farmers, to protect themselves from possible adverse price changes.

"Although it is unlikely that a large number of individual farmers will participate in the commodity exchange directly, their agents, co-operatives and commodity brokers will probably fulfill this role.

"The establishment of a futures exchange for agricultural commodities provides an important means to manage price risks. This is important to financiers as the current deregulation process naturally leads to uncertainty and affects farmers' creditworthiness."

But Mostert warned that overseas commodity markets showed that a futures market could not remove all price risks.

"Farmers will still have to play an active role to get the best possible price for their products. They will have to strengthen their marketing skills considerably to ensure that marketing risks remain manageable."

He said Safex would have to ensure "absolute transparency in price forming."

Absa launches New Bank

(58) Sowetan 13/7/95

ABSA has followed on the footsteps of competitors and is about to launch its low income market division called New Bank. The bank is headed by former Nedcor employee Mr Mutle Mogase.

Mogase was part of the black consortium that led to the formation of the Real Africa group.

ABSA (58) FM 14/7/95

Needs more improvement

Activities: *Banking, insurance and financial services.*
Control: *Universa (Pty) 25%; Sanlam 25%.*
Chairman: *D C Brink. MD: D C Cronjé.*
Capital structure: *565,8m ords Market capitalisation: R7,87bn.*
Share market: *Price: 1 390c. Yields: 3,5% on dividend; 9,8% on earnings, p/e ratio, 10,2; cover, 2,8. 12-month high, 1 450c; low, 850c Trading volume last quarter, 9,5m shares.*

Year to March 31	'92	'93	'94	'95
Total assets (Rbn) ..	56,2	82,5	86,0	99,5
Advances (Rbn) .. .	42,2	64,4	69,3	82,7
Deposits (Rbn)	48,9	71,3	74,3	87,6
Attributable (Rm) .. .	491	684	666	774
Return on assets (%) .	0,95	0,87	0,82	0,86
Return on equity (%) .	16,3	14,7	12,9	13,5
Earnings (c)	108	121	118	137
Dividends (c)	39,5	43,5	43,5	49,0
Tangible NAV (c). ..	695	872	958	1 076

Now that Absa's post-merger recovery seems well on track, SA's largest banking institution will need to concentrate on a few key areas to get in line with the industry.

This will take time. Chairman David Brink says two years remain of management's initial five-year deadline to achieve total integration of Absa's component parts. But it is vital that there should be no backsliding after the encouraging results for financial 1995.

Before Absa can be considered on a par with the three other large commercial banks, it will need firmer profitability ratios. Return on assets and equity improved over the preceding period but have some way to go before reaching former levels (see table) or approaching the returns shown by other banks.

It's important, though, that the declining trend of previous years has been reversed. What can Absa do to make these ratios better? Executive director Alwyn Noëth points to a number of areas. One is that Absa's bad debt situation has been "normalised."

Absa's Cronje ... *wants to maintain the bad debt ratio*

The 33% reduction in bad debt to R489m was a major factor in the 24% increase in pre-tax profit and for this reason may be seen as an exercise in smoothing earnings. But, to be fair, the reduction in bad debts to 0,64% of advances brings Absa below the industry norm after being way above it in previous years.

Noëth notes that bad debts are part of commercial banking and fluctuations in provisions should be seen in perspective.

Group CE Danie Cronjé says the aim is to maintain the ratio around this level, pointing out that, with Absa's higher weighting of assets in home loans, the bank can focus on a ratio lower than that of the rest of the industry.

The second way of improving returns, says Noeth, is to continue growing advances at least in line with, or better than, the market, possibly regaining some market share. Absa's 19,4% increase in advances, much of which accelerated through the second half and into the new financial year, was undoubtedly the highlight of the results.

But Noèth says emphasis will also be placed on other income, which in financial 1995 grew at a relatively slow 9% to just over R2bn, by concentrating on fee and trading income.

Absa is handicapped here to an extent by high exposure to home loans, though there is scope to grow market share in corporate banking and international activities.

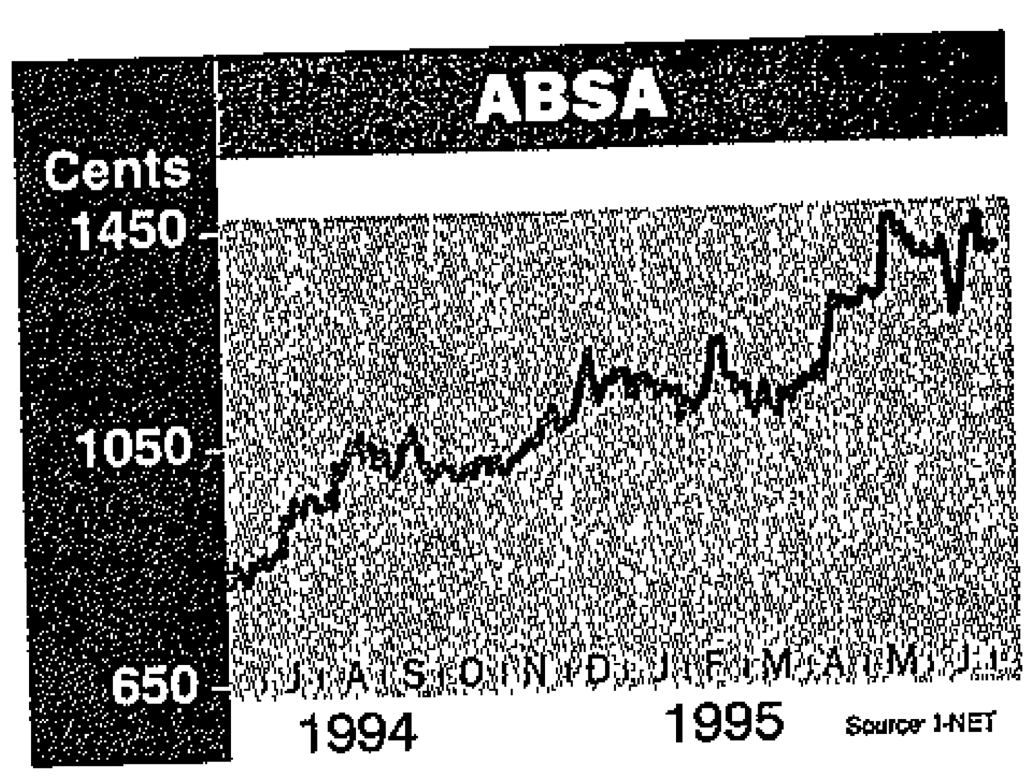
"We have a lot of corporate clients but find they tend to use us selectively — we are not getting their total business," Noëth says. "We will therefore focus on building corporate relationships to get a larger slice of their business."

Income from offshore developments should rise with Absa's expansion overseas, especially the acquisition — effective since May — of German private bank Bankhaus Wölbern, which focuses on trade finance and corporate clients.

Capping operating expenses will also strengthen return ratios. The 13,6% increase shown last year reflects substantial investment in technology as Absa continues to integrate systems among banks. Marketing and advertising expenses also grew as Absa's retail banks aggressively chased market share.

Cronjé also notes that, with the previous period's R103m pension holiday, expenses were distorted. Stripping out the effect slows growth in expenses to 10,5%.

Spending on technology will remain high for the next two years as Absa completes its systems integration. Noëth won't disclose projected costs but they will be substantial. That means all other operating expenses will have to be monitored closely.



Another area which could receive attention this year is Absa's capital adequacy ratio — at 8,5%, not much above the minimum requirement of 8%. Noëth says capital — strengthened by capitalisation dividends — is sufficient for expansion in the 1996 year.

"We have ample scope to increase the capital base by raising secondary capital and, though we feel comfortable with our present ratio, we may supplement capital this year," he says.

It's likely that Absa Bank will issue convertible debentures, with rights of conversion in favour of Absa, as it did in the past.

The share has been rerated favourably

PROVIDING THE GROWTH

	1994		1995	
	Rm	%	Rm	%
Retail banking	376,3	56,5	530,4	68,5
Wholesale banking .	120,1	18,0	121,0	15,6
Total banking	496,4	74,5	651,4	84,1
Insurance	142,1	21,3	114,1	14,7
Other	27,9	4,2	8,8	1,2
Attrib income	666,4	100,0	774,3	100,0

'Financial skills shortage in govt'

(58) BD 19/7/95

Adrian Hadland

PRETORIA — SA was suffering from a critical lack of financial expertise at all levels of government, a conference on democratic constitutional development heard yesterday.

Finance deputy director-general Maria Ramos said huge human resources were required to wind down the accounts and structures of the previous political and financial dispensation and replace them with new institutions and arrangements.

An enormous demand had developed for financial skills at all tiers of government, she said.

"If the problems we are encountering at central government are anything to go by, provincial and local governments are suffering the same difficulties."

Finance ministry advisor Cyrus Rustomjee said the new constitution was being written at a time of wholesale institutional change.

This suggested the constitution would have to evolve over time to take into account the functioning and efficiency of new structures and the availability of skilled personnel.

An example was the auditor-general's office, he said.

It had been agreed during Constitutional Assembly discussions that auditor-general functions should be extended to the provinces. "But there was simply not the capacity at this stage." As a result, the concept of provincial divisions of the auditor-general's office had been put on the "backburner".

ANC MP Johnny de Lange said the expansion of SA's human resource base required careful attention.

The constitution perpetuated the problem by permitting only elected politicians to become provincial executive committee members, he said. In provinces suffering a skilled personnel shortage, alternative arrangements should be possible.

The constitution prevented central government from intervening when a provincial government was experiencing financial difficulties.

A supervisory body should be established to assist provinces with financial problems because of a lack of adequate skills, said De Lange.

General Affairs Minister Chris Fismer, left, and Lotteries and Gambling Board chairman Prof Nic Wiehahn at yesterday's announcement of the board's recommendations to government on the lotteries and gambling industries. Picture: NICKY DE BLOIS

Lion Match incensed over Turkish-made counterfeits

BD 19/7/95

Nicola Jenvey

DURBAN — The Lion Match company has obtained an interim court interdict restraining a Johannesburg-based importer-exporter from distributing Turkish-made counterfeit Lion matches, MD Terry Turner said yesterday.

This followed a swoop by the Durban and Port Elizabeth SA Police Service commercial branches which uncovered an import scam involving consignments of more than 19 million boxes of matches supposedly destined for Lesotho.

The court order restrained importer Abdul Mitha of Lenasia from using the Lion Match trademark, in terms of the Trade Marks Act.

Turner said the counterfeit variants were "notably different" with black match heads instead of brown and a white inner tray instead of the regulation blue.

The increase of trade law infringements has resulted in a draft Counterfeit Goods Bill.

The respondents have until August 7 to show cause why the order should not be made final.

Bank expected to cool economy

CT (BR) 20/7/95 (58)

By Derek Tommey

First National Bank's group economist, Cees Bruggemans, foresees further action by the Reserve Bank to restrain the economy from overheating in the coming months.

Overheating, he says, could result in an even further increase in interest rates and could push up the prime rate to over 20 percent.

"The latest interest rate increase will not kill the economy's underlying momentum, nor restrain inflationary pressures adequately," he says in Rand Focus, the newsletter issued by the bank.

As a result, he expects a further interest rate increase in November after the elections or in February ahead of the Budget or, at the latest, by mid-1996.

"The commercial banks' prime interest rate of 18,5 percent could peak above 20 percent in the next 12 months."

When the Reserve Bank increased the Bank rate at the end of June, it showed considerable transparency about its views and objectives, the report said.

Four considerations were presented. These were:

☐ The economy has acquired an underlying momentum that will be considered with much greater awareness;

☐ The inflation cycle is already well advanced, yet the Reserve Bank remains determined to restrain it;

☐ No political pressure "of any kind" is being exerted on Reserve Bank management by "senior" political leadership; and

☐ Political developments later in the year are unlikely to discourage the Reserve Bank from taking action if the economy requires it.

Referring to the Reserve Bank's decision to increase the Bank rate at the end of June — after saying a week earlier that conditions did not warrant such a move — Bruggemans said the decision was probably made because of the high money supply data for June.

The figures showed M3 rising by 15,8 percent and private credit by 19,5 percent. He said also the Bank was probably affected by the reactions of the private sector to the so-called slowing in the economy.

Bruggemans said the consumer price index in June had understated the rise in inflation.

Volatile costs

When food was excluded from the index, it showed an average increase in prices of 8,5 percent in the first half of this year. While technically correct, this understated the build-up on the margin, he said.

If volatile food and housing costs are ignored, the remaining 60 percent of the CPI index had troughed at a 5,7 percent average rate (monthly annualised) during the second half of 1993. But it had averaged at 7 percent last year and, in the first five months of this year, it had averaged at 11,5 percent. A similar process was under way in producer prices inflation.

While the labour market has quite clearly not overheated yet, change has been under way there as well. Staff turnovers have been rising with average remuneration rising 9 percent in 1993, 10 percent last year and above 11 percent so far this year.

Banks to relax lending criteria

CT(BR) 20/7/95 (58) (483)

By Maggie Rowley

Property Editor

The banks are to temporarily relax their new controversial lending criteria for low-cost housing in an attempt to help kick-start the mass housing programme.

Piet Liebenberg, the chief executive of the Council of South African Banks (Cosab), told an Investment Analysts Society meeting in Cape Town yesterday that negotiations with the government and the home building industry were continuing, but an official announcement outlining details was expected later this week.

He said it was hoped that the relaxation of lending criteria by the banks for six or nine months would give the home building fraternity time to deliver affordable products and, in the short term, facilitate the housing delivery process to get off the ground.

Lance Edmunds, the general manager of housing at Cosab, said in an interview following the presentation that it was likely that among other measures, the 20 percent deposit now being required from low-cost housing bond applicants would be reduced to the previously required 10 percent until January, or possibly even March next year.

Liebenberg emphasised that the relaxation could only be a temporary measure as the new lending criteria, based on commercial risk factors, would eventually have to be adhered to if the banks were to be able to re-enter this market in a "sustainable fashion".

Under the new lending criteria, which were negotiated by the government and which came into effect on June 1 this year, many of those who would previously have qualified for home loans in terms of affordability were no longer able to.

Liebenberg said that while the banks had received bond applications for houses in the R50 000 to R70 000 bracket, very few, if any, applications had come from those earning less than R3 500 a month.

It is this sector of the market which has been targeted by the government for its once-off capital subsidy scheme, with the banks prepared to lend to the top 30 percent of earners within this bracket.

INFORMATION

'Virtual banking' now a reality

BD 20/7/95 (58)

Melanie Sergeant

SA's banks are scrambling to fend off potential competition for retail customers, and the "virtual bank" is on our doorstep.

With FirstDirect and BarclayCall already making strong inroads into retail banking in Britain, local banks are keenly aware of the market research being conducted by some foreign competitors into the viability of setting up "virtual banks" in SA.

Standard Bank launched the test phase of its virtual bank in May, and other major banking groups are believed to be extending their services to launch fully fledged phone-based banking operations soon.

Nedcor's Andre Meyer says: "We already have competition from foreign banks in the corporate sphere, and the virtual banking concept is obviously attractive for would-be new entrants, because it can be implemented without the traditional bricks and mortar infrastructure of a bank.

"Services can be provided via ATMs and telephones because of the convergence of information technology and communications technology, which allows the provision of very cost efficient services."

Standard Bank's sales development manager Alan Samuels says the future of banking lies in the virtual bank concept.

In a new report from Ernst & Young, virtual banking is described as "a process in which a bank delivers products to the customer by co-ordinating the contributions of different companies".

The report explains that the trend towards virtual banking is the result of fast-developing technologies which have spurred a trend towards "disaggregation" — a breaking apart of bank operations.

The report says: "Bank products are now being created by many different companies, ranging from technology companies to third-party processors and even other banks."

It says virtual banking is not an absolute: it is a direction, and this year most banks worldwide are moving towards the virtual bank of the future.

Samuels says his view of the virtual bank is one where "everything relates to everything else, so everything a customer does with the bank interrelates".

"Essentially, all delivery channels are linked together into a single entity, with clients able to interact with a person, or even with an ATM or bank-by-phone service," he says, adding that the emphasis is on having bank services available anywhere, anytime.

AutoActiv ATMs are being placed in the bank's ATM centres and in shopping malls, fitted with touch screens and geared to work as "electronic brochures".

"The virtual bank is not located at any single physical place, and we are in the early stages of piloting a phone bank, with a system available anytime."

In the pilot project, which involves certain customers who have been invited to participate, transactions are performed after the customers register and identify themselves over the phone.

"A range of transactions can then be performed, with a consultant at the end of the line.

"This takes our Tom bank-by-phone system one step further, because there are added services and facilities, and a consultant on tap to handle any transactions which are out of the ordinary, or to give advice," says Samuels.

He says that as customers demand more services out of ordinary banking hours, so the virtual bank makes sense.

In the US, some estimates show that almost 40% of transactions are taking place electronically.

FNB assistant GM of banking Edgar Blomeyer, like Samuels, argues that transaction costs are not the most important facet of a virtual or phone-bank. Service is more important.

"We are still looking at the dynamics of the market before setting our fees," says Samuels.

Blomeyer says the virtual bank is unlikely to bring about a war in service fee levels.

"Fees will probably be similar to those charged today, but clients will have much more convenience, avoiding the hassle of paying bills by cheque or other traditional means, for example.

"Already customers don't need to go to banking halls for many transactions. All they need do is phone a toll-free number."

Commercial Union cuts losses

(58) Star 21/7/95

BY LLEWELLYN JONES
STAFF WRITER

Insurance group, Commercial Union, should show a strong turnaround in earnings for the six months to June when it reported interim results in early August, analysts said yesterday.

"In the same period last year, Commercial Union Insurance reported an underwriting loss of R21,4 million in a year dominated by rising crime," an analyst said.

"But the company was able to reduce those losses by the year end through rate increases and placing a clamp on marginal business."

Commercial Union Life was expected to show constant solid growth in recurring premium income and investment income.

After Commercial Union published a cautionary announcement earlier this week, there was speculation that Absa would sell its 30 percent stake in the company to its British-based parent.

Commercial Union has risen steadily since touching an annual low of R16 at the end of February, and is trading at R22,50.

Gordon sells Sun Life for R1,5-bn profit

(58) Star 21/7/95

By Business Staff

In a deal that will rock Britain's troubled insurance industry, Liberty Life last night agreed to sell its 50 percent stake in Sun Life, which is one of Britain's largest insurance companies.

The buyer is the French group UAP, owner of the other half of the company, which will pay TransAtlantic Holdings, Liberty's principal overseas operating subsidiary, the sum of £527 million (R3,045 billion) for its shares.

This will give it a profit of £260 million (R1,5 billion) on its original investment.

The agreement marks the end of a 15-year campaign by Liberty's founder and chairman Donald Gordon to gain control of Sun Life, but also the beginning of a new phase in the group's expansion in overseas markets.

Speaking from London last night, Gordon explained that TransAtlantic planned to use the money to build a major business in the international savings and investment industry, free from the compensation problems which are currently inflicting savage damage on the British insurance industry.

Following the sale and the cancellation of some 40 million TransAtlantic shares owned by the French, TransAtlantic will have cash resources of about £450 million at its disposal.

"Our money is going to be of inestimable value," said Gordon. "No one is prepared to put this sort of money into an insurance business in the UK."

The agreement will come as a surprise to followers of Gordon and Liberty, who expected the South African group to buy out the French.

But Gordon in recent months had changed his mind and turned seller instead of buyer, largely because of the deteriorating condition of the UK industry.

"In the end we negotiated a deal which was fair and reasonable," said Gordon. "We think it is good for both parties – the French are happy and we're happy. After all, we emerge with a profit of R1,5 billion — that doesn't happen every day in South African business."

Under the agreement, TransAtlantic will repurchase 40 million of its own shares at 320p, for a total of £128 million, while Liberty will buy the French company's remaining shares and convertibles for another £122 million.

The French thus get £250 million for their TransAtlantic shareholding, leaving them with a net £275 million to find to complete the deal.

The immediate effect of the agreement will be to lift Liberty's stake in TransAtlantic from 57,6 percent to 68,5 percent.

Commercial Union reduces losses

By Llewellyn Jones
Staff Writer

Insurance group Commercial Union should show a strong turnaround in earnings for the six months to June when it reports interim results in early August, analysts said yesterday.

"In the same period last year, Commercial Union Insurance reported an underwriting loss of R21,4 million in a year dominated by rising crime," an analyst said.

"But the company was able to reduce those losses by the year end through rate increases and placing a clamp on marginal business. It should experience the full benefit in the first half of this year."

Commercial Union Life was expected to show constant solid growth in both recurring premium income and investment income.

After Commercial Union published a cautionary announcement earlier this week, there was speculation that Absa would sell its 30 percent stake in the company to its British-based parent.

"With its holding in Sage, there is no logical reason for Absa to hold on to its stake in Commercial Union and the British parent has a pre-emptive right to purchase should Absa sell," an analyst said.

While he could not comment on the negotiations, Roger Wanless, the new managing director of Commercial Union, said rumours regarding Absa's stake in Commercial Union had been circulating for some time.

Commercial Union has risen steadily since touching an annual low of R16 at the end of February, and is trading at R22,50, its highest level this year.

(58) CT(BR) 21/7/95

Bank's R20,1m loss 'is greater than expected'

BD 21/7/95

Samantha Sharpe

(58)

THE Community Bank's R20,1m loss for the eight months to March, following its registration in July last year, had been greater than expected, the Mutual Bank said in its latest annual report.

Chairman Yunus Mahomed said initial capital — the bank was capitalised by loans from the Development Bank of Southern Africa, the Industrial Development Corporation, the Independent Development Trust and SA's five largest banks — was received later than budgeted.

This, and the higher than expected costs of the bank's information systems, were primary causes of the loss. But steps were being taken to keep expenditure within budget in the next financial year, he said.

Mahomed said he was encouraged by the government's commitment to eliminate crime and address the rent and other boycotts through operation Masakhane and other initiatives.

"The determined crackdown on crime will improve our ability to extend our banking services. The attack on the 'culture of entitlement' and the promotion of self reliance creates a positive climate for saving and lending."

Community Bank MD Archie Hurst said there were encouraging signs that lending was on the increase.

"At March 31 a total of R2m had been paid out on housing loans and a further R17m had been placed on commitment."

He said the Community Bank had also embarked on a small business lending project and had secured a guarantee from USAid to support its activities in this area.

The bank, which requires all those taking a loan to demonstrate their ability to meet new commitments by saving for about nine months, reported a surge in its shareholders to 6 882, Hurst said.

He said Community Bank's priority was to set up a head office with staff who had the required skills to lay the foundation for the branch and computer networks.

"The financial effect of incurring these costs prior to the receipt of the capital and therefore no income until late in 1994, resulted in a drain on the bank's capital.

"After acquiring fixed assets and incurring operating losses we have invested R101m in gilts with short-term maturity dates to hedge the potential loss which could arise with interest rate increases."

The bank had established branches and outlets in Gauteng and the Western Cape, with a branch and outlets in the Eastern Cape on the cards, he said.

ST

BIG DEALER . . . Liberty-TransAtlantic's Donny Gordon, who is poised for greater glories following the sale of his group's share in Sun Life

Liberty free to flex new muscles

(58) ST (BT) 23/7/95

By JOHN CAVILL: London

ARMED with £450-million in cash, Liberty Life, via its British arm TransAtlantic Holdings, is poised for a major new international move. This follows the sale of 50% of Sun Life to TransAtlantic's partner in the British life group, Union des Assurances de Paris.

"We've got a lot of muscle for an acquisition or for starting a greenfield business," said Donny Gordon, chairman of Liberty-TransAtlantic.

"We could put £700-million up — and more if we issued shares. It gives us a capital base second only to the Pru (Prudential, Britain's biggest life company).

"I'm feeling very relaxed. A profit of over R1,5-billion is not to be sneezed at and it doesn't happen every day in corporate South Africa."

Mr Gordon said TransAtlantic was looking at several options. These included starting an investment oriented life company focused on a few major products, or taking over a group which could be "turned around".

"We also like the look of North America. Its life industry has its own problems but they are not as bad as in Britain, although the tough times here are throwing up good opportunities," he said.

The damage caused to the UK life industry by heavy regulation and adverse publicity arising from the mis-selling of pension schemes — which could present insurers with a £3-billion compensation bill — bit deeply last year. While regular annual premium income of life companies rose by just over 5% to nearly £21-billion, single premiums slumped 17% to £20,4-billion.

"Costs have also been rising steadily, diluting margins," said Mr Gordon. "We and UAP felt that to get a grip on the situation, it would be better if Sun Life had a single owner.

"TransAtlantic would have bought out UAP but I was not prepared to pay more than £500-million. So when, after negotiations, UAP offered more than our price, we accepted."

TransAtlantic will make a profit of £273-million (£260-million after capital gains tax) on the Sun Life sale against the historic cost of £254-million. As part of the deal TransAtlantic will buy back and cancel roughly half UAP's 20% shareholding in it for £128-million — at 320p a share against 343p on the London market on Friday.

Liberty Life will take the rest — raising its stake in TransAtlantic to 77% from 58%. But the extra shares will be offered to other stockholders on a pro rata basis (at 320%) which will eventually reduce Liberty's investment in TransAtlantic.

New financial instruments mooted to boost private investment in RDP

MI 24/7/95 (58)

Robyn Chalmers

NEW financial instruments, including a reconstruction and development bond, are being mooted by government-appointed working groups investigating how to boost private investment in the reconstruction and development programme (RDP) which would speed up delivery.

The proposals are linked to an agreement which was reached recently between government, business and labour on the need for an infrastructure investment accord to promote private sector participation in the field.

Confidential documents on ways in which such an accord could become workable — drafted by the finance department, Development Bank of Southern Africa, Actuarial Society of Southern Africa, Rand Merchant Bank and the Financial and Fiscal Commission, among others — showed a strong leaning towards the need for more appropriate RDP financial instruments.

The reports said large-scale RDP infrastructural investment funds were expected to be raised over the next five to seven years, largely through municipalities and parastals, and indicated that contractual savings institutions could be a major source of funding.

"The value of the assets of the contractual savings institutions totals approximately R550bn and the flow of new savings per annum to contractual savers is about R50bn. If only 10% of these assets was directed to RDP investments, much of the problem of the distribution of investment for publicly provided services and infrastructure to deprived communities in SA would be solved."

A voluntary framework would be necessary to ensure that retirement fund members and life offices perceived that their funds were invested in a safe and optimal fashion. As RDP investments could lack government guarantees, fixed repayments or a track record, an active secondary market would be essential to price them and ensure liquidity.

There was great potential for the development of markets in RDP loan stock if the capacity of the financial intermediaries to design and market financial instruments was harnessed. Provided the issue was big enough, RDP loan stock could "piggyback" on the highly traded RSA bond issues by offering bonds with similar duration to highly liquid RSA bonds.

RSA bonds could be used to manage interest rate exposure, while RDP bonds could be held as a core investment with a yield enhancement. As there was no dearth of infrastructural projects, it would be necessary to present investors with a range of choices for investment. "The decision to invest funds would be based on a regulatory framework limiting the risk in such a

Continued on Page 2

RDP bond

(58) MI 24/7/95

Continued from Page 1

way . . . that the ultimate cost of the product would not require an unacceptably high unit cost to the consumer, thereby avoiding subsidisation."

The reports said a disciplined approach to fiscal and monetary policy was a basic prerequisite for attaining RDP objectives on a sustainable basis. As current macroeconomic forecasts indicated a low economic growth scenario in SA, it was imperative that government formulated a growth strategy to improve revenue and provide greater room to manoeuvre.

RDP office human resource development and capacity building chief director Frank Meintjies said at the weekend that although delivery on RDP projects had been slow, the number of programmes was increasing. "Departments and provinces are forging ahead with putting RDP programmes on the ground."

The school nutrition programme was moving ahead well, new services were being provided from upgraded and mobile clinics at 25 sites countrywide, 489 projects had been approved under the community employment programme, training of small-scale farmers was on track and the land restitution programme was well under way.

Liberty unaffected 'for now'

(58) Star 24/7/95

■ BY LLEWELLYN JONES

The sale of Liberty Life's stake in United Kingdom-based insurer Sun Life to the French group UAP was unlikely to have any effect on Liberty in the short term, analysts said at the weekend.

Transatlantic Holdings, Liberty's principal overseas operating subsidiary, would have cash resources of about £450-million at its disposal following the sale and cancellation of 40-million Transatlantic shares held by UAP.

"The interest on this sum will not be significantly different from the return Liberty was making from its holding in Sun," an analyst said.

"Liberty was not made to give any indemnity against claims arising out of the shake-up in the UK insurance industry surrounding missold policies, and has done well in the deal."

He said the real question was whether Liberty had completely "washed its hands" of the UK insurance industry as Liberty chairman Donald Gordon seemed to indicate.

Analysts said Liberty had a couple of options through Transatlantic.

"They could buy a bank, given that banks are relatively cheap, or make a move to really put Standard Bank on the map in the UK in a major way," an analyst said.

But it was more likely that they would involve themselves in wider asset management or look to acquiring another life office other than in the UK because that was where their experience lay.

There has been earlier indications of a desire to get into the United States market, and the idea that Liberty could be looking to purchase a US insurance company should not be discarded, he said.

Liberty would probably purchase an insurance or asset management company rather than adopt a "greenfields" strategy.

"Name is everything in the investment business and it would not be realistic to start from scratch. Investors are risk-averse and suspicious and want to see a track record before making a jump.

"Starting from scratch would take a huge marketing effort to reach the critical mass required for a profitable operation."

ASSURANCE *We All Need it*

Medical Aid societies start life company

(58) sowetan 25/7/95

Bonitas chairman Professor Paul Luthuli heads newly-formed insurance company

BonLife chairman Prof Luthuli

A NEW LIFE ASSURANCE COMPANY headed by Professor Paul Luthuli was started at the end of last month by medical aid scheme interests.

One shareholder in the new BonLife is the predominantly black medical aid Bonitas. Others are Medscheme, the country's largest medical aid group, its subsidiary NMA Administrators and Sanitas, a medical aid with mainly Asian membership.

"Over the past few years, medical aids have found themselves facing competition from life assurance companies in the low-risk area of dread-disease and hospital insurance cover," says Luthuli.

"Now BonLife reverses that trend for the first time in Africa and presents the life assurance behemoths with competition in their own bailiwick."

He saw the success of similar new businesses in Canada.

In Bonlife's favour, he says, is the pressure for life assurance being applied by growing trade unions and the black middle class.

"We have a 400 000-strong start-up client base in the membership of the associated medical aids (178 000 in Bonitas), and 1,5 million beneficiaries. BonLife is already profitable by comparison with most 'life offices' which took five or six years to become so."

Luthuli said BonLife was not focusing on the already over-serviced market of middle-income South Africans — "they are among the most heavily-insured people in the world". Instead, it had flexible life assurance and employee benefit products for both the low-income and high-income markets.

Economically active

In particular, it wanted to provide "cost-effective insurance to people in the economically active community who, up to now, have been excluded from buying life assurance."

Adds managing director Chris Cunningham-Moorat: "BonLife is taking advantage of changes in our country which see life companies competing with traditional savings schemes such as stokvels and funeral societies."

It markets through medical aids, trade unions, employer associations, insurance broking houses and some individual brokers.

"This keeps operating costs to a minimum, so we can offer minimum monthly life premiums of R40 — compared with the R75 of other assurance companies.

"These low premiums open up a vast new market."

Almost 60 percent of BonLife's shares are held by Bonben Holdings, 17 percent by NMA Administrators, 10 percent by Sanitas and 6,8 percent each by Bonitas and Medscheme. Cunningham-Moorat is founder and managing director of Bensure Management Services, which is active in the management of medical aids.

NMA Administrators' subsidiary, NMA Fund managers, administers 25 medical aid schemes covering 250 000 beneficiaries while parent company Medscheme covers some 2-million beneficiaries in 60 funds.

Bonitas medical aid has a monthly income of R75-million, reserve fund of R268-million and 27,3 percent shareholding in Medscheme.

Luthuli is dean of the faculty of education at the University of KwaZulu-Natal and executive committee chairman of the Council for Medical Schemes.

Funeral benefits for your worker

EMPLOYERS these days face increasing pressure to improve benefits for employees. A real benefit for workers would be to provide funeral cover for them.

Sandile Mbili, managing director of Safrican, a leading funeral insurance company, points out: "Death in the family is an emotional and difficult time for people, cover for funeral expenses for workers and their families becomes even more valuable than other benefits such as pension or provident funds."

The worker or any member of his family could die unexpectedly, as a result of an accident at work for example. With the costs of a funeral for an adult currently at between R3 000 and R10 000, this could be a very difficult time to find cash at short notice.

As a result, workers often look to their employers for financial support during these difficult times. By providing funeral cover for the worker and his family, the employer will meet the needs of the worker and this in turn shows concern for his well-being. Another advantage is that this benefit can be provided at a reasonably low cost to the employer.

Group funeral insurance benefits offered by insurance companies like Safrican are similar to those offered by informal burial schemes such as stokvels. While stokvels are commonplace and popular, these could be higher risks since they are not as financially secure as insurance companies. Also, because these schemes are relatively small, contributions are normally higher in a stokvel and benefits lower. With an insurance company, not only are the contributions more realistic but also once a claim has arisen and the necessary documentation provided, prompt payment will be made so as to remove the financial burden from the employee.

A good funeral benefit plan provides adequate cover on the death of the employee or a member of his family. A funeral insurance plan ensures that when you, or a member of your family die, cash will become available quickly to cover funeral-related costs. Generally as is the case with the Safrican, claims are settled within 48 hours after receiving a certified death certificate and a claim form.

Who can be covered?

An employer can obtain cover for his employee, employee's spouse as well as their children under the age of 21 years. Cover for parents and parents-in-law could also be arranged, although this tends to be more expensive because of the ages of the parents of employees.

How does payment work?

Funeral benefits are often structured as follows:

Member funeral cash benefit R5 000
Spouse funeral cash benefit R5 000
Children (14-21) funeral cash benefit R2 000
Children (6-14) funeral cash benefit R1 000
Children (0-6) funeral cash benefit R500

In return for these benefits a contribution per member is payable, either by the employer as a benefit for his employees, or the amount is deducted from the employee's pay as it falls due.

According to Mbili, "to obtain funeral cover for a group of employees, it is advisable to go to a well-established insurance company so that you, as the employer, can be sure that you will get the best possible service and value for your money. At Safrican we are aware of the importance of providing quality service and we also understand benefits should be paid out quickly".

Funeral insurance has an important role to play and is becoming a widely accepted benefit for employees within developing businesses.

For more information on funeral benefits, please call Stanley Mnisi at Safrican on 332-6311. FR496

Now is the time to plan for your kids' university education

MANY people do not realise that the cost of a three-year university course in 12 years time is likely to be around R120 000, says Southern Life assistant general manager Graeme Lillie.

"At present the annual cost is around R8 000 but 12 years down the road — in 2007 — that's going to be R42 000, giving that seemingly unobtainable total figure for a three-year degree."

To help solve the problem for parents who want their children to have the best possible start in life, Southern Life has come up with an Education Provider life policy.

Lillie says this is how it works:

"Suppose you are 30 and have a two-year-old child.

"An initial premium of R105 a month, increased by 15 percent each year to allow for inflation, will ensure that you have that R120 000 in 12 years time. Remember that, as it's a life policy, the amount will also become available should you die or become disabled."

He advises that the sooner one takes out the policy and begins payment of premiums, the better.

"A single policy of the type described will cover university fees for only one child — and also not books and residence fees (should those be necessary).

"You should seek a guarantee that policies for other children can be added."

He emphasises the life assurance makes the best provision for all eventualities and is the most effective means of planning for children's education.

"Planning when children are young will make sure that sufficient funds are built up by the time they need to go to high school, a technikon or university.

"Their future is in your hands, because someone without education in today's world is shackled."

Sage Life reports rapid growth

By Ronny Tshabalala

Staff Writer

The current financial year started encouragingly with new business showing continued rapid growth, Bruce Ilsley, the managing director of Sage Life, said in the group's latest annual report.

However, the earnings growth pattern was expected to revert to a more consistent rate with that traditionally achieved.

"A major business and process re-engineering project was completed during the review period, aimed at maximising revenue and improving service levels and cost effectiveness.

"Encouraging early results have been achieved as reflected in the past year's achievements and major benefits in all all areas of business should follow," he said.

The company reported a 48,7 percent increase in earnings a share in the year to February and raised the dividend by 23,2 percent to 92c. Ilsley said that against the background of the success of the South African life assurance industry, it was regrettable that there were unresolved regulatory and fiscal issues. These were creating considerable uncertainty.

"Calls for total deregulation in the industry are patently unacceptable. However, moves to achieve greater transparency and disclosure of meaningful information will be welcomed, subject to the protection of the interests of all parties affected and ensuring that there is a level playing field encompassing all financial institutions."

ET (BR) 25/7/95 (58)

Arguments divided on plugging Usury Act loophole

(58) CT (BR) 26/7/95

By Ann Crotty

Act's exemption was designed for business loans and not the selling of household goods

An annual effective interest rate of over 500 percent appears iniquitous. That is, unless you own a spaza shop and it is Friday and you want R100 to buy bread stocks for the weekend.

Then the R105 you are prepared to repay on Monday will be more than covered by the mark-up charged on the bread.

So, the spaza owner has made a profit, the money lender has made a profit and possibly the shopper was not too unhappy about paying the mark-up because he was able to buy bread in his neighbourhood on a Saturday night.

The R5 repayment on R100 for three days represents an interest rate of over 500 percent, and many well-intentioned individuals would like to see money lending at these sorts of interest rates outlawed.

But outlawing this would involve cancelling a 30-month-old exemption to the Usury Act.

In December 1992, Derek Keys, then finance and trade and industry minister, provided for an exemption to the Usury Act to allow loans of less than R6 000 to individuals to be exempt from the requirements of the act.

This meant lenders could charge interest above the maximum rate stipulated by the act.

An unintended consequence was use of the exemption by retailers of household goods.

The issue has a sensitive political dimension — borrowers or consumers who pay these sorts of rates tend to be black and usually do not get a look-in at commercial banks.

Growing concern about abuse prompted Trevor Manuel, the trade and industry minister, to publish an intention to repeal the exemption in June last year.

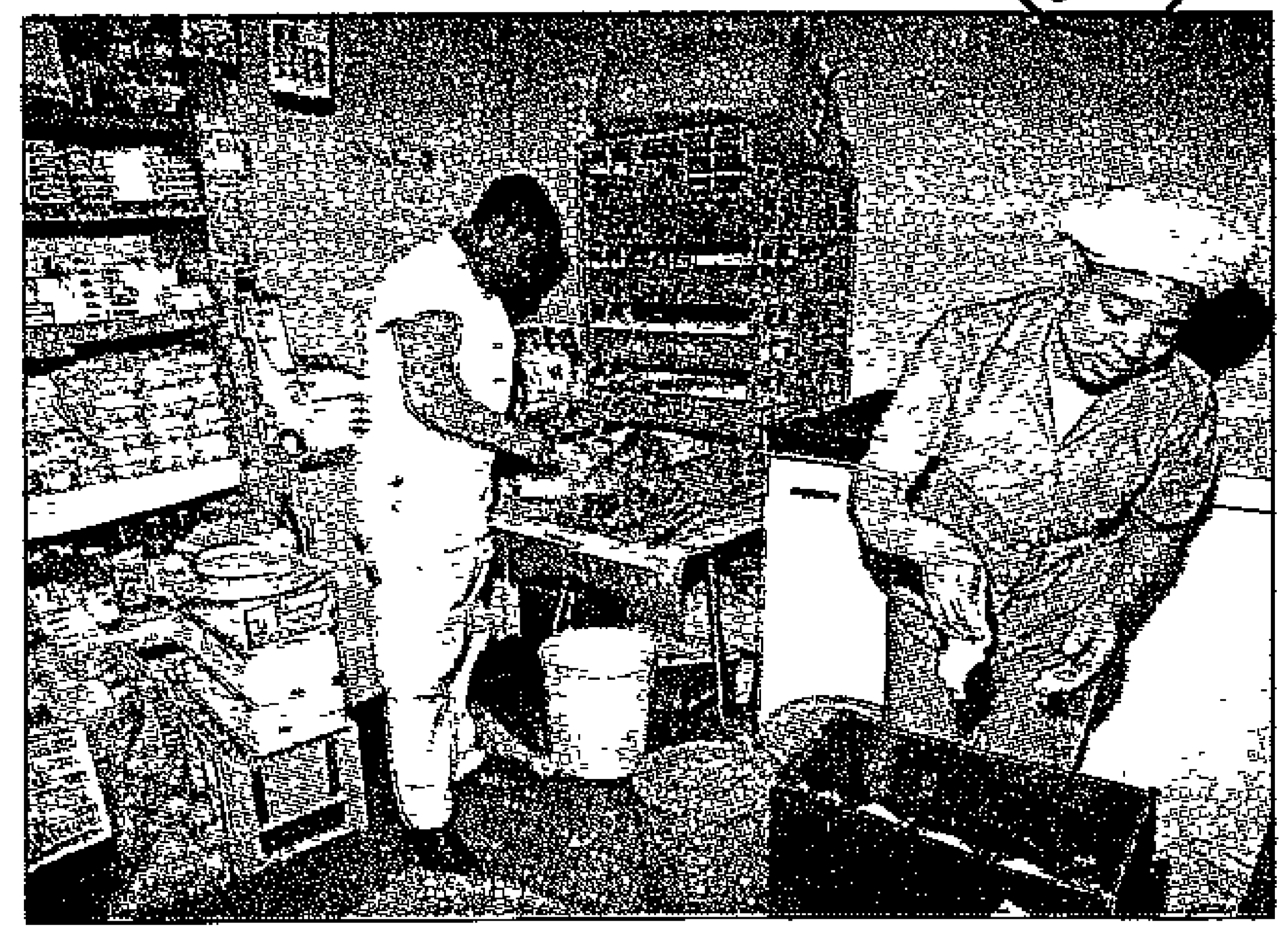
He was quickly inundated with representations from various institutions which provide credit in the micro-lending market.

These institutions have got together to form the Alliance of Micro-Enterprise Practitioners and are trying to persuade Manuel to look instead at the establishment of a code backed by monitoring facilities which would oversee the process of lending to the country's small enterprises.

The alliance's chief argument is that the most important consideration for the development of small enterprises is access to credit rather than the cost of credit.

As Cas Coovadia, the Community Bank CE, points out: "Institutions have to charge 30 to 40 percent to cover the costs of lending to small enterprises and also to micro-enterprises.

"If they are not allowed to charge at this level they will go out of business, and if they go out of business a lot of enterprises will go out of business too, or turn to much more expensive money lenders."



YES, THANKS *Spaza shop owners say borrowing money for a short period of time at high interest rates is worth the expense*

Manuel then decided he would not consider repealing the exemption until the promulgation of the Small Business Development Act.

The act, which is being formulated by his department and is expected to be before parliament early next year, will include provision for the financing of small and medium enterprises and micro-enterprises.

As John Rosin, the director of trade regulation and credit protection, notes: "The issue is whether or not to repeal the exemption and then put in some other concessions for small money loans."

He adds that the exemption was designed for small businesses and not for the purchase of household goods.

Manuel's major concern is consumer protection.

He is keen to clamp down on retailers, particularly those of furniture and white goods, that are bypassing the Usury Act by using third parties to provide finance for purchases below R6 000 — and in the process charging way over the limits imposed by the act.

It is impossible to establish which companies are involved and to what extent this bypassing of the act is happening. Individual retailers acknowledge it is being done — but by unnamed competitors. And it is impossible to draw any instructive conclusions on the matter from the information published by the listed retailers.

As Coovadia points out, if more formal methods of funding were available to low-income consumers, they could afford to be more selective about the finance packages that came with their household goods.

"If the financing opportunities available are increased, then the so-called bad guys can be undercut," he says.

Proposals for the new Small Business Development Act include the establishment of a wholesale financing facility which will provide funds that will be lent to small concerns.

This wholesale facility, referred to as Apex, will be funded in part by the Small Business Development Corporation with, possibly, some contribution from foreign governments. It will also include a national credit guarantee fund.

Apex will then provide funding to a wide variety of non-governmental organisations that are involved in financing small businesses, as well as to some banks.

What will have to be thrashed out by the various players, most of whom will feature on the National Small Business Council to be formed in terms of the act, is the level of interest rates to be charged.

Local and international research shows that the cost of servicing small businesses is considerable.

Coovadia and other alliance members make an excellent case for "full cost-recovery interest rates", stressing that 30 to 40 percent levels are not exploitative.

He suggests the monitoring role should be done either by the trade and industry department or by the alliance.

Coovadia believes the non-governmental organisation infrastructure is sufficient to provide finance for most small business funding requirements. If Apex does get off the ground, times could soon get tough for money lenders.

MIF cover given in Khayelitsha's Washington Sq

(58)

ARG 26/7/95

CHARLENE CLAYTON
Property Reporter

A PORTION of Khayelitsha, Washington Square, has qualified for cover under the Mortgage Indemnity Fund — opening up the opportunity for residents to obtain mortgage finance from banks.

Khayelitsha as a whole has up to now been excluded from cover by the fund.

The MIF is a mechanism to indemnify banks against loss where "a breakdown in the due process of law" bars them from being able to reposess houses where borrowers default on their loans.

It does not indemnify lenders against commercial risk and it is not available to bail out borrowers experiencing difficulties with repayments, according to a statement from the Mortgage Indemnity Board.

A further 24 areas were granted MIF cover nationwide at the last meeting of the board to facilitate lending by banks.

Four of the approved areas fall within the Western Cape. They are Blue Downs, excluding Delft and Mfuleni, Cloetesville, near Stellenbosch, Ocean View and Washington Square, on the edge of Khayelitsha.

According to a statement by the board, this brings to 82 the number of areas so far granted cover, and the total for the Western Cape 14.

Mortgage Indemnity Fund cover was required by lenders in areas "where extraordinary circumstances pertaining to the rule of law exist."

It was not required where banks were lending before June 5, this year.

A further 132 areas were being assessed and were likely to come before the board in August.

Decision had been deferred on 54 other areas and further submissions were being received.

A decision by the Mortgage Indemnity Board not to grant MIF cover to an area posed a challenge to government at all levels and to the affected community — the challenge of Masakhane.

The challenge to the community was to ensure that residents paid for their housing and services, looked after community facilities, worked with local police forums and other organisations to ensure respect for the law, assisted the sheriff in his work, and acted together to ensure that local government functioned effectively.

For the governments at national, provincial, and local level, a decision not to grant cover signalled the need to assist communities taking up the challenge to improve their situations by improving infrastructure, ensuring functioning local government, or improving policing.

SA Eagle trebles after tax profits

Star 27/7/95 (58)

BY CHARLOTTE MATTHEWS
INVESTMENT EDITOR

The short-term insurer, SA Eagle, trebled after-tax income in the six months to June compared with a year ago, after a substantial surplus on the realisation of investments compensated for the underwriting loss.

Gross written premiums grew by 9,7% to R707,4 million, as more stringent underwriting conditions have been applied in the last few months. These requirements, together with premium increases, have helped reduce the underwriting loss to R22,6 million for the six-month period, compared with R43,1 million in the same period last year.

According to the directors, trends in the past few months have been encouraging and, if there is no further escalation in the crime rate, the underwriting loss for the full year is expected to be significantly lower than last year. Investment income of R148,9 million was made, including a R105,9 million surplus on the realisation of investments.

The company has almost completed its programme to adjust its equity holdings and expects no major surpluses in the second half of the year.

Jim Carter, the general manager of finance for SA Eagle, said that with about 60% of total assets invested in equities at the end of December, the directors considered the company over-exposed to the equity market for an insurer, even though its higher solvency margin enabled it to hold more equities.

SA Eagle considered the equity market to be fairly well valued in international terms and its growth potential was possibly not what it had been.

The proceeds have been invested in interest-bearing instruments and helped to increase income by 10% last year.

After a small tax bill, net income came close to trebling to R124,9 million from R44,5 million, equivalent to earnings a share of 955,4c (365,7c). Excluding the surplus on the realisation of investments, earnings a share were 138,1c. The interim dividend was maintained at 80c.

'Insurance companies biased'

(58) Sowetan 27/7/95

Black panelbeaters suspect they are being deliberately discriminated against

By Mzimkulu Malunga

BLACK PANELBEATERS IN Gauteng allege that there is a deliberate strategy by insurance companies to give business to whites and push blacks out of business.

Insurance companies have a list of "approved panelbeaters" to whom they refer clients if their cars are involved in accidents, and black panelbeaters are normally not on these lists.

Some like George Camp of Camp's Spraypainters have applied to be included in this list, but were turned down on the grounds that they did not have proper equipment, qualified personnel or the capacity to deliver a quality job on time.

"Even in instances where clients insist that they want their cars panelbeaten by us, the insurance companies refuse them that permission," says Camp, who is also president of the Gauteng Black Panelbeaters Association.

He insists that he meets the criteria to be on the approved list. "When an assessor came to my place he told me the area was insured for fire and theft and never talked about the equipment or quality,"

Others, like Siza Nkosi of Zombodze's in Soweto, have approached the likes of Mutual and Federal to apply to be on their approved panelbeaters list, but have yet to get a reply.

Townships are not safe

Nkosi says some insurance companies say black panelbeaters, who want to be on an approved list, should move their businesses to town as the townships are not safe.

In instances where the owner of an insured car wishes to have the vehicle panelbeaten in a township, insurance companies are still able to find an excuse.

"They tell you that their assessors are afraid to come into Soweto for security reasons," says Nkosi.

Also, the assessors when they finally arrive, attempt to lower the price as much as possible so that the black panelbeater concerned finds it unprofitable to continue with the job.

If by some luck a black panelbeater gets a job to panelbeat an insured car, he will have to wait for up to three months to get paid.

Camp says discrimination has worsened since the new Government came to power. "It is so bad that some white panelbeaters are boasting to us that we will never get insured jobs in their life times."

Despite representations made to the Transitional Metropolitan Chamber and the Gauteng government, discrimination continues, says Camp.

Mutual and Federal assistant general manager Percy Grohovaz says in terms of the contractual agreement, insurance companies have an obligation to policyholders to deliver quality service on time.

Black panelbeaters who have applied to be on the approved list have been found not to have proper equipment nor the capacity to deliver jobs on time, he says.

In the past 18 months, says Grohovaz, his company has received two applications from "non-white" panelbeaters and neither of them fitted the company's criteria.

George Camp vows to fight to insurance companies to the very end.

Out of 40 approved panelbeaters, there is not a single black, but on the other hand there are a substantial number of black clients.

Under "normal circumstances", he says, the insurance company does not prevent a client from taking his car to a particular panelbeater, but the client concerned will be told that it is at his own risk.

The insurance company will therefore not guarantee the work.

Insurance companies in Aids hot seat

(58) Sowetan 27/7/95

Ten million, or 25 percent, in SA are expected to be HIV-positive by 2010

By Mzimkulu Malunga

APARTHEID MIGHT HAVE been a factor of life in South Africa for the past four decades, but it looks like in the next few decades Aids will be the major new factor of life. The question is, where does this put the insurance industry?

There is mounting concern that the industry is not handling the Aids issue in a humane manner.

Critics say while they understand the insurance industry's right to protect itself against Aids, they do not approve of the apparently arrogant way some institutions in this sector handle Aids.

There is no consensus yet on the number of HIV positive people in this country, but estimates range between a million and 1,5 million people.

Insurers are almost in agreement that 20 and 25 percent of people in the country could be HIV positive by the year 2010. This means more than 10 million people. Some people believe there should be counselling prior to and after a person has gone for an Aids test.

But insurers believe it would be too expensive to sustain pre-Aids test counselling. Metropolitan Life senior general manager Peter Doyle says the majority of the people who go for Aids tests are not positive, and if the industry was to counsel everybody with a policy worth more than R50 000, it would be far too expensive.

The industry issues almost a million life assurance policies a year.

With effect from the end of this year, says Doyle, life assurers have agreed to pay for after-test counselling for those who have tested HIV positive.

While it seems the industry could be beginning to listen to its critics, there are certain companies that do not fully disclose to clients the implications of what is termed an "exclusion clause".

The exclusion clause stipulates that if a policy holder dies of Aids, the company will not pay. In some insurance companies, even if a person goes for an Aids test, the exclusion clause stays on for the first ten years of the policy.

Another issue that could put more pressure on the industry to review some of its tactics when approaching the Aids issue is the banks' insistence that people take life policies first before their housing loans are approved.

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(58) CT (mr) 27/7/95

By Charlotte Mathews

Investment Editor

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The company said a 12,5 percent increase in incidents of motor theft and hijacking had been experienced but the value of these vehicles was 37 percent higher.

There was an unusual 33 percent surge in incidents of theft and hijackings in KwaZulu Natal.

There were no weather-related claims but SA Eagle's directors said they were apprehensive about the coming rainy season because drought conditions were often broken by violent storms and floods.

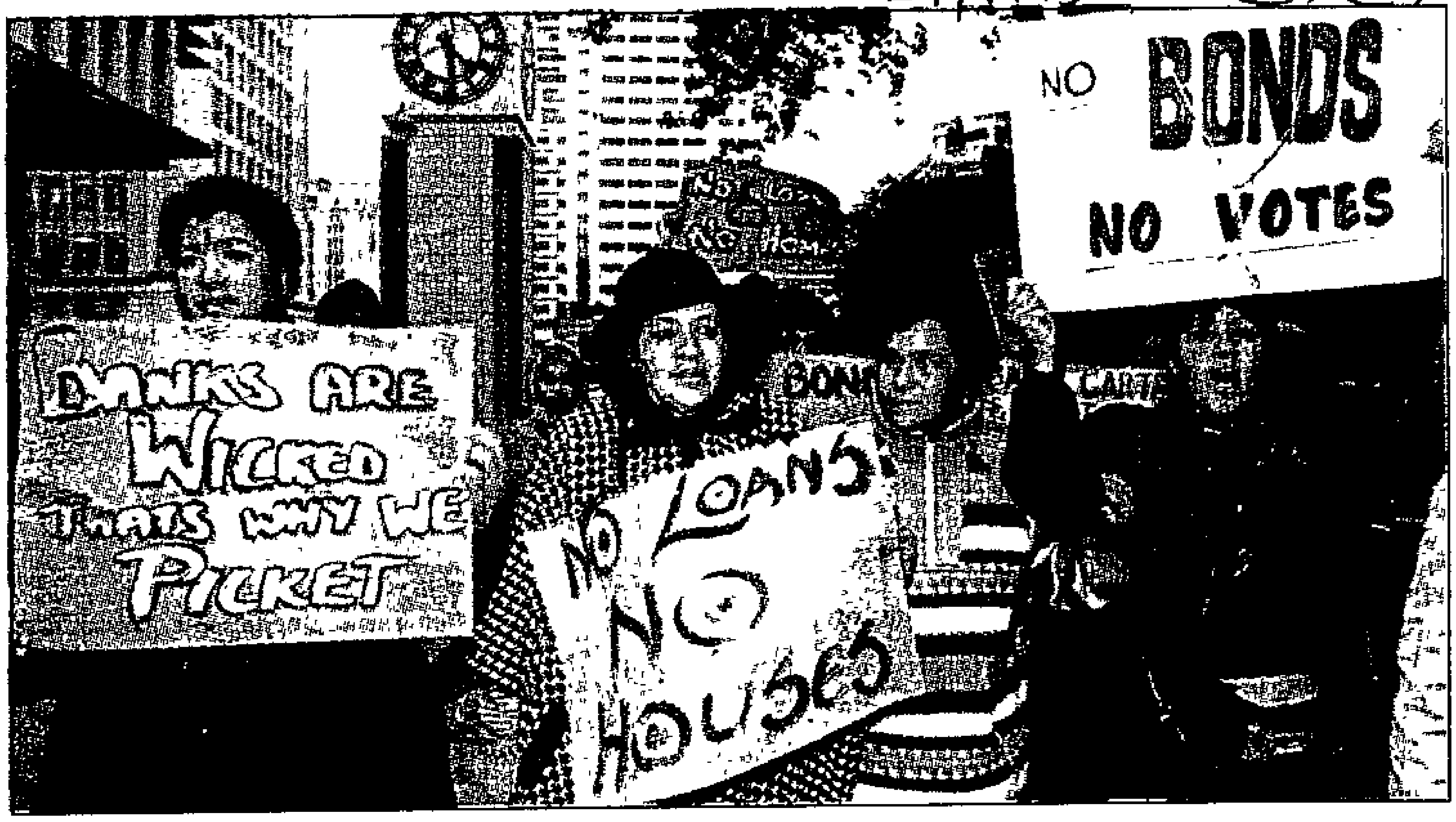
BUYERS HANDICAPPED

Mortgage scheme slated

CT 27/7/95 (58)

THE MORTGAGE indemnity scheme has almost halted the granting of bonds in some areas.

LINDIZ VAN ZILLA and **PETER DENNEHY** report.



LOAN CRISIS: Estate agents and residents picketed outside all the major banks in Adderley Street yesterday. They were protesting against new home loan criteria imposed by banks, which they say are severely handicapping home buyers in Kuils River, Mitchells Plain and Grassy Park. *PICTURE: ANNE LAING*

BANKS in Adderley Street were picketed yesterday in protest against the two-month-old mortgage indemnity scheme, which has severely handicapped prospective home-buyers in so-called high risk areas.

The Home Loans Action Committee, comprising estate agents and residents from Mitchells Plain, Grassy Park and Kuils River, were protesting against an extra 5% deposit required from anybody wanting to purchase a home in these areas.

The march took place despite an agreement by the Association of Mortgage Lenders on Tuesday to postpone the implementation of the policy until April next year.

The mortgage indemnity scheme, created in terms of an agreement between the banks and the government, was only supposed to provide cover against political risk.

Mr Johan de Ridder, chairman of the Mortgage Indemnity Scheme board, said the scheme had been aimed at unlocking lending in areas where it was not presently taking place. "But then the financial institutions said they wanted this even in areas where they are already lending," he said.

The scheme, which has been in place since June 5, requires home-buyers to pay a five percent deposit in addition to the regular 10%. Even state employees, who qualify for a government guarantee of 20% of the value of the bond, are not exempt.

The scheme also allows banks to assess the size of home loans for people in affected areas on the basis of a 22,5% interest rate.

Estate agents said because of this scheme, virtually no bonds had been approved in these areas since June 5.

Since the scheme has been put on hold until next year, normal loan criteria will apply until then.

Dubai-SA links

Absa takes root in fertile soil

(58)

BD 27/7/95

WHEN the Middle East threw open its trade doors to SA, local banks were determined not to be left at their starting blocks by trailblazing exporters.

Absa Bank sensed the Gulf was a good export market and fallow ground for SA banks.

As a major sponsor of the first SA exhibition in Dubai, Absa firmly staked its claim and has reaped the rewards.

The bank has forged relationships with about 200 banks in the Middle East and about 20 are in the UAE. Absa's area of influence includes markets in Syria and Iran.

Divisional head of international relations Smittie Smith says Absa's investment in the region has been well rewarded. "In the past two or three years business has increased dramatically. From our experience SA and the Middle East are quickly moving closer together."

Smith confirms that a number of Gulf banks have participated with Absa in syndicated loans.

He is especially enthusiastic about Dubai, which he says is the gateway to banking in the Middle East.

Credit cards may be a novelty in this part of the world but Smith says in the field of international trade, Dubai banks are "definitely up to standard. They're among the most efficient you will find anywhere.

"The infrastructure and telecommunications make it easy to deal with Dubai and do business with it."

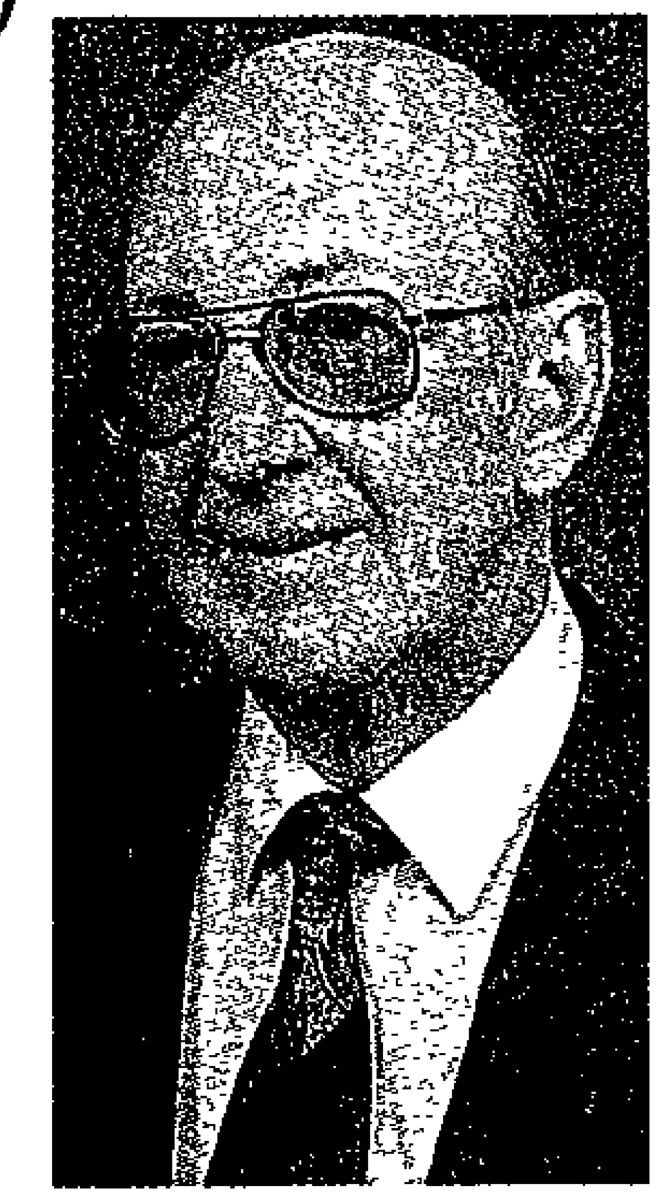
Dubai's 47 banks, of which a majority are foreign, have played a pivotal role in facilitating the emirate's growth over the past 20 years.

Trade finance remains their bread and butter and is the major interest of SA banks dealing with the region.

Absa is thinking seriously about establishing a permanent presence in Dubai but that is on the drawing board, he says.

So too, apparently, is Standard Bank's involvement. Last month it was reported in Bahrain that group economist Nico Czypionka said the bank was considering establishing an office in the Gulf at some stage.

Middle East regional representative Keith Thompson says Standard Bank has been active in Dubai for a number of years and has also forged close relationships with the major banks in the emirate and in Abu Dhabi.



SMITTIE SMITH

LIBERTY LIFE/SUN LIFE/FIT

Gordon adjusts his sights

(56) FM 28/7/95

The initial response indicated by First International Trust (FIT)'s share price to the sale of TransAtlantic's 50% of Sun Life was positive. Since the deal was announced last week, the share gained 75c to R12,75 early this week.

That halted a gradual decline in the price from a high of R21,50 a year ago. The FIT share has generally been an under-performer. The question now is whether the Sun Life sale will rejuvenate FIT — and have bullish implications for the broader Liberty group. The answer may have to wait for clarity on what chairman Donald Gordon plans to do now.

FIT is the vehicle through which local investors have direct access to Liberty Group's UK interests. FIT holds 37% of TransAtlantic Holdings (TAH); Liberty Life also has a direct 21% interest in TAH.

Gordon

One positive aspect of Gordon's decision to sell Sun Life, which could be influencing FIT's share price, is that, like TAH, the transaction raised FIT's NAV from R9,61 (at its December year-end) to R10,90. Traditionally, FIT has traded at a significant premium to NAV.

The sale and cancellation of about 40m TAH shares owned by Union des Assurances (UAP) should strengthen FIT's EPS growth, though this will be offset by the loss of FIT's share of the premium income generated by Sun Life, at least until the R1,5bn profit realised by TAH in the deal is reinvested.

London reaction to the withdrawal of TAH from the UK life market was that Gordon had done well to get out of a sector which is unlikely to see much good news for the next few years.

During the week that TAH finalised the £527m sale of its interest in Sun Life to UAP, the industry produced some horrendous first-half figures.

Top life group Prudential reported a 28% drop in sales of regular premium policies, with new single premium business down 25%. Britannic Assurance, too, fared badly with new regular premiums down 20% and single premiums halved.

The mis-selling scandal — under which people transferred lump sums out of occupational pension funds and into personal schemes only to find they would be worse off — has left the industry with compensation liabilities of between £3bn-£4bn. This, plus the new regulatory demands which followed, has severely damaged the life business.

Gordon, in TAH's last annual report, gloomily foresaw "negative repercussions well into the next millennium" even though "quality companies such as Sun Life will undoubtedly survive and even prosper."

Dual control, however, was not seen as the best way to manage the Sun Life ship through troubled waters — a single hand to grasp costs and margins was needed.

TAH would have been prepared to buy out UAP for up to £500m (the book value of its 50% was £413m and historic cost just £254m) but no more. When UAP topped that figure, it was accepted.

TAH will be free from any retrospective personal pensions compensation which might fall on Sun Life.

That leaves TAH with £450m in free cash plus bank credit lines of £250m to look for a new business in the long-term savings and financial services area. TAH is now a cash and property group (Capital Shopping Centres valued at £1,1bn and a commercial portfolio of £543m) which, temporarily, belies its place in the *Financial Times* life assurance sector.

Cancellation, at a cost of £128m, of 40m TAH shares held by UAP will enhance NAV to roughly 370p (against 315p before dilution). The deal helped TAH firm to 342p, about 3% below its 1995 high.

Gordon says TAH's war chest is enough to start a new operation from scratch. It also sees potential pickings among the wreckage of the UK life sector, though share prices have rallied from their 1994 lows — some by more than 50% on the view that the bad news is in the market.

This year the life sector index (FT Actuaries) rose nearly 29%, outperforming the market. It has retreated by 4% from the July 11 peak but at 2 746,5 is not far off the historic high of 2 921,4 reached in January 1994.

Nothing looks dirt cheap but there are groups which look well within TAH's range: Britannic, capitalised at £1,1bn, is of a comparable size but there is also the Refuge at £614m or London & Manchester at £418m.

But Gordon sounds more interested in North American prospects where life companies have their own problems, though these are not as bad as the British.

It is a view supported by analysts such as David Nisbet at NatWest Markets. He says: "Certainly, over the next two years, the North American life market is more attractive than the UK."

An acquisition in the North American life assurance or financial services market is a desire Gordon has repeatedly expressed for several years.

At the last presentation of Liberty's annual results, he said about six potential targets had been identified in the US and half of them were mutual assurers.

Adding to the speculation of a US acquisition is what a local analyst says is the under-capitalised state of some large mutual life companies in the US.

But Gordon is also referring to "greenfields opportunities." Local analysts say he could be considering starting a new company, probably in the US.

Liberty/FIT's UK property interests have proved to be sound investments but the UK property market is offering lower yields than, for example, a property trust fund in SA. The expectation of a major new international deal could add spice to these counters. *John Cavill and Shaun Harris*

MULTICHOICE/M-CELL

Cellular investment

Picture this investment scenario: A new company on the Venture Capital Market, listing with a taxed loss of R51,1m and expected to show development losses for at least two years and also likely to make a cash call to fund its 25%-share of R1,5bn expansion costs. Would you invest?

That's the share some investors will be holding in just over two weeks when M-Cell, the separated cellphone interests of MultiChoice (MCL), is listed on the JSE on August 14.

Judged against normal investment criteria, it does not look at all attractive. Yet in a few years M-Cell, which by then will probably be in a new sector on the main board, could be one of the JSE's high flyers if growth of the cellphone industry in SA comes anywhere close to the rapid growth seen overseas.

It's hard to fault the thinking behind the unbundling of MCL, which will be through a dividend in specie offering MCL shareholders an equal number of shares in M-Cell. It clearly divides the foreign TV interests represented by MCL's 40% stake in Nethold (with Richemont — see separate report) from local cellphone interests, which are a 25% interest in cellphone operator MTN and 60% of service provider M-Tel.

Though there are some similarities between the development phases pay-TV is going through overseas and the cellphone industry in SA, MCL chairman Ton Vosloo says that as the businesses develop they will become distinct in capital requirements, technologies and investment profiles.

This week, analysts were finding it difficult to value M-Cell. One valuation suggests MTN is worth about R1bn, excluding capital from the coming rights issue. That makes M-Cell's 25% interest worth R250m, plus a rough estimate of between R50m-R100m for M-Tel, suggesting a listing price around R1,30-R1,60.

When listed, M-Cell will have inherited its share of MCL losses, R51,1m after tax. It does, however, have assets of R112,8m, mainly the relay stations which underpin the cellphone network.

A rights issue of about R250m can probably be expected to fund its share of the R1,5bn MTN will be spending over the next two years to upgrade its network capacity and expand geographic coverage.

An advantage for local investors is that, unlike MCL's overseas TV interests, the rapid growth of the cellphone industry in SA can be more easily observed. Still, Vosloo warns that development of operations will result in losses for at least the next two years.

It's also possible M-Cell could be listed in a new main board sector. Because it does not have the required three-year profit history, M-Cell will initially be listed on the VCM. However, JSE president Roy Andersen says a new development stage sector is being considered, to house substantial companies that lack the required profit history.

"We obviously want to be as responsive as possible to companies that want to raise capital on the market but we must balance this with good investor protection," he says.

The possibility of the new sector was considered by the Listings Advisory Board this week.

M-Cell will be an investment in the potential of the industry in SA. That may sound vague and there certainly will be risk. But it's a blue sky investment with a proven track record overseas. *Shaun Harris*

FM 28/7/95

SAPPI

More than the price

After a whirlwind international road show, Sappi concluded a highly successful convertible bond issue (see *Economy & Finance*) last week. The seven-year bonds — priced just as the Dow Jones Industrial average tumbled 143 points — carry a coupon of 7,5% and will be convertible into Sappi shares at a price of US$20,85 (R76 at a fixed exchange rate of $/R3,645), a premium of 8,57%.

The $250m issue was four-and-a-half times over-subscribed, which raised the question of whether it was underpriced. Those involved deny this.

Says FirstCorp director and vice-president Stuart Jones: "They will build a book with a range of coupons and conversions at various levels and then work out an optimal price. The price was fair and reasonable to Sappi shareholders." SBC Warburg executive director Mark Katzenellenbogen says: "Either something works or it doesn't. And it's not simply a question of pricing."

Jones says US investors identified with the product. "Many were approached when (Sappi subsidiary) S D Warren raised money last year. Since they did well then, they were happy to sign on the second time round."

"Sappi sold its story well," adds Katzenellenbogen. "Also, because of the trend in interest rates, there is a significant demand for convertible paper. And global investors are underweight in SA securities."

The bond is trading in London at 101,5 points compared with the pricing of 100 which Katzenellenbogen thinks correct. "It's a fine art to get the right price for the issue so that it trades close to this price in the after-market," he says. "The small premium satisfies investors that there is a nice demand." *Margaret-Anne Halse*

REAL AFRICA

No loss of confidence

More than a week after Real Africa Investments (RAI) and Real Africa Holdings (RAH) published substantial downward revisions of earlier profit announcements, the share prices have shown no adverse reaction. Last Friday, RAI's price actually gained 10c, rising to 240c.

That eliminates any risk of investors who bought the shares based on the higher profit announcement making any claims for damages. As the shares did not fall on publication of the revised profits, nobody could claim to have suffered quantifiable damage.

The revised figures were well below those published in late June. RAH's earnings for the year to March 1995 were revised from almost R13m to R5,6m, RAI's from R17,3m to R6,4m. But these figures remained in line with the pro forma forecasts given in the prospectus.

RAI tends to be priced on a discount to NAV and there was no change in the balance sheet. What may also have helped to avoid loss of confidence in the share was the announcement, also at the end of June, of RAI's R90m purchase of a 30% stake in Lifecare, the largest privately owned healthcare group in SA. It has an option to acquire another 15%.

Shaw

All blame — and the accompanying embarrassment — for the errors was accepted by the group's auditor, blue-chip accounting firm Deloitte & Touche, which had been asked by RAI to prepare the original accounts.

Soon after the accounts were published, RAI's directors realised errors of principle could have been made.

The auditor was asked to recheck the accounts, with another accounting firm — KPMG Aiken & Peat — retained to review their compilation. This confirmed there had been three "material and fundamental" errors of principle.

Deloitte & Touche CE Martin Shaw says: "It was our fault and we're very embarrassed about it. The people drawing up the consolidation were acting as accountants and not as auditors. We should have sent in a different team to check their work. That will certainly be done in those circumstances in future."

It seems the only direct costs are the expenses of restating the accounts and the subsequent advertisements. Deloitte & Touche offered to cover these.

RAI group financial manager Willie Kruger says RAI wants to keep its administrative staff small and intends to continue to contract out the consolidation of its accounts while retaining internal reviews and controls. He adds that it's premature to say whether Deloitte & Touche will be retained in future. *Andrew McNulty*

STOCKS & STOCKS

Sound fundamentals

Dogged by controversy in recent times, Stocks & Stocks nevertheless managed to produce good results in the year to April. Turnover was up 11,6% to R1,49bn and attributable income rose 40% to R39m.

EPS rose 41% to 49c, slightly above expectations, and the dividend increased to 12c — which, covered four times, is a conservative payout. Shareholders may be disappointed.

Chairman Reg Edwards explains the long-term strategy as moving away from heavy dependence on construction to become "long-term holders and managers of top quality developed properties." Stocks

SOUTHERN LIFE

FM 28/7/95

Giving way to actuarial alchemy

Crucial aspects of the business remain hidden from outsiders' scrutiny

(58)

SA life assurers are notorious for their poor disclosure — a subject hotly debated even in actuarial society. Some aspects of disclosure have improved; the requirement that an actuarial review is published annually is one. But there is a long way still to go.

Southern Life's latest results are an example of how accounting practice can give way to actuarial alchemy. It is by no means alone in this.

First, group premium income which has risen every year since Southern was listed in 1985, fell in the year to end-March by 1,2%. Second, group net investment income declined in the year by 0,05%. Third, investment performance — as assessed by three firms of actuarial consultants — is lagging behind that of some competitors.

Yet, despite these declines, distributable earnings increased by 27% to R305,5m.

How was this increase achieved when income dropped? Southern MD Jan Calitz has plausible answers. But they don't change the conclusion that Southern's published results conceal anomalies that would not arise if life assurance companies were compelled to disclose, or at least clarify, how their results were obtained.

Until 1995, Southern's consistent rate of earnings growth of about 22% a year over 10 years had created the impression that it rides along a smooth, money-making highway which presents no risk. The same can be said of most listed SA life assurers. Yet the distributable earnings of UK insurers are volatile, one year to the next.

The salutary progress of SA assurers' earnings correlates with the generally strong advance of equities on the JSE, from 1978 to 1993. Equities have comprised a large slice of assurers' assets and have boosted their performances accordingly.

Southern's total premium income fell in 1995 largely because its employee benefits lump sum income declined by R497m (44,1%) against a rise of R373m (22,7%) in individual life premium income. Calitz says the drop in investment income was caused by a change in investment strategy which has not yet had time to justify itself.

But its investment performance is impairing its image and resulting in loss of business. The March quarter *Investment News* published by Ginsberg Malan & Carsons shows that while other portfolio managers handling pure pension fund discretionary business grew their asset values in the year ended March 31, Southern Life's (and Old Mutual's and Fedlife's) assets shrank.

The *Investment News* shows Southern was bottom of the log in returns achieved by the managers for the three years to March 31 (the universe average return was 16,8%; Southern's was 14,4%), bottom over five years (universe was 15,9%; Southern's was 13,3%) and over 10 years it was also bottom (universe was 21,8%; Southern's was 19,2%). Old Mutual was the second worst performer.

Calitz

First Bowring's managed fund investment performance survey for the quarter to March 31 reverses the position between Old Mutual and Southern. It puts Southern's Managed portfolio second from the bottom and Old Mutual last among performers over the three years.

In contrast with Southern's Managed portfolio, its SHOP portfolio ranked fourth out of 15. Another survey, often cited as the benchmark used by assurers to compare performance, placed Southern's Managed portfolio 22nd out of 26, but ranked its SHOP portfolio seventh.

Calitz described Southern's investment performance as creditable, especially considering the volatility of markets. He says the equity components of the various investment portfolios achieved good returns and outperformed the All Share index for the year to December 1994 by margins of 3%-8%.

As far as employee benefit clients are concerned, Calitz says 89% of clients enjoyed an average return of 20,2%, placing them within 0,4% of top quartile performance in latest available surveys.

He adds that, in anticipation of rising capital market rates, Southern's investment strategy involved selling longer-term stocks in the first quarter to protect the capital value of funds. The liquidity generated was invested in short-term investments, with the result that investment income suffered.

Chief financial officer and actuary Paul Truyens says individual life investment performance has improved over the past three to four years. As a result, he says, Southern has been writing more life business, which is borne out by the 32% rise in single premium life business and 15,7% increase in recurring premium business in 1995.

But this does not explain the 27% increase in distributable earnings.

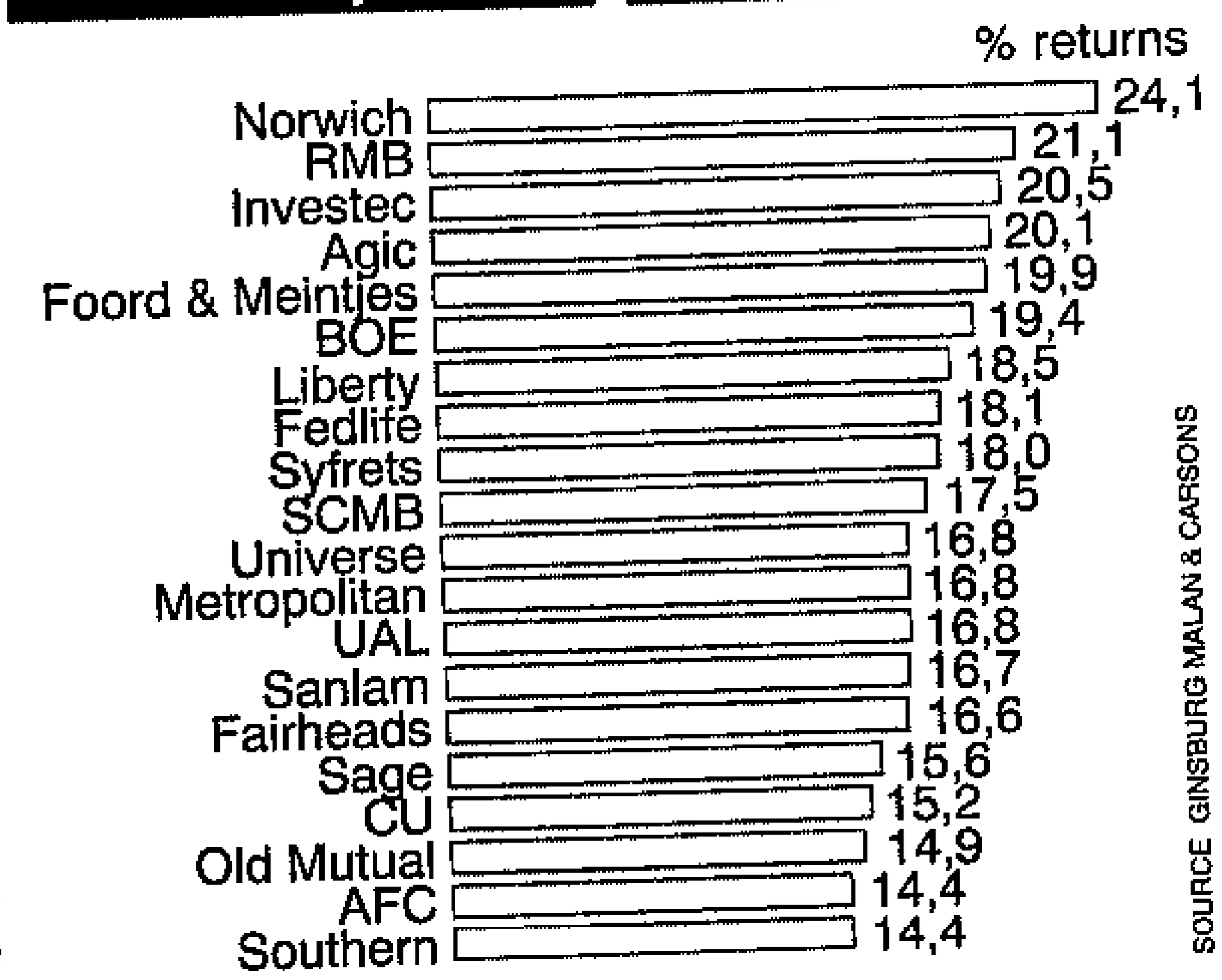
The problem is partly a matter of semantics because of a confusion which arises from the general understanding of the words "profit" and "surplus." Once a year assurers are legally obliged to calculate the "profit" arising from their activities. They derive it by deducting claims and expenses paid from premiums received. It is the excess of income over outgo. In this sense, profits arise from what has occurred in the past, not from what may occur in the future.

Says independent actuary Ron Howroyd: "When applied to a life insurance company this makes a nonsense of the annual accounts. In the past it has enabled companies that were trading at a loss, even those approaching bankruptcy, to show handsome earnings and to justify the payment of totally unearned dividends."

The calculation of the surplus, on the other hand, involves assumptions about the future and is derived from the excess of assets over liabilities — quite different from prof-

CONTRASTING INVESTMENT RETURNS

3 years to 31 March 1995



it. In calculating the surplus, the assurer's actuaries evaluate not only what has occurred in the past but what is considered likely to occur on all existing business in future. The surplus is sometimes referred to as the "estate" or the "free assets," and it resides in the capital account, in distributable reserves and in the life fund.

Southern was the first life assurer in SA to publish an actuarial review — a statement of actuarial values of assets and liabilities — in 1994. This review enabled anyone to see Southern's surplus.

But arriving at a life assurer's surplus is no simple matter. It involves assessing probabilities and their outcomes, which relate to the life expectancy of all policyholders, assessing probabilities and the outcomes of achieving specific returns from assets under administration in the life fund, and assessment of fee income derived from managing assets for outside parties like pension and provident funds.

A point of departure is the variation of assumptions by actuaries. They can change these when they believe it necessary, as long as they are consistent in the treatment of both assets and liabilities and the changes are disclosed. The surplus will rise or fall, depending on the valuation basis adopted by the actuary.

Until financial 1995, as in the rest of the industry, Southern valued some of its assets on a discounted cash flow basis. Assets backing individual and group policies which were fully linked or of a smoothed bonus nature have been valued at market value for many years. Southern now values all assets at market value.

Truyens says this revaluation had no impact on the income statement. Ignoring the revaluation, Southern's surplus rose (coincidently) by 22% to R3,29bn.

Actuaries value the liabilities according to assumptions that can vary the outcomes dramatically.

While big mistakes are occasionally made (vidé Crusader Life), Southern's surplus is undoubtedly professionally and competently derived and its actuaries are clearly comfortable with it.

Truyens explains it is not only profit and cash flow that influence the board's decision on how much distributable earnings growth to disclose. It is also the rate of growth of the surplus, which contains another "asset" all assurers have but which is not being disclosed by any assurer in SA. Actuaries refer to it as "embedded value."

Embedded value is inherent in policies under administration. It is the sum of the surplus and the profits which the actuary confidently expects will be brought to book in future, but which have not yet been released into the surplus through a disclosed revaluation of the assets. These "profits" reflect the margins on the various business that has been written. If margin is greater than expected, the company has not only written better business than it planned, it has also derived a greater (but as yet undisclosed) profit.

After release, these profits reflect in the growth of the surplus, but until they are released only the company knows about them or their extent.

Howroyd says: "Its use in calculating current earnings is open to the same criticism as can be levied against the use of future profits by any other commercial organisation, namely that the golden rule is: first make your profits; then distribute them. Don't reverse the order."

Howroyd . . . *make your profits first*

Truyens' explanation of the influence embedded value had on the decision to raise distributable income blurs rather than clarifies the distinction between profit and surplus. They are separate entities. The size of pre-release profit in the embedded value calculation influences the actuary on whether to increase, maintain or decrease policyholder reserves, distributable earnings and the transfer to life funds. Profit as defined by income less outgo is irrelevant — at least, in the short term.

In Southern's latest results the growth in embedded value — the hidden growth in margin — influenced the board to declare larger than usual attributable earnings.

An assurer's most critical area is its margin. Yet margin doesn't show anywhere in any assurer's accounts. It is not calculable by outsiders. Nor is it explained.

Another hidden influence on the actuaries' decision is the stabilisation reserve. Analyst David Southey of Edey, Rogers calls it "the black box" into and out of which unfathomable amounts are moved.

It's no secret, admits Truyens, that Southern has been smoothing its earnings. "We decide what dividend we can afford, we always have a dividend cover of one-and-a-half times, so it's a straightforward calculation. The rest goes into stabilisation reserves which are part of the surplus."

Howroyd is sceptical about this practice. He says actuaries determine — how we do not know — the dividend deemed appropriate, then jigs the disclosed earnings to provide these desired dividends with the required earnings cover.

"This is not accounting, it is alchemy," says Howroyd. "All the real factors that determine the true profitability of the office are hidden from view. The would-be investor would do better to consult a witch doctor than to try to derive meaningful information from the published accounts of SA life insurance companies."

Smoothing earnings creates the impression that earnings are not volatile. Southern's 10-year earnings growth pattern has varied only slightly year-on-year, between 19% and 25%. The 1995 growth rate of 27% is exceptional, though it falls to 23,4% on an EPS basis because of increased capital. Pointing to the income statement which he says is really a cash flow picture, Truyens says the premium income and net investment revenue figures are only turnover figures. "We're only showing the goods going in and out of the shop. We're not showing you the margins, the mortality or how much we had to pay out."

He uses this to deflect criticism of Southern's 1995 investment performance and the loss of single premium employee benefit business. Some pension business was not lost but was merely taken "off balance sheet." More importantly, he adds, the big business outflow is not an expense at all because the associated liability is also released. "Only the company knows what true profit or loss that business represented."

"The brokers continually measure the performance of the asset managers and encourage a lot of switching," he says. "So if we don't have such a good investment year we can expect to lose more schemes per se off the books and not attract as many new schemes. Hopefully next year it will be better and we will be able to report the reverse.

"Successful sales, a good mortality experience on the risk business, a fairly good investment year and fees earned on the business we have is what Southern declared (the 27% increased) earnings from."

Southern declared a high 27% rise in distributable earnings. On top of a compound earnings growth rate of 22% over nine years, it's a sound result. Southey says Southern is unjustifiably the poorest rated life company on the board, but reckons it is a well managed company which lacks charisma. He believes the share cheap at 3 800c.

All listed assurers, and the mutuals as well, provide investors and policyholders with minimum information about the way their returns are derived. Earnings volatility is well concealed behind the smoothing process. Until assurers are compelled to provide more detailed disclosure, it's difficult to disagree with either Southey's assumption or his conclusion about the value of Southern's shares.

Gerald Hirshon

Credit will now cost more

Star 30/7/95 (58)

STAFF REPORTERS

Organised business is demanding an explanation from Reserve Bank governor Dr Chris Stals after his surprise 1% hike in the bank rate yesterday.

Economists expect prime rates to follow suit and increase one percent to 18,5%.

A 1% increase in interest rates would mean an increase of R80 on a R100 000 bond.

The hike comes in a week of shocks for consumers. Major bakeries have slapped an extra 7c on all loaves of standard bread and the petrol price has risen by 1c, taking the increases since the beginning of the year to 15c a litre.

This comes after a drop in the inflation rate in May, from 11 to 10,8%.

The South African Chamber of Business (Sacob) immediately criticised the announcement that the bank rate would increase from 14 to 15%.

It accused Stals of making a sudden about-turn on his stance on the issue, when a week ago he indicated that an increase would not be necessary.

"The latest increase in the bank rate has come earlier than expected — and is not good news for the continuation of the present economic recovery," Sacob said in a statement.

While the bank had to act with discretion in monetary policy, it was "surprising that the Reserve Bank should now behave contrary to the views on the economic outlook expressed publicly by the governor of the Reserve Bank only a week ago".

At that stage Sacob shared the Reserve Bank's view that the latest econoimic data was sufficiently ambivalent to justify caution in respect of a further increase in the bank rate.

The slight decrease in the inflation rate in May and the recent increase in foreign exchange reserves supported a cautionary approach, Sacob said.

But not all economists saw the increase as unexpected.

Econometrix economist Tony Twine said this morning that it was difficult to criticise Stals on the increase since he had pointed to the ambivalent signals in the economy. Stals should be applauded for reacting at an early stage to danger signals.

"He may have had a preliminary idea of the direction the economy was going, but the key factor was the large jump in the amount of credit extended to borrowers," Twine said.

The number of people borrowing money from banks has been increasing, but the latest figures showed a jump of 19,5%, prompting his decision, Twine said.

"The increase in credit extended was the turning point in his decision. Without that he could have held off for longer," Twine said.

Council of Southern African Banks spokesman Nico van Loggerenberg agreed the increase was "sudden", but said Stals could not be criticised for his move.

Call for more transparency in assurance

CT (BR) 31/7/95 (58)

By Françoise Botha

Staff Writer

The life assurance industry has come in for sharp criticism because of a lack of disclosure and poor client service, resulting in calls for greater transparency.

In a hard-hitting critique of the industry, David Hersch, managing director of Compuquote told the Sanlam actuaries conference in Hermanus that "if the industry is not trying to hide information, it is at the same time not trying to make it easily available and accessible".

In line with the move towards openness in the new South Africa, Hersch said that the writing was on the wall for the life assurance industry. It was going to have to be completely transparent.

Announcing the results of a survey undertaken by Compuquote, Hersch said, "disclosure by the life companies is abysmal. The quoting staff of all the companies are not fully conversant with their products. They do not even know what is on their own quotes and they are unaware of industry requirements and standards.

"They do not always give the full information as required by the Benefits Illustration Agreement of the Life Offices Association. Standards have dropped abysmally," he said.

Further complaints also stemmed from the oligopolistic nature of the South African insurance industry.

IGI Life, AA Life in R114m merger

CT (BR) 3/8/95 (58)

BY CHARLOTTE MATHEWS

INVESTMENT EDITOR

A new R114 million company with its main business in life assurance has been formed by the merger of IGI Life and AA Life under the GDM cash shell, according to an announcement today.

GDM, which will be renamed, will apply for a listing in the JSE's insurance sector. It will pay R86,7 million to Saflife, a holding company, for IGI Life while R27 million will be paid for AA Life to controlling shareholders, Anglovaal Insurance Holdings, Absa, Depfin and Anglovaal.

After the deals, GDM will have R20 million in cash to fund the expansion of the business.

Ben Gildenhuys, the chief executive officer of Saflife, said last night it was too soon to say whether there would be any merging of the two separate AA Life and IGI Life businesses.

"GDM, with its two operating subsidiaries, has achieved critical mass and will become a significant force in the life assurance market," he said.

The new board would include Gildenhuys, Saflife's Gary Burg and Larry Nestadt, and Joe Gates, the managing director of AA Life.

Search and seizure powers for gender commission

ARG 14/8/95

(57)

CLIVE SAWYER
Political Correspondent

THE Commission on Gender Equality will have wide powers of search and seizure if a draft bill is approved.

The commission will monitor policies and practices of the state, public bodies and private businesses.

The powers of search and seizure are outlined in a bill based on recommendations by the parliamentary ad hoc committee on the establishment of the commission.

The National Party had asked that its objection to the search and seizure provisions be formally recorded, committee chairwoman Ruth Mompati (ANC) said.

The bill provides for a commission of between eight and 12 members who each must have "a record of commitment to the promotion of gender equality".

The commission will have to promote gender equality and develop and run information and education programmes.

It will evaluate and make recommendations on any act of parliament or a provincial legislature.

The commission will investigate gender-related matters on its initiative or when prompted by a complaint.

These matters will be resolved by mediation, conciliation or negotiation.

Disputes which cannot be resolved will be referred to the human rights commission or the public protector.

The commission will recommend to parliament and provincial legislatures new laws to promote gender equality and the status of women.

It will monitor compliance with international conventions related to gender equality.

"All organs of state, including any statutory body or functionary, shall afford the commission assistance as may be reasonably required," the bill says.

The commission will be empowered to summon people to appear before it, and witnesses will be compelled to answer questions and produce evidence.

Any member of the commission or a police officer authorised by it will be able to enter any premises connected, or suspected to be connected, to an investigation.

Entry and search of premises will have to be done with regard to decency, order and regard to a person's right to protection of dignity, security, freedom and privacy.

Meetings of the commission will be open to the public, the bill says.

The commission will report annually to the president, who will have to table the report "promptly" in the national assembly and the senate.

Anyone who fails to answer a question by the commission, gives false evidence, interrupts proceedings, defames the commission, is in contempt of the commission, anticipates its findings or tries to influence it improperly, will be liable to a fine or jail of up to six months, according to the bill.

CALL FOR SEARCH AND SEIZURE POWERS

Gender board proposed

(57) CT 15/8/95

THE SELECT COMMITTEE on the Establishment of a Commission on Gender Equality has released a report calling for a commission with wide-ranging powers.

A GOVERNMENT commission to monitor gender equality should have powers to break doors and windows to enter premises, according to a report tabled in Parliament yesterday.

The search and seizure provisions raised eyebrows among MPs yesterday.

DP spokesman Ms Dene Smuts said she did not think the provisions were "apposite" but that it was difficult to refuse the commission powers granted to others like the Truth Commission.

And NP spokeswoman Ms Sheila Camerer said a "question mark hung over the powers of search and seizure". Both parties supported the establishment of the commission, however.

The report of the ad hoc Select Committee on the Establishment of a Commission on Gender Equality provides for a commission of between seven and 11 people to monitor state and private institutions' record on promoting gender equality. It is likely to further stir up the gender controversy created by the release of a report last week calling for abortion on demand. Concerns have also been raised about "commission inflation", a reference to the large number of human rights-type bodies being established in terms of the interim constitution.

Reservations

The select committee noted that the NP had expressed reservations "regarding the wide investigatory and search and seizure powers" of the commission. The committee tabled its report in the form of a Commission on Gender Equality Bill and said the bill, read with the NP's comments, should serve as the basis for legislation.

The commission would have wide-ranging powers to conduct investigations into gender equality and would be able to recommend new legislation, monitor compliance with international conventions and undertake research.

Any person could be summoned to appear before the commission, to take an oath or affirmation and to supply information required. Failure to do so could result in an unspecified fine or imprisonment for six months.

A magistrate or judge may issue a warrant empowering a person to "use such force as may be reasonably necessary to overcome any resistance against entry and search of the premises". — Political Staff

Broad powers mooted for sex equality team

BD 15/8/95 (57)

Tim Cohen

CAPE TOWN — Draft legislation tabled yesterday proposes a gender equality investigation team, complete with the power to use "necessary force" to enter premises.

The draft Bill, drawn up by a parliamentary committee, outlines the powers and functions of the proposed commission on gender equality.

The commission will consist of between seven and 11 members with the power to monitor and review the policies and practices of public and private bodies.

It will have the power to conduct information programmes, evaluate laws of Parliament, monitor compliance with international conventions and investigate "any gender-related issue".

Four of the 14 pages of the proposed legislation regulate investigations by the commission. These make it possible for any person to be questioned by the commission and compelled to answer all questions "notwithstanding that the answer may incriminate him or her".

The commission has wide powers to enter and search premises and remove articles, although searches must be conducted with regard to a person's right to freedom and personal security.

Under the regulations, an authorised investigator may use such force as may be reasonably necessary to overcome any resistance to such entry "including the breaking of any door or window".

A maximum six-month sentence may be imposed for, among other things, anticipating the findings of the commission, improperly influencing the commission or

Continued on Page 2

Powers

(57) BD 15/8/95

Continued from Page 1

misbehaving during an investigation.

Commission chairman Ruth Mompati denied that the commission intended creating a "gender police".

The proposed regulations governing commission probes were based on Human Rights Commission legislation, Mompati said. If these seemed excessive, it was because years had been spent fighting for gender equality and "we don't seem to have come very far. It has become necessary to be quite aggressive, our action must be strong."

She stressed that the commission would also be responsible for a range of activities intended to build gender equality.

'Gender police' on cards

Tough search and seizure steps mooted to stamp out discrimination

(57)

Star 15/8/95

PENALTIES
proposed for people who refuse to take the oath or affirmation or who give false evidence

■ **BY PATRICK BULGER**
POLITICAL CORRESPONDENT

Cape Town — A commission to safeguard gender equality should have powers for forcible entry into premises and to seize documents, according to a proposal tabled in Parliament yesterday.

The tough search and seizure provisions for what would be "gender police" raised eyebrows among women MPs.

Democratic Party spokesman Dene Smuts said she did not think the provisions were "apposite". But she added that it would be difficult to refuse the gender commission powers granted to others, like the Truth Commission.

And National Party spokesman Sheila Camerer said a "question mark hung over the search and seizure powers".

Both parties support establishment of the commission and say discrimination against women can take violent forms. The commission is provided for in the Interim Constitution, which outlaws discrimination against women.

The proposals, by an ad hoc select committee on gender equality, are for between seven and 11 commissioners to monitor the records of State and private institutions on their policy in promoting equality.

Concerns have also been raised about "commission inflation", a reference to the large number of human rights-type bodies that are being established in terms of the Interim Constitution.

The select committee, chaired by ANC MP Ruth Mompati, notes that the NP expressed reservations "regarding the wide investigatory and search and seizure powers" of the commission.

The committee, which tabled its report in the form of a Commission on Gender Equality Bill, said its Bill, read together with the NP's comments, should serve as the basis for legislation.

Wide powers

The commission would have wide-ranging powers to conduct investigations into gender equality in State, statutory, public or private institutions. It can also recommend new legislation, monitor compliance with international conventions and undertake research.

Any person could be summoned to appear before the commission, to take an oath or affirmation and to supply information required.

Failure to take the oath and to answer questions could result in an unspecified fine or imprisonment for six months.

In the course of investigations, a magistrate or judge may issue an entry warrant empowering a person to "use such force as may be reasonably necessary to overcome any resistance against such entry and search of the premises, including the breaking of any door or window of such premises".

The person empowered by the commission to break in shall first "audibly demand admission" but this does not apply "where the person concerned is, on reasonable grounds, of the opinion that any article or document which is the subject of the search may be destroyed, disposed of or tampered with".

Penalties are proposed for people who refuse to take the oath or affirmation, who give false evidence, who interrupt commission proceedings, defame the commission, commit contempt of court, anticipate the findings of or interfere with the commission.

The report is based on the oral evidence of 13 people and 24 written representations.

Aim for democracy, ANC tells technikons

Education Reporter (53) ARG 18/8/95

FORUMS designed to introduce change at universities, technikons and colleges should not become talkshops, but aim at introducing democratic structures.

Cheryl Carolus, deputy secretary general of the African National Congress, told delegates to the fourth annual conference of technikon administrators in Cape Town that these forums should guard against replacing governing bodies.

She called for creative training on higher education level so that South African needs could be met.

This, she said, did not imply a lower level of skill. It rather meant increased creativity and technical skill.

In order to change the approach of young people, new enthusiasm for the possibilities and challenges offered to them was needed.

Ms Carolus said young people needed to learn that innovative ways of solving the problems of poverty were more challenging and more exciting.

South Africa, she said, had to move away from the colonial vision of higher education which placed undue emphasis on university training.

Places of higher learning should be committed to highest possible standards and strive for excellence.

BlDay 20/8/93

NEWS FOCUS

New slant needed on workplace equality

(57)

ANDRÉ VAN NIEKERK

"Men may cook or weave or dress dolls or hunt hummingbirds, but if such activities are appropriate occupations of men, then the whole society, men and women alike, votes them as important. When the same occupations are performed by women, they are regarded as less important" — Anthropologist Margaret Mead, 1949.

EQUAL pay is an area of labour law surprisingly underdeveloped in SA. But this is likely to change as a Bill of Rights and possible legislation prohibiting gender discrimination leads to equal pay claims against employers.

Internationally, the policy underlying laws on equal pay is not that all employees doing the same or similar work should receive the same remuneration. Rather, it is that employees should not be discriminated against as far as remuneration is concerned. In other words, where there is differentiation, it should be on account of a factor which does not have as its basis generalised assumptions about the characteristics of particular groups of people. Differences in pay which have as their basis productivity, length of service or skill will be justified. Those which have as their basis, for example, race, sex, religion or ethnic origin will not

Most SA employers have no doubt arranged their affairs, and their pay structures in particular, so that there is no differentiation, at least not in an overt sense, which offends these principles. The fact that a black and white employee, or a man and a woman, similarly qualified and experienced and engaged in the same work or job category are paid the same wage is no doubt comforting to most personnel managers, particularly those whose mission statements and other credos of corporate culture espouse nonracialism, nonsexism and equal opportunity.

'Women's work' — will it be revalued when equal pay legislation takes hold?

This perspective of equality is not confined to employers. The handful of cases on discrimination in the workplace and equal pay heard in the Industrial Court in the past decade demonstrate a similar understanding of equality in employment by most trade unions.

Equality in employment generally, and in respect of pay and pay structures in particular, is a far more subtle concept. Practices which are apparently neutral may mask effects which disadvantage particular groups of employees. The US Supreme Court referred once to the "in-built headwind" for those who are not members of the group in society with the power of decision-making.

While word-processing may have replaced weaving, and executives now hunt heads rather than hummingbirds, Mead's conclusion remains a valid one. The work done by particular groups of employees may have been undervalued by society. Occupational structures which determine job ranking and consequent pay levels reflect assumptions on the value attached to particular skills, particularly where they are regarded, for example, as skills which are traditionally possessed by women.

Equal pay legislation attempts to remedy this situation and, in doing so, presents a challenge to commonly held assumptions about the kinds of jobs predominantly done by women or other groups.

Most industrialised countries have laws which specifically prohibit discrimination on the basis of either sex or race. Equal pay laws often form part of broad statutory prohibitions of discrimination. Claims are often possible either in terms of a particular statute or in terms of broader legislation. For example, in the US, equality claims are possible in terms of the Equal Pay Act or the Civil Rights Act. In SA, the only existing mechanism is the unfair labour practice remedy in terms of the Labour Relations Act.

That will soon change as a range of remedies in terms of legislation on gender discrimination and constitutional provisions regulating equality comes into being. Depending on the ambit of these provisions, equal pay claims may extend beyond allegations of differentiation on the grounds of race or sex. The latest draft interim Bill of Rights provides that it will be unlawful to discriminate on grounds which include nationality, ethnic origin and sexual orientation.

The draft Bill on the Promotion of Equal Opportunities represents the first attempt by government to address gender discrimination. While its passage through Parliament remains uncertain, the draft Bill, for all its faults, incorporates a number of universally acknowledged principles relevant to discrimination and equal pay claims.

Equal pay claims are likely to become a feature of future industrial relations life. They will affect job and pay structures. It is time now to begin considering whether existing job evaluation schemes will withstand the rigour of judicial scrutiny.

Equal pay claims will have an impact on the labour market. It remains to be seen to what extent SA labour courts will permit market forces to dominate in what is ultimately a balancing exercise between those forces and the pressures for equity.

☐ Van Niekerk is Anglo American labour law consultant. Saccola is holding workshops on equal pay in Johannesburg on Monday and in Durban on Tuesday.

Bill to outlaw employer bias

CT(BR) 28/8/95 (57) (illegible)

By Françoise Botha

STAFF WRITER

Bias and prejudice were natural human conditions but the questions asked when recruiting staff were going to have to change, said Pam Herr of the Affirmative Action Alliance.

This was because of the requirements of the draft Labour Relations Bill, which was expected to become law later this year.

Herr said that discrimination on grounds of race, colour, sex, religion and political opinion, to name only a few, were soon to be outlawed in terms of the bill.

This had raised concern among human resources managers who were uncertain about what details were constitutionally correct to ask a job applicant.

One could no longer ask a prospective employee about their preferred title, such as Miss, Mrs or Ms. It would also be wrong to ask any question that sought to define an applicant's ancestry, ethnic origin or lineage, said Herr.

"Don't ask whether applicants are married, single or divorced, what their child care arrangements are, or their ages."

WEDNESDAY
AUGUST 2, 1995 ★

Equity fund a substitute for refused bank loans

CT 2/8/95 (58)

POLITICAL STAFF

EQUITY funds could be established in areas where black business people were being denied loans by banks because they lacked collateral, managing director of Thebe Investment Corporation, Mr Vusi Khanyile, said yesterday.

These equity funds could be established with contributions of half-a-percent of a company's investment budget, he told a meeting of the Guguletu RDP Forum.

When business people needed capital, the fund could advance money in return for a share, such as 15%, of their business equity.

"This could be one of the ways to mobilise business in Guguletu," Mr Khanyile said.

He added that when black business people were able to persuade banks to lend them money, they had to pay 14% interest — if they were lucky.

● Less than 0,5% of the capital of 644 companies listed on the Johannesburg Stock Exchange (JSE) was controlled by African-owned companies, Mr Khanyile said.

Only 11 companies were African-owned.

He also said 45,7% of South Africans were living below the poverty datum line of R840 per month for a family of five.

The average annual income of Africans was R2 717, while that for coloureds was R6 278, Indians R12 903 and whites R32 076.

IDEAS MAN: Mr Vusi Khanyile

One rand in seven goes in tax, says Old Mutual

Star 2/8/95 (58)

South African taxpayers have every right to feel over burdened, according to Old Mutual's latest economic commentary.

Last year taxpayers had to hand over one rand in every seven of their disposable income to the Receiver of Revenue — in 1983 it was only one rand in 10, and in 1962 one in 20.

Terence Moll, an economist at Old Mutual Unit Trust, says part of the tax spurt last year was a rise in the maximum tax rate to 45 percent while the scope of income tax was also widened to include more wage earners. Bracket creep, whereby taxpayers are pushed into ever higher tax brackets because of inflation, is also a culprit.

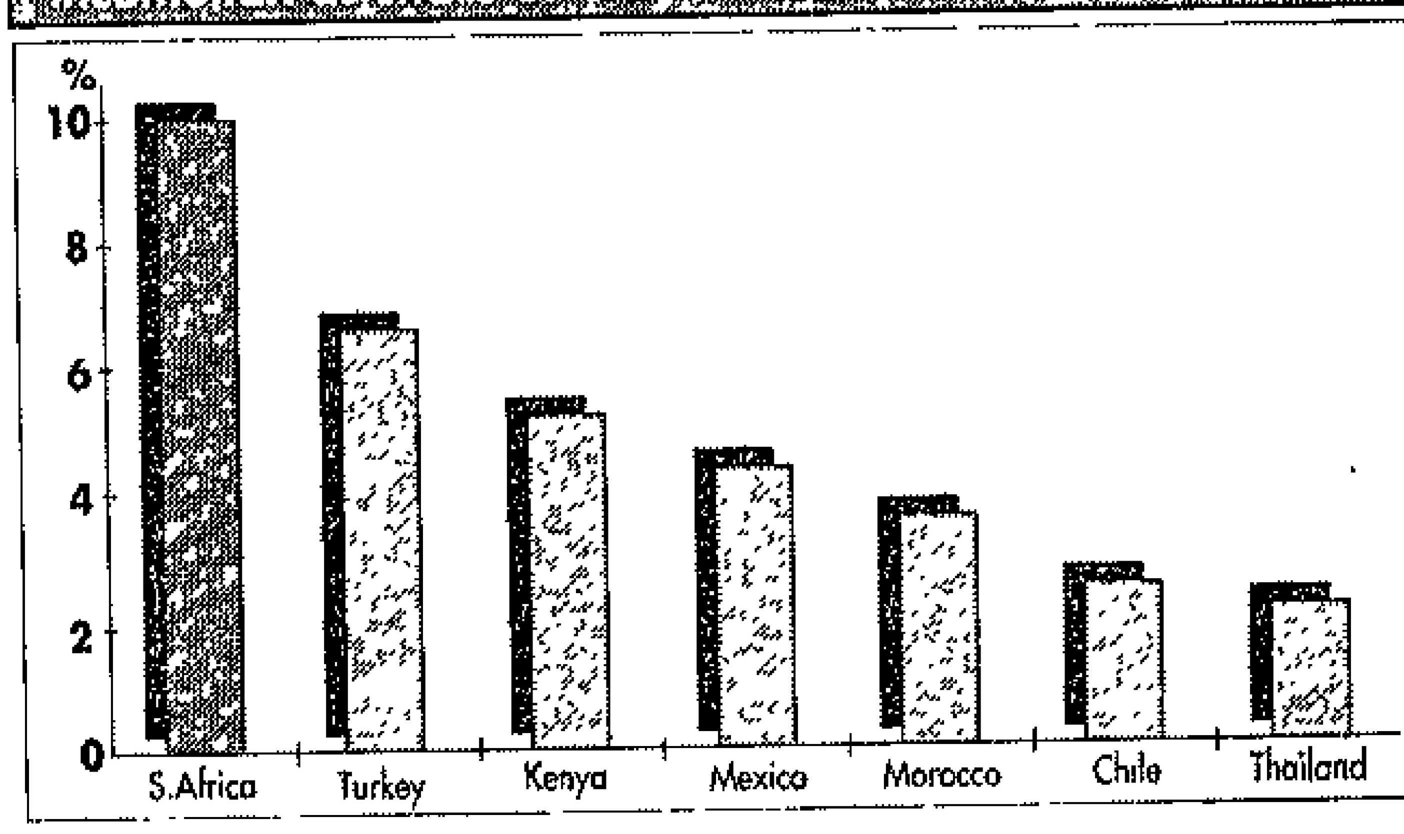
"Earners have been pushed into higher tax brackets even though the purchasing power of their incomes may not have risen," he said.

By world standards, South African tax levels are onerously high. South Africa's tax is nearly 10 percent of GDP — in many other countries it is only 4 percent

Moll says penal taxes undermine savings and investment and encourage people to spend instead. "High taxes also give people more incentive to evade them. This increases the burden on everyone else and makes the economy run less efficiently."

Moll says people are unhappy about paying tax because of poor perceptions about government spending. He says: "Education is absorbing large resources, but is not delivering, and state spending does not reach the poorest of the population."

Income tax as share of GDP: select countries



Sentrasure plans to boost its capital

(58) CT(PR) 3/8/95

By Charlotte Mathews

Investment Editor

Commercial Union and Sentrasure, the agricultural insurer, are proposing a strengthening of Sentrasure's capital which could see Commercial Union injecting between R58 million and R70 million into the company over three years in return for a controlling stake.

Sentrasure, the leading agricultural insurance company, is owned by 178 primary agricultural co-operatives around the country. Its 50 000 policyholders are farmers.

Pierre Maritz, the managing director of Sentrasure, said yesterday the company's recent underwriting losses, which were shared by most of the short-term insurance industry, had underlined the necessity of an alliance with a partner capable of providing additional capital and expertise.

Sentrasure's proposals, which have still to be voted on by its shareholders, are that Commercial Union will take a minimum of 25 percent and up to 60 percent of the expanded Sentrasure capital.

Performance

Depending on Sentrasure's performance over the next three years, which would affect the price at the end of the period, the remaining 40 percent of Sentrasure shares held by the present shareholders would be redeemed for cash or listed shares in Commercial Union.

Maritz said Sentrasure's policyholders would benefit from the recapitalisation and skills of Commercial Union, which was already involved in some facets of agricultural insurance.

Roger Wanless, the managing director of Commercial Union group, said the interests of Sentrasure's farmer policyholders would be strengthened by Genbel Investments' acquisition last week of 13 percent of Commercial Union. This confirmed that the group was a global player.

Sentrasure has previously sought to raise additional funds from its shareholders, but was unsuccessful due to the lack of spare cash in the farming community.

From the end of its last financial year, Sentrasure changed from a co-operative into a limited company which enabled it to use other resources.

Sentrasure plans takeover which may bring in R70m

Adrienne Giliomee

58 BD 3/8/95

AGRICULTURAL insurance company Sentrasure has proposed to strengthen its capital base through a takeover by Commercial Union over the next three years which could see up to R70m injected into the company.

In terms of the agreement announced yesterday, the acquisition of a controlling interest by CU would lead to the strengthening of Sentrasure's capital base. The deal was subject to shareholder approval.

Sentrasure's existing shareholders would retain a 40% interest in the company for the next three years, after selling 25% of their shares to CU. CU would inject further capital into the company, in a total investment of between R58m and R70m.

The remaining interest of Sentrasure shareholders would be redeemed for the option of cash or shares in the listed Commercial Union of SA Ltd (Cusaf).

Sentrasure MD Pierre Maritz said the company had identified the need for external capital a number of years ago.

"Recent underwriting losses in the short term insurance industry have affected Sentrasure and underlined the necessity of an alliance between SA's agricultural insurer with a partner capable of providing additional capital and expertise," he said.

Sentrasure would retain its corporate identity, but policyholders would benefit through the recapitalisation and the skills of CU which was already involved in certain facets of agricultural insurance.

Cusaf MD Roger Wanless said the interests of Sentrasure's farmer policyholders would be strengthened further by the fact that Genbel Investments last week acquired a 13% interest in Cusaf, confirming its SA character, combined with the benefit that the group's overseas holding company was a global player.

Sentrasure, a short-term insurer deriving 75% of its business from agriculture, was founded last year after the conversion of Sentraboer (Co-operative) into a public company to broaden Sentraboer's limited access to equity capital.

During the year to February, Sentrasure incurred an underwriting loss of R45,9m and a net loss of R29,3m.

Bank retains independence

Tim Cohen (S8) BD 4/8/95

CAPE TOWN — After months of disagreement, politicians took less than an hour yesterday to reach consensus on how the role of the Reserve Bank should be described in the final constitution, agreeing on essentially the same wording that appears in the interim constitution.

But members of the Constitutional Assembly subcommittee pointed out that they had done no more than formulate a consensus option which would be submitted to a senior negotiating forum for further discussion. However, they said it would be surprising if the forum overrode any consensus option presented to it.

The agreement brings to an end an at times acrimonious dispute about the powers of the Bank, where opposition members claimed the ANC was attempting to undermine its independence.

Committee chairman Rob Davies said he thought the dispute stemmed from a perception that the ANC was not serious about ensuring an independent central bank. In fact, the ANC did want an independent Reserve Bank, but also wanted to ensure it was accountable to the public.

The disputed wording related to whether the Bank would be required to take decisions "in consultation with" the finance minister, effectively meaning the Bank could not take decisions without the finance minister's agreement.

In the agreed formulation, ANC, NP, DP and Freedom Front MPs opted for the wording in the interim constitution which requires only "consultation between" the minister and the Bank. In addition, clauses which effectively underlined the Bank's independence were accepted.

Insurers accused of collusion

(58) WM(BM) 4-10/8/95

The Competition Board may soon investigate collusion in the short-term insurance industry, **Reg Rumney** reports

MAJOR short-term insurers have been accused of collusion. And the Competition Board has confirmed that it is starting to probe the industry.

David Hersch, managing director of Compuquote, which provides comparative insurance quotes through Beltel, has outlined in a public forum what has been an open secret for some time, the existence of a "non-aggression pact" on business insurance between major insurers.

Hersch made the accusation in a speech at the Sanlam Actuaries Conference in Hermanus last week.

In a speech, severely critical of the both the life assurance and short-term insurance industries, Hersch pointed to a cartel arrangement in the short-term insurance business

In the recent past, said Hersch, short-term companies used to operate formal cartels and sign "agreements" or "accords". This ended with the introduction of the Competition Board.

"The short-term companies' response was simply to have lunch once a month. The extraordinary thing is that, with the passing of time, they have grown so complacent that these lunches are today minuted. I have seen these minutes and their contents amount to not only unfair business practice, but they are also unethical and downright illegal.

"They are also unhealthy for the economy as a whole. It is common knowledge in the short-term industry that a 'non-aggression pact' as far as business insurance is concerned exists between the major companies. But none dare call it a conspiracy or cartel."

Asked for comment, the South Africa Insurance Association director Barry Scott referred the matter to the chairman, who asked for more time to respond to the allegations. However, a broker, who did not want to be named, told the *Mail & Guardian* he knew of a "market agreement" between four of the top insurers not to poach business from one another when policies came up for renewal by offering lower premiums.

Competition Board chairman Pierre Brooks said this week the board was starting to gather information on the industry, which might lead to an investigation. However, he pointed out the kind of activity described by Hersch was indeed illegal, and, if proved, entailed criminal prosecution of those companies involved.

Brooks said the board had approached the insurance industry to provide general information and was still waiting for a response. If he received additional information the board would take further action. The board would be glad to spearhead a prosecution.

Chairman of insurance broking firm Prestasi Jan Erasmus is sceptical the board will ever be able to prove anything. "Such agreements have been around ever since I started in the industry 23 years ago."

He said he had taken up the existence of collusion several times in the past with the Competition Board, and had in the mid-1980s even taped a conversation between two underwriters discussing their agreement not to undercut the premiums quoted for a particular business.

However, Erasmus said the collusion had been too difficult for the board to prove, and it would seem the consumer would have to put up with this. "It was much worse in the old days."

Short-term underwriting boosts Commercial Union

CT (BR) 7/8/95 (58)

By Llewellyn Jones

Staff Writer

Commercial Union, the insurance and financial services group, reported substantially improved results for the six months to June, following a significant turnaround in short-term underwriting results.

Attributable income increased threefold to R50,7 million from R16,7 million for the corresponding period last year.

Net premium income rose to R585,9 million from a previous R559,6 million while pre-tax income surged 2,5 times to R52,1 million from R20,6 million.

The R1,4 million tax charge translated to after-tax income of R50,7 million compared to a previous R17,1 million.

Gross premium income for Commercial Union Insurance increased 12,1 percent to R422 million, while the underwriting surplus of R12,8 million compared to last year's loss of R21,4 million.

"The better result was assisted by a lower incidence of major fire claims and an absence of natural disasters," said Roger Wanless, the group managing director.

"However, the high levels of crime, particularly vehicle hijacking and theft, remain cause for serious concern."

Gross premium income for Commercial Union Life increased to R337 million (R324,1 million) and investment income rose 15,9 percent to R162,6 million (R140,2 million) while the after-tax contribution from Commercial Union Life to shareholders rose to R8,5 million (R7,9 million).

Wanless said the Life subsidiary also showed good growth in individual-life-recurring premiums, which increased by 42 percent.

Earnings a share rose to 101,4c (32,6c) and a dividend of 25c (16c) was declared.

Wanless said he was pleased with the improved performance which had come at a particularly exciting time for Commercial Union.

It was recently announced that the British-based parent was taking a controlling interest in Commercial Union, and that the company had made an offer to acquire a controlling interest in Sentrasure.

"It is very encouraging to report good results at a time when the group has embarked on several major initiatives, which we are confident will lead to greater growth and profitability for shareholders and staff, and better products and services to clients."

Bank acts on bad debts

CT (BR) 8/8/95 (58)

By MAGGIE ROWLEY

Cape-based Boland Bank is looking to increase earnings by at least 25 percent this year, according to Michiel le Roux, the new managing director.

In his annual report released this week, Le Roux said the current year would be a good one despite higher interest rates.

The increased capital of the bank would result in an increase of more than 25 percent in earnings after taxation, which should see a sharp increase in profit and earnings a share for the year.

He said it was hoped improvements in bad debts and non-performing assets would make a contribution to the bottom line.

A great deal of time and energy had been devoted to bad debts in the year to end March this year and an amount of R45,1 million — 28 percent less than the previous year — had been allocated to specific provisions against income.

He said the bank was analysing its strategy regarding market segments and services which would result in a more focused approach.

Christo Wiese, the chairman, said Boland Bank would "seize with both hands" international opportunities opened up through its involvement with Landmarks Berhad which acquired a 26,8 percent stake in the bank this year.

Wiese said the bank's share price had virtually doubled since April last year, indicating that the market shared the bank's confidence in its growth potential.

Unhappiness with insurers

(58)

(M) 10/8/95

Samantha Sharpe

DISSATISFACTION with the short-term insurance industry reached its highest level in 1994, with the number of complaints to the ombudsman soaring to 1 000, the ombudsman's latest annual report showed.

While the report offered no comparative figure for complaints in 1993, levels were higher last year than in previous years, it said.

Short-term insurance ombudsman Michall Bennett said the breakdown of complaints into classes of insurance was similar to previous years.

"Complaints under comprehensive motor policies account for more than 40% of the total complaints.

"Claims arising from householders policies make up 25% of complaints".

Damages claims against brokers constituted 5% of complaints, Bennett said.

Insurer back in the black

(58)

CT (BR) 3/8/95

BY LLEWELLYN JONES

STAFF WRITER

Guardian National, the tightly held short-term insurer, achieved a "major turnaround" for the six months to June, Keith Nilsson, the outgoing MD, said yesterday.

"This time last year, Guardian National's underwriting loss was R17,8 million, which was held at R19,6 million for the full year," Nilsson said.

"The first six months of 1995 show an underwriting profit of R7 million, representing a turnaround of R24,8 million."

Gross premium income stood at R622,3 million, an 11,3 percent increase from last year's R558,9 million.

"While we are delighted with our return to profitability, the premium income growth of 11 percent is significantly less than we are accustomed to."

But he said corrective action last year had borne fruit.

"By divesting the company of business which we judged was incapable of being profitable in the changed underwriting environment, we are seeing a marked return to profitability across the board."

Insofar as the personal lines portfolio was concerned, this had been achieved with only minor rating adjustments so far this year.

Investment income, excluding the sale of investments, was marginally better at R32,2 million from last year's R31,5 million.

"Although interest rates were somewhat higher, the low investment income growth arose as the result of disposals of certain short-dated bonds which gave rise to timing differences on receipt of income.

"In addition, cash flow was reduced by the unfavourable 1994 underwriting experience."

Pre-tax profit climbed 76,3 percent to R39,3 million (R22,3 million), while after-tax profit rose 42,3 percent to R31,7 million (R22,3 million).

Earnings rose 45,4 percent to 323,3c, while net asset value improved marginally to R56,87 a share as a result of the fall in value of equities during the first six months of this year.

An interim dividend of 134c (112c) was declared.

"Guardian National's solvency margin stands at a respectable 64,13 percent, while the expense income ratio is, as has been the case in past years, very acceptable."

Guardian National had not increased personal lines rates since October 1994 after having taken strict corrective underwriting and rating action in 1994.

Premium rates were now at a level that enabled the company to cope with the level of crime to which South Africa had been subjected over the past 24 months.

"If the government's crime combating initiatives reduce the level of claims reported, the company will review premium rating in that light."

Bank plans to cut costs

STREAMLINED *Chris Seabrooke, the deputy chairman of New Republic Bank*

By Maggie Rowley

Durban-based New Republic Bank is streamlining its structure which should result in material cost savings down the line, says Chris Seabrooke, the deputy chairman.

In the annual report, released last night, Seabrooke says that a new strategic plan for the group, which encompasses a tighter focus on its target market, lower cost ratios and improved productivity, was being implemented.

While a certain amount of disruption and extra expense was expected during the implementation period this process, together with enhanced control of advances, should lead to improved returns on asset and equity at both the operating and attributable levels.

Despite the expected re-organising costs an increase in attributable income for this year was expected.

However, due to the rights issue completed in March this year earnings at the share level would be diluted due to the larger number of instruments in issue.

He said the financial services division, formed in August last year as part of the strategy to diversify income generating activities, has shown strong growth in life and short-term insurance broking, pension fund administration and investment products.

The factoring division of the group, which is celebrating its 25th year, also performed well in the year to end March with gross advances increasing from R26,7 million to R75,9 million.

He said that this growth had been influenced by wider acknowledgment of factoring as a form of finance and an increase in smaller businesses. The cash flow requirements of the businesses and the difficulties they experienced in maintaining effective credit control functions had also influenced growth.

"In view of the emerging economy in South Africa, the factoring industry is set to grow considerably over the next few years and appropriate steps have been taken to ensure that this division is well placed to take full advantage of growth opportunities as they arise."

(58) CT (BR) 15/8/95

FNB to provide same service to all people

By Llewellyn Jones

CT(BR) 15/8/95 (58)

Staff Writer

First National Bank had no intention of following moves by other banks to create a separate entity to service the lower end of the banking market, Trish Downing, the manager of the bank's group external communications, said yesterday.

She said the bank did not believe in creating different banking services for different market sectors.

The bank was using its existing branch network and focussing on taking banking to communities to provide people with the products that they needed.

"We are working within communities, asking them what services they want, how they want them delivered, and where they want them."

She said the bank was about to launch a network of branches using containers and modular buildings.

The bank recently came to an agreement with a national retailer in which the bank would introduce agencies in the supermarket itself.

"We have already established one at Score Supermarket in Hazyview and have at least another 15 on the drawing board."

Each of the stores would be equipped with an autoteller for cash withdrawals and account enquiries.

A banking consultant would also be available to give assistance and deal with all enquiries and applications.

The bank had also entered into a joint venture with Southern Life to provide low-cost insurance and assurance to people who had historically been priced out of the market for instruments guaranteeing future financial stability.

African Life 'to buy stake in stockbroker'

BD 15/8/95 (58)

Samantha Sharpe

LIFE insurance group African Life was poised to take a stake in local stockbroking firm G O'Flaherty & Co, sources close to Aflife said yesterday. Aflife CE Bill Jack declined to comment.

The sources said African Life was intent on enhancing its asset management exposure and that the stake in G O'Flaherty was the first step towards achieving this.

They said the insurance group was unlikely to be interested in the stockbroker's pure broking business, which would probably fall outside the purchase price.

Acquisition-hungry African Life recently took its first step into the property market with a 70% stake in RMS Syfrets Property Development Company.

The transaction was a strategic investment for African Life, giving it access to skilled resources in property management. At the time Jack said there were several other projects that the group intended to address in the 1995 financial year. Analysts said these included joint ventures, further expansion into asset management with the group expected to launch unit trust products, and forays into Africa.

The group showed record growth in the year to March, with total premiums up 75% during the year and 72% growth in new business. The group's share price closed unchanged at R6,15 yesterday, off the R7,35 high recorded in September and above its R5,75 February low.

AfDB members 'unhappy' with SA

CT(BR) 30/8/95 (58)

From Dale Lautenbach

THE INDEPENDENT FOREIGN SERVICE

Adewale Sangowawa, the vice-president of the African Development Bank (ADB), has confirmed there was a "lot of disappointment" among bank members that South Africa was entering the institution with just a one percent share of the capital.

Sangowawa was attending the annual Southern African Development Community summit in Johannesburg yesterday.

Asked whether there had been any politicking in the ADB's last-minute decision to delay South Africa's accession to the Bank, he said no. Pressed further, he acknowledged that had SA been on the outside with a 10 percent bid "everyone would have rushed the membership through".

"One percent didn't make anyone want to rush," said Sangowawa.

Chris Liebenberg, the South African finance minister, led a delegation to the bank's headquarters in Abidjan last Friday — where it was widely expected that SA would be granted membership — just before voting began for the bank's next president.

In a sudden turnabout, it was announced that SA's accession would be delayed because certain legal formalities had not been completed in time. At first the South African delegation was incensed at this stonewalling, but Liebenberg met with the bank's senior officials and later told the Independent Foreign Service that he was "reassured".

Cautious

Given the rather parlous state of the bank's finances, Sangowawa was asked whether there was indeed some appreciation for SA's cautious entry.

"They are probably being over-cautious when compared with the benefits South Africa can draw from membership," he said.

In reality, South Africa could not have come in with a flashy 10 percent of the bank's capital. A maximum of 2,59 percent was available to SA and anything bigger would have had to have been by way of a special issue.

A country's stake in the bank is usually calculated on its GDP and Nigeria is presently the biggest stakeholder with more than 10 percent.

Sangowawa noted that SA had not ruled out an increase in its stake in the future but "maybe other members don't feel so satisfied with that promise", he said.

SA's entry would now go to a postal vote by the board of governors of the bank once the board of directors had approved the formulation. This could take six-odd weeks if there were no problems, said Sangowawa.

Meanwhile, the contentious elections for the bank's new president at last got under way in Abidjan at the weekend and the Moroccan candidate Omar Kabbaj emerged with the prime post.

Noteworthy on the political playing field is that Morocco, unlike all its fellow African members in the bank, is not a member of the Organisation of African Unity.

GREATER EXPOSURE *Ian Hamilton, the investment development manager of Southern Life, Adrian Arnott, the executive director, and Michael Leeman, the development manager of Futuregrowth, at the announcment of Futuregrowth's interim results*

PHOTO: JOHN WOODROOF

Futuregrowth to up its RDP activities

CT (BR) 30/8/95 (58)

By John Spira
GAUTENG BUSINESS EDITOR

Southern Life's Futuregrowth fund, which has already ploughed huge sums of money into RDP-related developments, has launched plans to increase its exposure to this sphere of activity.

Futuregrowth, with more than R300 million in managed assets, is South Africa's first investment portfolio aimed at uplifting and empowering socio-economically deprived communities.

Adrian Arnott, the executive director of Southern Life, gave details of the company's expanded commitment to the RDP.

R10 million in cash would be deposited in Peoples Bank. Over the next few months, innovative ways of delivering a transaction service, as well as other affordable banking services (including home loans and micro loans), would be introduced.

R20 million would be invested in the South African Roads Board.

Arnott said Southern Life recognised its responsibility to act in the broad national interest, while meeting clients' expectations.

In the six months to June, the Futuregrowth income fund out performed the all-bond index with a return of 10,4 percent.

The balanced fund earned a return of 10,4 percent over the past year. In the 18 months since inception, this fund's net annualised return of 16,3 percent has exceeded the corresponding inflation rate of 9,6 percent by more than the targeted 4 percent.

Change unfair vehicle law – call

(58)

Sowetan 29/8/95

By Mzimasi Ngudle

MR Elias Tsotetsi of Balfour, will today ask the Constitutional Court to strike provisions from the Multilateral Motor Vehicle Accidents Fund Act which discriminate against passengers.

Tsotetsi, now a quadruplegic after sustaining injuries in an accident while he was a passenger in his employer Mr T Ewenwell's vehicle in 1991, could claim special damages of only R25 000 which his lawyer Mr Jannie Botha said would not even pay his medical costs.

Botha said Tsotetsi's plight also faced many taxi passengers countrywide.

Generous treatment

The Act limits claims by passengers to R25 000, but does not limit that of an injured driver, a pedestrian or a member of the Defence Force.

"There is no justification for the generous treatment of military personnel, their parents and their dependents," Botha said.

The Act limits claims of employees injured in the course of the business of the owner of a motor vehicle to only R25 000.

The Act further stipulates that a member of the driver's household or a person responsible in law for the driver's maintenance does not have any claim at all.

Exclusions and limitations

Botha argues that the above exclusions and limitations infringe the guarantees of equality before the law in terms of section 8 of the Constitution.

"Accidents are usually caused by the negligence of one or other of the drivers or pedestrians involved.

"Passengers are almost never to blame and their parents and dependents never are.

"It is accordingly incongruous that they should be singled out to bear the brunt of the exclusions and limitations designed to limit the cost of the scheme," Botha said.

Metlife gives concept meaning

(58) Sowetan 31/8/95

Many have realised that the vote is not automatic economic empowerment

By Oupa Ngwenya

METLIFE DISPLAYS such an active engagement with the concept of black economic empowerment to an extent that it not only says what it is, but also dares to say what what it really is not.

"Black economic empowerment", notes Metlife, "is a concept so bandied about that it has lost much of its real meaning.

"To some it means status and the ability to consume more material possessions while to others, it means corporate power and the opportunity to shape deals."

What black economic empowerment is in its broadest sense, suggests to Metlife, is the power to participate in the economic mainstream and by so doing, create not only personal wealth but wealth for the nation as a whole.

Contrary to what many South Africans believe, says Metlife, political empowerment does not automatically bring economic empowerment.

"To have the right to select our leaders," Metlife argues, "certainly means we can play a part in shaping our collective destiny but does not bring food to the table or provide direct access to the jobs that bring decent salaries or give us entry to the boardroom."

Metlife also notes that "for the select few, economic empowerment came before political empowerment".

It sees the few as those who through immense talent, chance or good fortune were able to play a role not only in shaping their own destinies but also in making financial wealth and security accessible to a few of those around them. These it considers to be the exception.

> **'To have the right to select our leaders certainly means we can play a part in shaping our collective destiny but does not bring food to the table or provide direct access to the jobs that bring decent salaries or give us entry to the boardroom'**

The company believes that true empowerment at both personal and community level can only be created through training and education in order to allow people to develop the experience in leading and managing and in shaping and forging a future.

the ownership of an insurance giant in which black communities were already strongly represented.

This was the groundbreaking approach and has met with resounding success, motivating others in the private sector "to separate ownership from control, giving those without financial resources access to power".

This approach to the principle of black economic empowerment is reportedly underscored in every facet of Metlife's operations at both corporate and community level.

At corporate level Metlife focuses on affirmative action, value sharing, training and development and an accessible share scheme to accelerate the process.

The affirmative action programme involves the integration of black and female employees into senior and middle management.

incentive scheme allows non-management employees at all levels in the organisation to buy shares and so build up capital and financial security.

Eligibility is determined mainly by length of service.

Employees can buy shares according to an allocation system by taking interest-free loans granted by an independent trust.

At community level Metlife focuses on economic empowerment through the funding of leadership and business education projects.

In a joint undertaking with the Rand Afrikaans University (RAU), Metlife has injected R5,5 million in the Metlife-RAU College for Advancement of Leadership and Learning.

The projects target disadvantaged high school pupils who show academic ability and leadership potential. It equips them for university or technikon studies by providing quality teaching and study assistance from standard six to matric.

By making capital available, Metlife also helped to fund the establishment of the Trident Institute, which develops and runs courses in basic business skills for informal traders and the unemployed.

Thousands of people are said to have taken the institute's course which is offered in English, Zulu, Xhosa and Pedi.

Cont

Stake in business

"But that can only be accelerated and enhanced by creating mechanisms for those previously denied the opportunity to purchase their stake in business," says Metlife.

In 1993 Metlife became the first major company quoted on the Johannesburg Stock Exchange to be controlled by blacks. After acquiring a 10 percent stake in Metlife, Methold, now trading as New Africa Investments Limited, took effective control of the company through a voting pool arrangement with controlling Sankorp.

It then went on to sell shares in Methold to a broad spectrum of black citizens. This made it possible for as many as possible to share in

Metlife's quarterly reports to top management ensure this programme is sustained. The progress is said to be very encouraging with the percentage of black senior management having doubled in the last two years.

The value-sharing programme exposes staff of different levels and departments to one another, bridges the chasms in attitudes and perceptions in order to collectively shape new goals.

Employees with management potential are identified and involved in personalised development programmes which include courses in leadership, industrial relations and interpersonal management.

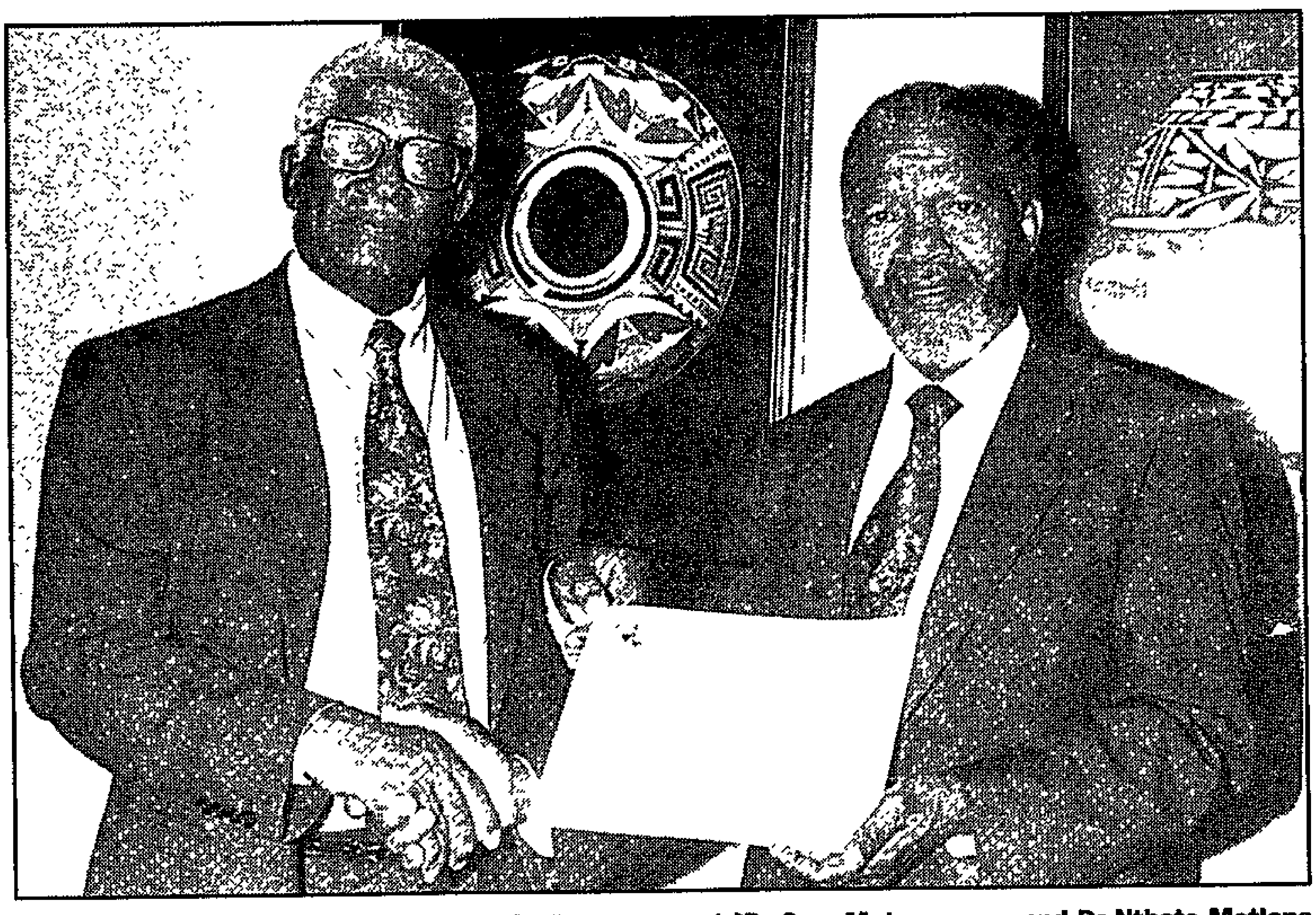
Candidates are also selected for management development programmes run by the country's leading universities. A voluntary share

Highly successful venture

The Start-Up Fund is another highly successful venture financed by Metlife, which provides loans to those who have successfully completed the institute's course or similar programmes.

By innovating structures which give people access to ownership and control, giving its own staff the opportunities and training to get ahead, and by providing the means to those in the community to acquire business skills, Metlife believes it has its foot firmly grounded on the road to truly empower people economically.

Those who require further information can call Metlife's communications consultant Tessa de Kock at (021) 24-5280.



Pioneers to the concept Black Economic Empowerment `Dr Sam Mutsuenyane and Dr Nthato Motlana

Turnaround for insurer Protea

ET(BR) 16/8/95 (58)

By Llewellyn Jones

STAFF WRITER

Insurance group Protea Assurance achieved a turnaround in attributable profit to R2,4 million for the six months to June compared with an attributable loss in the same period last year.

Net premium income rose 9 percent to R317,3 million (R290,9 million), but managing director Andrew Tainton said the group's results were influenced by a drop in the market value of investments and an underwriting loss of R14 million (R15,9 million) in short-term business.

Investment income rose 13 percent to R15,9 million (R14 million).

Tainton said high levels of crime continued to affect the results of short-term insurers. "However, it is premature to anticipate that these efforts will impact meaningfully on the results of short term insurers for the remainder of this year," he said.

The company's results suggested there had been a turnaround as the alarming deterioration experienced last year had been halted.

"We are now benefiting from our investment in information technology and stricter underwriting criteria are being applied to eliminate unprofitable business," he said.

Protea Life had seen a recurring premium increase of 36 percent and total net premium income rise by 15 percent to R80,1 million (R69,5 million).

He said Prosure would maintain its exposure to the equity market.

Boland Bank gears up for global arena

CT (BR) 16/8/95 (58)

By Maggie Rowley

Firing yet another salvo in his campaign to turn Boland Bank into a national and global player, Christo Wiese, the chairman and controlling shareholder, is backing a new financial services company being formed as a precursor to a merchant bank.

The new company, Boland Financial Services, will be 60 percent owned by Boland Bank with the balance held by management. It will be chaired by Wiese with Michiel le Roux, the managing director of Boland Bank, as deputy chairman. It will be run by two top financiers, Henk Rossouw and Ian Matthews, who have left senior positions at Arthur Andersen.

The new service, which will have strong international links from the outset — particularly through Wiese's and Boland Bank's tie up with Landmarks Berhad of Malaysia, which acquired a 27 percent stake in the bank earlier this year — is to apply for a banking licence by the middle of next year.

Rossouw, who headed the tax division at Arthur Andersen in Cape Town, will run the Cape operations of the new company. He said it would establish associate offices in Malaysia and India.

The niche operation would initially derive its income from fees and would concentrate on structuring deals, including cross-border transactions, which it expected to account for the major slice of business once exchange controls were lifted.

The company would later expand its services to a merchant bank operation, said Rossouw.

Matthews said the success of the new venture would be determined by the quality of its staff and a priority would be to put together a team of both local and overseas specialists.

A number of high-ranking appointments are expected to be announced shortly.

Boland Bank has been looking at setting up a merchant banking operation since Wiese bought control of the bank in November last year by buying five million preference shares from the Board of Executors, which still retains a 10 percent stake in Boland.

At the time, a possible merger was mooted between the two financial institutions, but this was called off with both Boland and the Board of Executors opting to pursue other avenues of growth.

The Board of Executors is understood to be looking at three possible acquisitions or link-ups, with speculation revolving around stockbroking firm Ed Hern Rudolph, the British commercial bank, NatWest, and NBS Bank.

Liberty Life seeks to enter offshore markets in new guise

HILARY JOFFE

(58)

BD 16/8/95

IT IS not too hard to see why Liberty Life might have wanted out of its UK insurance business. It is a little more difficult to see why the group, which plans to sell UK subsidiary TransAtlantic's 50% holding in Sun Life to French partner UAP, would want to go back into the industry.

The answer, it seems, is that it plans to re-enter the market in a new guise, one designed to sidestep the problems of the British insurance industry and to capitalise on its own unique position.

Chairman Donald Gordon's ambitions are not necessarily confined to the UK, or to insurance. The group is looking at a range of options in the broader financial services sphere, in the UK, the US and possibly elsewhere. TransAtlantic will have cash resources of more than £450m after the deal with UAP. And it has borrowing facilities in place and access to more.

"Do not assume we are going only one route," says Gordon.

But he has made it clear that the focus will be on developing a long-term savings and financial services business unburdened by the problems of the UK life industry.

The British life offices are going through tough times, with falling policy sales reflecting what some commentators see as a collapse of public confidence in the industry. Although Sun Life has outperformed its competitors, it has not been immune: its new business index (new annual premiums plus a 10th of new single premiums) declined by one-third for the six months to end-June. The Prudential Corporation, Britain's largest life office, reported sales of regular premium products down 28% last month, while London and Manchester Assurance's sales of annual premium policies fell by a quarter.

The industry's difficulties relate to an increasingly harsh regulatory environment: UK assurers must disclose expenses and commissions in full, they are likely to have to pay £3bn to £4bn in compensation, retrospectively, for "misselling" of policies, the tax regime has shifted against them, and their cost structure is extremely high.

Gordon says the expense ratios in the UK industry are much higher than here. And one result of stringent regulations is that it takes three times as long to sell a policy in the UK as here. Gordon believes the way life insurance is done in the UK (and the US) is too expensive and enormous restructuring is needed: a different type of institution will lead the market in the next millennium, he says.

The thinking is that Liberty/TransAtlantic will focus on a specialised, niche market for investment products in the UK, using a simple structure and keeping expenses down. "We could be incredibly successful, assuming we start with a tiny range of products and use the latest innovations in computer technology," says Gordon. "We need only appeal to 75% of the population, rather than quadrupling expenses to reach everyone," he says. "There is a big enough market of people looking for sophisticated investment products which they can trust."

The group's financial strength should engender confidence.

If TransAtlantic were to be the vehicle, its capital base of £1,6bn would make it the most highly capitalised life company in the UK, Gordon notes.

One problem the group may have in starting from scratch is lack of distribution capacity for its new products, given that it is not aligned with any bank or insurance company. Says Gordon: "We are not saying we won't buy a company." And, indeed, an acquisition (or acquisitions) in the UK and/or the US, is on the cards at some point, possibly soon. Gordon has stated several times in recent years his desire to buy into the life industry in the US, and earlier this year said the group was looking at six companies.

GORDON

Most life companies in the UK and the US are very thinly capitalised. Gordon sees opportunities in both countries, with TransAtlantic/Liberty able to play an important role in recapitalising good companies and driving them forward. "We are sitting on the moneybags, with the expertise, the reputation and the understanding of the market," he says.

Gordon will not put a timescale to the group's plans. In his chairman's letter with TransAtlantic's interim results last week, he wrote that the implementation of the group's objectives "could take some time" due to their complexities.

For the moment then, TransAtlantic, listed in the insurance sector of the London Stock Exchange, is essentially a property group with lots of cash, but with a commitment to redeploying its funds in the long-term savings industry. In the six months to end-June it increased earnings a share by 17%, with property income up 7%. Subsidiaries are 100%-held Capital and Counties, which has a portfolio of commercial properties in the UK, US and Australia, and 74,5%-held Capital Shopping Centres (CSC), listed on the LSE last year.

The group has built up a commanding position in the UK shopping centre market, with CSC owning almost half the major centres in the UK, including three out of the top five. This year it bought 90% of MetroCentre near Newcastle-upon-Tyne, Europe's largest centre, from the Church of England, and began developing a major new centre at Braehead in Scotland, with Sainsburys and Marks & Spencer.

Ironically, increased regulation is expected to work in the group's favour in this part of TransAtlantic's operations. The British government has restricted the building of new out-of-town shopping centres in an attempt to preserve the traditional high streets — in effect keeping CSC's competitors out and ensuring a premium position for its eight centres.

But TransAtlantic's interest in shopping centres may offer another interesting opportunity on the financial services marketing side. Sandton City and Eastgate have been hugely successful SA investments for Liberty Life. Much of the initial finance for these malls came via property linked policies which, in turn, provided massive growth for Liberty from the 1970s. The concept of a property-linked policy has not been exploited in the UK — the group might well think of introducing it. The advantage is that shopping centre revenues are linked to inflation, providing a natural hedge for policyholder benefits.

It is also likely that Liberty/TransAtlantic will be looking at setting up operations in territories offering tax advantages such as Ireland, the Isle of Man or Jersey.

And the group will be positioning itself to use its knowledge of investment and merchant banks internationally to handle investments for SA clients abroad.

Following the Sun Life deal, which involves the sale of TransAtlantic's 50% stake to UAP and the repurchase from UAP of its 20% interest in TransAtlantic, the Liberty Group's stake in TransAtlantic (held both directly by Liberty Life and through First International Trust) will rise from 57,6% to 73,6%. However, this could fall by up to 3% as certain of the shares sold by UAP are being offered to TransAtlantic shareholders on a one-for-10 basis.

The Liberty Life group reports its June interim results today. Although the action has recently been abroad, and a fair chunk of the group's asset base is offshore, the SA life assurance business remains the mainstay of the group, providing the bulk of its earnings. Gordon expects that it will remain so.

Protea Assurance stages substantial turnaround

(58)

BD 16/8/95

Samantha Sharpe

A STRONG performance from its life and investment business helped insurance group Protea Assurance overcome short-term underwriting losses to post a turnaround in attributable earnings to R2,4m in the six months to June.

The group reported a R3,3m interim loss last year.

Net written premium income rose 9% to R317,3m, with the life company's contribution up 15% to R80,1m. Net written short-term premium income increased 7% to R237,22m. However, this was offset by a R14,03m underwriting loss from the group's short-term insurance arm, compared with a R15,96m loss at the same time last year.

Investment income showed healthy growth, rising 13% to R15,89m, with exposure to the equities market to be maintained.

With a rise in net income to R635 000 from R400 000, earnings from its UK parent Sun Alliance, this translated to pre-tax profit of R2,52m compared with a R1,54m pre-tax loss in June 1994.

The group's tax charge fell to R2 000 against a previous R332 000 and translated to after-tax profits of R2,51m (R1,87m).

However, Protea Assurance took a knock from R23,4m in net realised and unrealised investment losses resulting in a R20,98m deficit attributable to shareholders against a previous R39,46m surplus.

Despite these losses, the group reported a turnaround in attributable earnings to 30c a share from a previous 43c loss, and an unchanged dividend of 30c a share.

Protea MD Andrew Tainton said the results showed that the deterioration in short-term business had started to turn around, although high incidences of crime still affected short-term business.

Strategies were being implemented to eliminate business when the relationship between risks and premiums got out of line.

He said the results reflected the benefits flowing from the group's 18-month-old restructuring. However, enhanced business focus was expected to reap additional benefits.

Group results were influenced also by the decrease in the value of the equity portfolio and the short-term trading losses.

While substantial investment in improved information technology in the past few years could improve underwriting criteria, the industry was fluctuating and "these results should not be seen as indicators for the rest of the financial year".

Protea back in the black

(58) Star 16/8/95

BY LLEWELLYN JONES

Insurance group, Protea Assurance, achieved a turnaround in attributable profit to R2,4 million for the six months to June compared with an attributable loss last year.

Net premium income rose 9 percent to R317,3 million (R290,9 million), but managing director Andrew Tainton said the group's results were influenced by a drop in the market value of investments and an underwriting loss of R14 million (R15,9 million) in short-term business. Investment income rose 13 percent to R15,9 million (R14 million).

Tainton said high levels of crime continued to affect the results of short-term insurers.

But the company's results suggested there had been a turnaround as the alarming deterioration experienced last year had been halted.

"We are now benefiting from our investment in information technology and stricter underwriting criteria are being applied," he said.

Protea Life had seen a recurring premium increase of 36 percent and total net premium income by 15 percent to R80,1 million (R69,5 million).

New business for Liberty Life hits a record R1,8bn

(58) CT (BR) 17/8/95

By Llewellyn Jonfs

Staff Writer

New business written by the Liberty Life Group hit a record R1,8 billion in the six months to June.

The group boosted net taxed surplus — excluding equity accounted earnings — 28 percent to R288,1 million (R225 million).

Total income, including investment income, increased 15,8 percent to R4,4 billion (R3,8 billion).

The half-yearly performance equated to earnings of 120c (96c) a share. The interim dividend was 20,8 percent up at 116c.

Donald Gordon, the chairman, said Liberty had not yet decided how to apply the consideration of £527 million received for its share of Sun Life from Compaigne UAP, which netted a profit of £260 million for Liberty subsidiary TransAtlantic Holdings.

There were many options available, but Liberty would not be rushed into making a decision.

"We want to employ the money to the best possible advantage which cannot happen overnight. What I can say is that we will not be putting it all into one investment."

There were opportunities and advantages to be had in operating out of Ireland and the group had looked at investing in the American market, but any investment made would focus on the core business of life assurance.

Liberty Holdings, the parent company, reported a 29 percent increase in attributable profit to R177,9 million, with earnings a share up 26,3 percent to 376,9c. An interim dividend of 318c (264c) was declared.

Libsil reported net income after tax of R258,8 million (R214,6 million) and an interim dividend of 15c (13c) was declared.

The company's net asset value increased a marginal 3,8 percent to 1367c, but compared favourably with the 7,6 percent decline in the JSE overall index over the same period. First International Trust showed a 28,2 percent increase in attributable income to R54,9 million.

This equated to earnings of 25,1c (19,8c) a share and a dividend of 9c (8c) a share was declared.

The larger portion of the company's earnings was being re-invested to draw down its debt.

Christopher Beatty.

SA takes up 1% stake in African bank

BD 17/8/95 (58)

CAPE TOWN — The Cabinet authorised government yesterday to take up a 1% shareholding in the African Development Bank and to a conditional expansion of the shareholding.

Reuter reports Cabinet secretary Jakes Gerwel said the Cabinet accepted the second of two options put forward by the finance ministry, which proposed either an unconditional 1% shareholding or a conditional 2,59% shareholding.

Chief finance director Elty Links told a parliamentary committee on Tuesday that SA would try to take up membership in time for next week's election of a new bank president if the Cabinet sanctioned the proposal.

The bank had approved both options and would allow SA to assume membership early next week. SA has pledged its support to the regional Southern African Development Community bid for the presidency of the bank at next week's election.

Officials said that after yesterday's Cabinet approval, SA would immediately take up an R87m shareholding, which would be paid for in 10 equal annual instalments.

According to the proposal, SA would exercise its option on the remaining unallocated 1,59% share in the bank if the bank's management improved and if non-African members agreed to refinance the African Development Fund, which provided concessionary loans. SA's 1% stake would carry a contingent liability of up to R608m.

Samantha Sharpe reports that finance department deputy director-general Maria Ramos said the inclusion of SA as a bank member would enable the country to borrow offshore more cheaply than at present as the bank enjoyed a higher international credit rating than SA.

Access to funding for cross-border infrastructural projects would also be made easier, with these projects likely to increase in the years ahead. Ramos said SA's private sector would be able to tender for bank projects throughout the continent, which could mean "substantial contracts" for local players.

SA life assurance sector shows significant derating

Samantha Sharpe (58) BD 17/8/95

THE life assurance sector had shown a significant derating against the industrial sector since 1993 on a dividend yield basis, according to a recent Edey, Rogers & Co life assurance report.

Dividend yields are one of the tools used by analysts to rate the attractiveness of a particular share.

However, Edey, Rogers & Co banking and insurance analyst David Southey said the derating was to be expected due to the defensive nature of life insurance stock, and it followed "the normal pattern of relative weakness during the upswing phase of the business cycle".

Southey said sales prospects for SA assurers were, however, looking brighter in the short to medium term.

"In the longer term they are likely to face stiffening competition from the banking sector," he said.

A calculation aimed at testing whether an investor buying insurance shares would be paid back in future dividends within 10 years highlighted the relative cheapness of assurers against banks.

"Southern, Sage, Fedsure and Aflife are all shown to be inexpensive, that is they are easily able to grow at the required rate in order to satisfy the 10-year payback period. Liberty Life is marginally outside its required rate, which can be overlooked in view of all its additional special dividends paid from time to time."

Southey said in comparison the banks, with the exception of Investec, would all have to raise their dividend growth rates compared with their historical growth rates to qualify for the 10-year payback period.

He said the derating of SA assurers starting in 1993 had probably been accentuated by the severe downrating during the past two years of life companies in the UK, as well as in several other countries.

"In contrast to the UK where the derating was accompanied by lower profitability from assurers, domestic life offices have generally posted higher average growth in earnings and dividends than that recorded by the financial sector as a whole."

Liberty Life writes record new business

Star 17/8/95 (58)

BY LLEWELLYN JONES

New business written by the Liberty Life Group hit a record R1,8 billion in the six months to June.

The group boosted net taxed surplus — excluding equity accounted earnings — 28 percent to R288,1 million (R225 million).

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This equated to earnings of 25,1c (19,8c) a share and a dividend of 9c (8c) a share was declared.

The larger portion of the company's earnings was being re-invested to draw down its debt.

Life industry may have to follow global trend and update its laws

CT(BR) 18/8/95 (58)

BY LLEWELLYN JONES

STAFF WRITER

The legislative changes implemented in the British life assurance industry at the beginning of this year have seen sales and premium income fall. This could hold an important lesson for the industry in South Africa.

There was a severe lack of transparency locally and the industry should brace itself for some sort of regulation in the next few years, said Vernon Creswell, the director of Financial Services Corporation.

He said the industry had blinkers on and appeared to be ignoring the groundswell towards change in South Africa and significant changes forced on the industry through regulation in Australia and Britain.

"The consumer base tends to be unsophisticated and is usually unaware of the charges levied against them.

"For too long, the life assurance giants have eluded telling all the facts about their products. In many instances they are uncompetitive and inflexible when compared to other forms of investment."

This was mainly due to large upfront costs incurred — commissions paid to brokers, life office costs, management fees and interest charged all had a significant effect on the investment.

He said that 50 percent of endowment policies were surrendered within the first three years.

"Furthermore, if the policy is surrendered within its first few years most of the money invested could be lost.

"When a policy is taken up, most insurance companies immediately charge administrative costs as well as the intermediary's commission to the account of the policyholder. "Interest is then charged on these upfront expenses as they have been borrowed from the general policyholders' pool to pay these upfront costs."

But disclosure was merely one of the aspects relating to regulation or, rather, the lack of it.

"For an insurance salesman to go and sell a 10- or 20-year endowment policy to a person of 60 or 70 years of age, which happens, is clearly ridiculous.

"But the life company is as much at fault as the agent because there have been instances where life assurers have seen such a policy enter their books and have accepted it when they shouldn't have."

Creswell said he believed that regulation therefore encompassed greater control and improving the educational standards of insurance intermediaries.

"Whereas nearly anybody can be taken in off the street and made an agent without any expertise or training in South Africa, Australia requires certification of all its financial planners.

'In South Africa almost anybody can be made an agent without any experience or training but Australia requires certification of all its financial planners'

"The industry can get anyone to come in and market investments to our clients — that is wrong. It leads to Masterbond-type scenarios and leaves the investor with very little recourse."

After disclosure rules were introduced, Australian life assurance sales dropped about 40 percent in the first year and premium income fell significantly.

"Customer information brochures covering aspects such as fees and intermediary remuneration are now the norm.

"In addition, a 14-day free look period is available during which the applicant has the opportunity to cancel the policy and receive a full refund."

From the beginning of this year, insurance salesmen in Britain became obliged to show, in plain English, the commission that would be made on a sale, making comparisons between insurers more meaningful.

"For many years insurance bosses fought hard against any changes on the grounds that the disclosure plan showed an insufficient understanding of the industry and its products."

Regulation now also requires a key features document laying out, among other things, the total paid to date, the total actual deductions to date, the effect of deductions to date and what the transfer value might be.

"While Britain might have gone overboard on the amount of documentation to be completed with each policy, overall the new disclosure requirements represent a significant step forward. They have brought clarity to the information provided during the sales process which will help not only customers, but financial planners too, to explain the reasons for their recommendations.

"Taken together the end result should be that the client will have a better understanding of the product he purchases."

He said a recent survey by the Life Offices' Association in South Africa had yielded some interesting results.

"When interviewees were asked whether agents and brokers gave good advice, 89 percent said yes.

"On a scale of 0 to 10, the statement 'life assurance companies are honest and can be trusted' got a score of 6,2, 'salesmen are honest and trustworthy' scored 7,4, 'salesmen are knowledgeable and competent' scored 7,8 and 'salesmen are professional and businesslike' scored 7,6.

"The results seem surprising in the light of experience, but are maybe not as surprising when investors' average level of sophistication is considered."

Making investments was a complicated task and should be done taking into consideration all alternatives as well as all cost and tax implications.

"To do this, one needs a well-educated, experienced guide who must want to go to the same place as the investor.

"It therefore seems obvious to link the adviser's income to the success of the transaction rather than to the completion of the transaction.

"In other words, the adviser must stay for the ride and not be permitted to take an upfront commission and run."

In South Africa the association was extremely powerful and there was unlikely to be a change over the next three years, Creswell said.

"But the groundswell has begun and it would be to the industry's advantage to take the lead before change is imposed through regulation.

"Those in the industry must realise its future lies in transparency and accountability."

*Dramatic changes could be on the cards for South Africans wishing to invest abroad, so **Winnie Graham** discovers in a meeting with investment expert John Phillips.*

'Preparing for the party'

(58) Star 21/8/95

Ask any South African with money in the bank if he (or she) has investments abroad, and you are likely to be answered with a raised eyebrow. It's not a polite question.

Law-abiding citizens have long been restricted by South Africa's foreign exchange controls regulations which severely curtail overseas investments. Most people with money have enough difficulty getting cash out of the country for an overseas holiday – let alone for offshore investments

And yet the picture has suddenly started to change.

It became apparent that the world sensed changes in South Africa's monetary policy earlier this year when one of the world's top financial institutions, Templeton Global Investment Management, sent a representative to Johannesburg to open an office

South African-born John Phillips arrived in May to head the operation Phillips, who for several years worked for the US-based operation in America, oozes self-confidence about South Africa's future

He says he's here because he knows it is just a matter of time before the South African man-in-the-street is finally free to invest globally. To prove his point, he refers to financial developments this year.

"Chris Stals, the governor of the Reserve Bank, took the first step in relaxing controls on March 23 when he abolished the financial rand," Phillips said. "Next he will allow the big institutions – such as the insurance houses – to invest overseas. The average man with money to invest will be able to make off-shore investments within three to five years. By the turn of the century – the year 2000 – foreign exchange control will no longer exist."

In his view, Stals will move gradually to phase in relaxations As overseas capital comes to South Africa, so in turn South African investors will be allowed to invest elsewhere With the relaxation of foreign exchange controls, Phillips claims, investor confidence will return. He says more money will come into the country. This, in turn, will generate business and create more jobs.

"The problems facing South Africa are all money related," Phillips said. "As unemployment diminishes, so the crime rate will drop and the country prosper."

Not only the rich will be able to invest overseas. Anyone with a minimum of R20 000 to spare will have the opportunity.

He does not believe capital will flee South Africa when the controls disappear. It is estimated that some R80-billion has left South Africa in the past 30 years (illegally or otherwise). Once the controls go, people are likely to bring their money back.

Phillips said: "When Margaret Thatcher abolished currency controls in Britain, there were fears that money would flood out the country. It did – but six months later it all came back. People need their money to live."

Our man in Johannesburg ... John Phillips represents one of the first international financial services to open an office in SA.

With the weak rand, offshore investments have enormous appeal for South Africans wanting to expand their investment portfolios But will it be worth taking their money out the country? Interest rates in South Africa are high – far higher than elsewhere. What's the point of investing in a country offering a far lower interest rate?

"The main benefit comes in investing in foreign currency," Phillips said "The Japanese yen and the German mark are particularly strong, so is the British pound, the French franc and even the Danish krone. What investors lose in interest, they will more than gain in the strength of foreign currency"

Overseas investors have always had the world at their feet, but wealthy South Africans have been forced to limit their investments to their own country – and watch in frustration as foreign currencies have grown stronger and the rand weaker. The high interest rates available are directly attributable to the high inflation rate.

Phillips says his company has long included South Africa among its portfolios.

"Leaving out South Africa (with its enormous mineral wealth) would be tantamount to selecting a Springbok rugby team without including Transvaal," he said.

The Templeton organisation serves some 46 countries with offices around the world. It was formed 50 years ago when Sir John Templeton, then a young investment manager, made a simple decision: He would never follow the crowd. He believed superior performance was possible only if you invested differently from others. From the start he opted for the opportunities provided in emergent global markets.

Although Sir John has retired and is now one of the world's great philanthropists, his fund managers are perpetuating his philosophy, investing in places such as India and China where living standards are rising.

"In the US there are two telephones in the average home, while in China one in every hundred," Phillips said. "In the US every home has all possible electrical appliances from a microwave oven to a toaster. The average American uses 12 000 kw of power a year compared with 3 000 kw elsewhere. It is easy to appreciate who are more likely to buy – whose purchasing power is growing ."

International investment opportunities continue to improve. Companies are expanding globally and governments are encouraging foreigners to invest in their economies, leading to greater diversity in investment opportunities.

"Diversification is one of the most effective ways to protect your assets," Phillips said. "That is why we invest in a variety of industries and a wide range of countries. What's more, we don't play the market. When we buy stock we have no idea whether we will hold it for a month or 20 years. The average is about six years. In general we regard investments as long-term commitments."

Templeton's is the first international financial service to open an office in South Africa.

"We are here early to prepare for the party," Phillips said. "We're looking at South Africa for our American clients but we also want to market our funds to South Africans."

Mutual and Federal rises to difficult times

(58)

CT(BR) 23/8/95

By Llewellyn Jones

Staff Writer

Mutual and Federal yesterday reported a 19 percent increase in after-tax income to R162 million (R137 million) during "one of the most challenging periods in the history of the South African short-term insurance industry", said Ken Saggers, the managing director.

Net premium income was increased by 20 percent to R1,65 billion (R1,38 billion), attributable to both rate adjustments and new business acquisitions.

Saggers said the group had changed its accounting policy relating to the contingency reserve in line with industry practice during the year, which boosted underwriting profit.

The underwriting surplus surged by 98 percent to R49,2 million from a restated R24,8 million, largely attributable to a substantial reduction in weather-related claims, as well as strict control of management expenses.

In contrast, fire-related claims had been huge, and it was of great concern that many of the claims had been linked to arson.

Saggers said although the incidence of general crime appeared to have stabilised, it remained at unacceptable levels. The number of vehicles stolen or hijacked, however, had continued to escalate and Saggers appealed to the police and the judiciary to clamp down "decisively" on lawlessness.

"Failure to curtail crime will compel the industry to review terms to the detriment of the consumer."

He added that the number of motor accidents had increased significantly over the past 18 months and had severely affected the motor account.

Although investment income had increased only marginally to R29,5 million from R27,9 million, about R14,5 million had been received in the form of capitalisation shares.

Adjusting for this, investment income growth would have been about 12 percent.

At the same time, group assets exceeded R4 billion for the first time, despite the relatively poor performance of the JSE over the past year.

Earnings rose 19 percent to 344c (290c) a share and a dividend of 126c (105c) a share was declared.

Saggers said he was extremely proud of the long-term return to shareholders that the group had consistently managed to deliver over a number of years.

Total returns — including dividends — over five years was 23 percent and the return over 10 years was 34 percent.

For the year ahead, Saggers said insurance-trading conditions were likely to remain unfavourable unless crime was brought under control.

SA to join African bank tomorrow

By Thalia Griffiths

CT (BE) 24/8/95 (58)

PELITEP

Abidjan — The African Development Bank will formally admit South Africa tomorrow with Pretoria taking a cautious 1 percent shareholding, but joining in time to take part in elections for a new bank president.

Bank sources said the governors, who will meet in Abidjan tomorrow for a rerun of the elections that ended in deadlock in May, will first vote on admitting South Africa.

South African officials said the decision to join the bank could provide a badly needed injection of confidence.

Under fire for corruption and mismanagement, the bank needs a president supported by both African and non-African members so it can unblock its soft-loans arm and start work on a planned restructuring.

South Africa has attended bank meetings as an observer since 1991.

Bank sources said that as the biggest economy in sub-Saharan Africa, South Africa would be entitled to a shareholding of up to 12 percent, overtaking Nigeria which has 10,53 percent.

The bank failed in five rounds of voting in May to elect a successor to outgoing president Babacar Ndiaye.

An election at the bank's annual assembly in Nigeria's capital of Abuja on May 25 ended in stalemate and the same three candidates — Seyyid Abdulai of Nigeria, Omar Kabbaj of Morocco, and Timothy Thahane of Lesotho — are standing again in Abidjan.

South Africa has pledged its support to Thahane, a vice-president and secretary at the World Bank, who is backed by the Southern African Development Community and the United States.

In the vote in Abuja, Thahane had the highest number of votes but failed to secure a majority in five rounds of voting. Abdulai, placed third, failed to withdraw as the fourth and fifth-placed candidates had done.

Standard and Poor, the credit rating agency, placed the bank on credit watch at the end of June.

Bank sources say the standoff over the presidency obscured progress made in Abuja.

Governors voted to limit executive directors to two three-year terms. They also approved an independent external review of the bank's administration and financial management to clear the air for the new president.

INVESTMENT RETURNS

Single Premium Returns on a Taxed and Untaxed Basis

	Taxed	*Untaxed*	*Taxed*	*Untaxed*	*Taxed*	*Untaxed*
Protea Investor	18,6	17,8	21,2	20,2	17,7	18,0
Old Mutual Performance	16,6	17,0	19,5	20,7	18,6	18,7
Sanlam MBR400	14,25	17,92	20,16	23,45	18,21	19,72
Metropolitan Met	16,8	20,7	17,7	21,2	15,6	17,8

Protea Life portfolio produces top yield

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BY LLEWELLYN JONES

STAFF WRITER

Protea Life's Investor Portfolio produced a 21,2 percent return over 10 years on taxed, non-retirement single premium business, the highest annual yield among 11 portfolios in the latest Richard Wharton-Hood Survey.

Over the 15, 20 and 21-year period, the Investor Portfolio produced the third highest returns on a taxed and untaxed basis.

Duncan Carmichael, Protea Life Investment manager, said although Protea was one of the small players in the fund management business, its investments were consistently at or near the top of the league.

"For 15 years we have maintained continuity of fund managers, and this is clearly reflected in the excellent yields produced over the long term," Carmichael said.

"Protea's investor-managed portfolio has been available to investors for more than two decades, and has produced an annual compound yield of 18 percent on taxed business over this period — one of the highest in the market. The aim of our investment team is to ensure that our portfolios produce long-term growth in real terms, and our Investor Portfolio has proven itself an excellent long-term investment vehicle."

The survey also highlighted protea's returns over shorter investment periods with the UAL Equity Fund and the Investor Managed Fund among the top portfolios in the two, three and four-year periods for taxed business.

In the retirement annuity category, Protea UAL Equity Fund took the top position over two, three and four years on annual business. Protea has proven selection abilities.

Portnet yields to pressure

(56)

DURBAN: Portnet buckled to pressure from environmentalists yesterday by calling a temporary halt to a R250 million expansion project at the harbour container terminal.

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This follows an outcry from environmentalists about the harbour authority's apparent failure to consult the public adequately or to investigate ecological impacts of the project.

However, indications are that a major battle between businessmen and conservationists has only just begun over Portnet's longer-term plan to build a second massive container terminal before the turn of the century. — Own Correspondent