FINANCE – GENERAL

1996

AUG. – DEC.

Most insurers agree to act on ombudsman's rulings

(68) BD 1/8/96

Adrienne Giliomee

MOST of SA's short-term insurers have agreed to abide and act on the ombudsman's recommendations after disputes over insurance claims.

Ombudsman Michael Bennett said yesterday this placated fears by the public that the ombudsman was not independent and had not real powers to assist the public.

However, while most insurers were willing to stand by his ruling, he could not guarantee that individuals would reciprocate.

While half the 48 insurance companies registered with the SA Insurance Association had agreed to his rulings, about 16 of the outstanding 24 insurers were either reinsurers and others specialist insurers not involved in personal lines.

Bennett said during his term of office, he had never had a case with any SA insurance company that had not complied with his recommendations. Association CE Barry Scott said it would look at making insurance companies abide by the ombudsman's recommendations as part of its new code of conduct that is now being rewritten.

The ombudsman's annual report shows that his office received 1 268 claims last year, of which 439 was dealt with. He said 22% or 279 of the complaints received during past year had achieved success or partial success as a result of the ombudsman's intervention.

An additional 621 complaints received before last year was concluded during the year.

Of the complaints received, 40% related to comprehensive motor policies, 18% to householders policies mainly relating to theft, 14% to personal accident and disability policies and 12% to claims arising from damage to buildings.

Bennett said the public had still, in many instances, to be educated about insurance policies.

"Most complaints were found to be misconceived or unfounded, and sometimes based on a complete misunderstanding of the nature of the insurance contract."

Bennett said all Lloyd's syndicates operating in personal lines business in SA had agreed to accept and act on formal recommendations made by the ombudsman in regard to complaints submitted to him.

CITIZEN BANK (58)

FM 2/8/96

MERGING OPPORTUNITIES

Niche market player in the Thebe Investment Corp stable since 1994, listed Citizen Bank has looked undervalued for some time.

There were obvious reasons. With nearly all its income derived from home loans, and largely limited to the Eastern Cape, perceived risk was high. And that perception was compounded by its relatively small size. One consequence is that Citizen has been the only bank in the sector to trade at a discount to NAV.

The share price came under further pressure this year as details of a planned merger, which included the Bank of

Continued on page 79

The key to the deal, though, is the introduction of FNB as a partner, committed to the deal for at least 10 years. Apart from its equity stake, it will introduce liquidity lines, strategic management support and its long banking experience to the merged group, which will probably retain the Citizen Bank title.

The larger group will also afford Msele Corporate & Merchant Bank, housed in Citizen, to expand its activities and establish a trading and treasury division.

Joint CE Bill Scotcher says that this will allow the merged group to access the wholesale funding market, offering further scope for growth. The enlarged

Continued from page 76

Transkei, emerged. Apart from regulatory difficulties relating to the incorporation of a former homeland bank, continuing negative publicity around allegations that Bank of Transkei overcharged interest payments on the former government's overdraft also spilled over to Citizen Bank.

By the time the previous merger talks were called off, Citizen's share price was rapidly approaching a new low for the year.

Details of a proposed merger announced last week supported the upward trend in the share price which emerged a few weeks before. The plan — for Citizen to acquire Future Bank and Bophuthatswana Building Society (BBS) — seems favourable all around. The merger will cost Citizen roughly R90m, to be settled by the issue of shares.

Strategic partner First National Bank, along with Msele Financial Holdings (Thebe's financial services arm, which bought the original 38% stake in Citizen in 1994) will underwrite 80% of the share issue to BBS shareholders, paying them cash for the Citizen shares.

Shares will also be issued to Future Bank shareholders, which will give black business and consumer organisation Fabcos a stake of around 5% in the merged organisation.

Other minority shareholders (Msele will hold 35%, FNB 25% plus one share for a veto on special resolutions) are almost exclusively black.

The merger offers Citizen much needed critical mass (the new group will have capital of around R160m and assets of R1,2bn), a wider focus and important geographic diversification and new retail products from Future Bank, which specialises in lending to small and medium businesses.

bank is also well placed to enter new markets, not least the privatisation of State assets through the merchant bank.

The merger lends a lot of attraction to the share. Citizen will still be a small banking group, but it's well capitalised and chairman Vusi Khanyile says it will follow an active acquisition and expansion programme. In an overpriced sector where pressure on interest margins and competition is lowering growth forecasts, Citizen could be one of the few bargains around. *Shaun Harris*

MOTOR ACCIDENT PAY-OUTS

(58) FM 2/8/96

LIMITING COMPENSATION

The Transport Department's plans to drastically reduce third party insurance pay-outs — designed to save the Multilateral Motor Vehicle Accidents Fund (MMF) from insolvency — will result in an estimated 28% of accident victims no longer being adequately covered.

The new proposals, contained in a recently released White Paper, seek to limit compensation for loss of earnings to R2 500/month and loss of support to R1 875/month (or 75% of a deceased's pre-accident earnings, whichever is the lesser).

The paper says at least 72% of the population would be covered by the new provisions and urges the remaining 28% to take out top-up cover.

Compensation for future medical expenses would be calculated according to a formula and limited to R800 000 for persons under 20 years of age and R200 000 for persons over 80

General damages compensation for pain and suffering, loss of amenities, disablement, disfigurement and loss of life expectancy — 25% of the MMF's expenditure — would be abolished.

The MMF now pays out the claimant's or the deceased's full income to retirement, making provision for promotions, annual bonuses and inflation It meets general damages claims and pays out all proven medical expenses for the duration of the claimant's life, including the cost of motorised wheelchairs, electronic prostheses, two or more attendants, transport costs and certain home alterations

Dr Steve Jooste, of the Cape Independent Practitioners' Association, says it costs R3m-R10m to maintain a quadriplegic at home for life. By limiting compensation to R800 000 Transport Minister "Mac Maharaj is proposing a system of institutionalising the most expensive victims for life." It is contrary to government's national disability strategy, which seeks to empower the disabled, and will place a financial burden on the State.

The proposals are based on a system operating in Victoria, Australia, which has a 99% literacy rate, low accident rate and a sophisticated social security network.

The White Paper says a further 25% saving can be effected by scrapping legal costs. There would be no role for lawyers in the system if the apportionment of damages no longer relied on the degree of fault or negligence of the parties. The new proposal — that negligent and innocent parties be treated alike in determining compensation — has drawn considerable criticism And a victim's common law right to sue a motorist for damages in excess of a MMF pay-out may also be removed

The fund is financed by a dedicated levy on fuel of 9c/l on petrol and 5,8c/l on diesel. An automatic annual increase of 9% in the fuel levy is proposed and the transfer of the MMF into a general fund, which could allow government to dip into motorists' contributions to finance other needs

The department says that, if implemented fully, the new plan will eradicate the fund's R4,2bn actuarial deficit in eight-10 years.

However, lawyers and doctors have united against it by forming the Road Accidents Victims' Association (Rava) in Cape Town and sister organisations in Johannesburg and Durban. Rava feels it will "severely disadvantage future accident victims and could infringe their common law rights." Instead of penalising the victim, Rava says that the focus should be on reducing the high collision rate by improving road conditions, traffic law enforcement and increasing penalties for reckless and drunken driving. ■

GUARDIAN NATIONAL

(58)

Into the furnace

FM 2/8/96

At first Guardian National's R400 000 underwriting loss for the first half comes as a nasty surprise — until MD Andy Jack explains that the loss stood at R12,5m at the end of the first quarter

That means the short-term insurer pulled back more over the second three months than the R7m underwriting profit posted in the comparable period So Jack considers the result satisfactory "in the face of adversity "

UNDERWRITING GLITCH

Six months to	Jun 30 1995	Dec 1 1995	Jun 30 1996
Gross premiums (Rm)	641	749	771
Underwriting profit (Rm)	7,0	15,3	(0,4)
Attributable (Rm)	32,8	48,5	35,4
Earnings (c)	323	477	349
Dividends (c)	134	200	167

The principal problem was worse than normal fire claims on the corporate account, as well as heavy rains leading to storm and flood claims. The depreciated rand didn't help either — any loss for goods originating overseas or paid for in hard currency meant higher costs in settling claims.

Is this an indication that, after pulling clear of crime claims — which plunged underwriting into the red in 1994 — the cycle is again turning down?

"Certainly in what we call mega business — the large, corporate accounts, yes," Jack says. "Premiums are soft and overseas insurers are coming into the market."

He finds it hard to explain the sharp rise in large fire claims. "Perhaps it's a factor of the improving economy. As order books fill, there's more pressure on older machinery It's the worst I've seen in my 30 years in insurance "

Arson, always difficult to prove, is also a continuing factor and its capricious nature emphasises unpredictability

The bottom line, however, was carried by 26,3% growth in investment income (to R40,7m) and a lower tax rate from increased dividends received. EPS advanced by 7,8%.

And this is where the strength of most short-term insurers lies. strong underlying investment portfolios (Guardian's was worth R1,69bn on June 30) The small underwriting loss is a temporary glitch — the share has appreciated by about 60% over the past year (and the dividend consistently goes up by more than 20%) It's a great share if any can be prised from the controlling shareholders, but don't expect Liberty Life and Guardian Royal Exchange to let go

Shaun Harris

Wiseman Nkuhlu, the chairman of the National Empowerment Consortium PHOTO SELWYN TAIT

Cyril Ramaphosa, the executive chairman of New Africa Investments PHOTO SELWYN TAIT

Black savings 'aren't used to fund black empowerment'

(58) CT(BR) 5/8/96

By Jabulani Sikhakhane
BUSINESS EDITOR

Johannesburg — Black business turned its sights on white financial institutions yesterday, saying the black savings they held were not being used to finance black economic empowerment.

Wiseman Nkuhlu, the chairman of the National Empowerment Consortium (NEC), said at a black economic empowerment conference in Johannesburg though black South Africans saved about R30 billion a year through retirement funds and other forms of savings, these savings had yet to be mobilised to finance black economic ownership and control.

"Blacks have over the years had to give their savings to white institutions to manage and to use for white economic empowerment," Nkuhlu said.

The NEC is a consortium of black business and trade unions that is bidding for Anglo American's 48 percent stake in Johnnies Industrial Corporation (Johnnic). Johnnic, valued at more than R8 billion on the JSE, has significant stakes in Premier, the food group, and South African Breweries, whose operations include beer, softdrinks, and food and clothing retailing.

Some NEC members are believed to be battling to raise the finance needed to buy Anglo's stake in Johnnic and are expected to acquire these assets in stages rather than all at once.

Nkuhlu, who is also the chairman of Worldwide African Investment Holdings, a black-controlled investment group, said black workers contributed an estimated R12 billion to R15 billion to retirement funds last year.

Savings through stokvels and other similar voluntary organisations were about R2,4 billion last year. Nkuhlu said that if other forms of savings were included, black savings could be as high as R30 billion a year.

He said labour unions, which could influence the way their members' retirement funds were invested, needed to form consortiums with black business to bring managerial expertise to advance black economic empowerment.

Nkuhlu said the separation between those who saved and those who made investment decisions had limited the use of a large amount of black savings for black economic ownership.

He said the politically emasculated group subsidised the more powerful group in societies with entrenched racial inequalities. That was what happened in South Africa, he said.

Nkuhlu said that decisions by blacks to entrust their savings to fellow blacks would not be driven by political considerations alone. Even when most of the trustees of retirement funds were black, it would not result in retirement funds taking unjustifiably high risks.

Nkuhlu said the issue that would change was interpretations of what constituted risk and not the principle of balancing risk with projected returns. For instance, black trustees would not necessarily associate investing in predominantly black areas with high risk, as traditional investment managers did. Their world view would not necessarily correspond with that of traditional investment managers.

Addressing the same conference, Cyril Ramaphosa, New Africa Investments' executive deputy chairman, said black economic empowerment needed to be a large plank in the government's economic policy framework, because the exclusion of most of the population from the mainstream economy would have serious long-term political and economic consequences.

Ramaphosa said there should be specific empowerment targets and the means to achieve these, which should be monitored.

CUTTING EDGE: Cape Town company EFB Machine Tools, started in 1994 by design engineer Eugene Blank (left) and his father Frans (right), has broken into the export market with the sale of its new bandmill power tool to a client in Namibia. The R155 000 machines, made in EFB's Culemborg plant on the Foreshore, have also attracted interest from potential customers in Pakistan, Mozambique, Zaire and Chile, according to Eugene Blank. Seven machines have been sold so far and three more are on order.

Top jobs on the line as Norwich restructures

(58) ARG 6/8/96

MAUREEN MARUD
Business Staff

CAPE-based insurance giant Norwich Life is to spend "a few million" cutting sales operations countrywide and paying retrenchment packages to about 125 staff members, says group chief executive Charles Davies.

Part of the expenditure will be for buildings where leases will have to be carried for a while after sales units have either become redundant or streamlined, he said.

In Cape Town three managers and11 full-time commission sales people have lost their jobs.

Five administrative staff members have been told their jobs no longer exist.

However, they were told that efforts will be made to redeploy them in other departments. Failing that they will be laid off.

"I am angry and hurt," said one employee, who did not want to be named.

"Without any warning whatsoever management walks in and gives us the chop."

As part of what Mr Davies called "a restructuring and cleaning up", 85 sales consultants and 10 managers countrywide lost their jobs.

A further 30 administrative staff members were offered retrenchment packages, although efforts would be made to redeploy them.

"I will put it to you in plain language: We have some centres that are not being productive."

He said Norwich Life had always operated in the middle- to upper-income market, "and we have to deliver the kind of service these people expect from us".

It was part of the company's strategy to remain focused on its goals and strategies for the future, he said.

Robust growth in recurring premium and investment income helped the group post a 37 percent increase in attributable earnings to R62.2 million in the year to December, 1995.

Unnamed consortium bids for failed Community Bank

(58)

Amanda Vermeulen

BD 6/8/96

THE Reserve Bank had received a last-minute bid from an unnamed consortium for Community Bank, registrar of banks Christo Wiese said yesterday.

A lawyer representing the consortium, whose members are not yet known, had submitted a buy proposal to the Bank yesterday, only days before he was due to make a decision on the future of the troubled institution.

Wiese was handed Community Bank curator Stewart Patterson's proposals to rescue the bank from liquidation by the finance ministry two weeks ago. Patterson had recommended the bank merge to save it.

Patterson has held talks with local and overseas institutions and organisations, and it is understood from sources close to the bank that it could merge with two parastatals.

Patterson said yesterday that he did not know the identity of the consortium members, but Wiese said it was a private-sector venture.

A decision would be made on the cash-strapped bank in about two weeks because of the late development with the potential new buyer.

The bank went into curatorship in May following a liquidity crunch stemming from delays in the housing programme.

More significantly, the original funders refused to release R70m from the original start-up capital of R200m promised when the bank was established two years ago.

Patterson's investigation into the bank also disclosed that R4m deposited by the Gauteng and Western Cape housing boards from the RDP capital subsidy fund had been misallocated into the institution's operation account.

Despite a call by Patterson to Finance Minister Trevor Manuel for funds to cover the R4m, Manuel has yet to respond.

Vehicle insurance law changes

Sowetan 6/6/96

(58)

The issues

- The white paper proposes to remove the constitutional right of all citizens under common law to sue for damages if injured in a motor accident.
- The changes make provision for a maximum of only R 1 875 per month to be paid out to families who have lost their bread winner through a motor accident regardless of the size of the family.
- The white paper is based on the successful vehicle accident fund adopted by Victoria, Australia and fails to account for the massive economic difference between South Africa and Australia.
- VORAC (Victims of Road Accidents Committee) was formed to oppose the white paper which is seen as being detrimental to the majority of road users.

The facts

- Under the current MMF act, all drivers involved in a motor accident are indemnified from personal liability. It is financed by a nine cents levy on every cent of petrol sold. The fund pays out all expenses, including medical costs incurred, the loss of future earnings and damage for pain, suffering and mental anguish caused by the collision.

- The proposed white paper will differ in a number of substantial ways. Compensation for damages occurring through pain, suffering and mental anguish will not be covered and claimable benefits, such as coverage for medical costs and the loss of future earnings will be capped drastically reducing the extent of coverage.

- It is arguable that should the MMF not provide cover an individual could sue the negligent driver causing the accident for the remainder of coverage. The white paper proposes to remove this right to sue, rendering the injured parties helploss. Not to mention the vast contravention of one's constitutional rights. And should the right to sue not be removed, negligent driving could result in destitution, one of the motivating factors for the establishment of the third party fund.

- Either way, motorists will find themselves having to take out insurance policies. Without a right to sue, to cover personal damages incurred and with the right to sue, cover themselves against possible legal action through negligent driving, which could be up to a sum of R10m.

- Another substantial difference proposed by the white paper is the methods of claiming compensation. Under the old fund, the injured party would employ an attorney to claim money owed by the fund. The white paper proposes that attorneys be removed from the equation and individuals can claim directly from the fund by filling out questionnaires regarding the alleged accident.

- While the paper has not overlooked the fact that 80 percent of South Africa's population is classified as illiterate, the proposal that hospital and police staff will help these people fill out their claim forms is preposterous. Understaffed officials in these departments will not be able to cope with the additional responsibility.

- Individuals who are disabled through road accidents will find themselves hard pressed to survive on the meagre allowances provided for by the MMF. The white paper recognises this, and proposes that specialised government rehabilitation centres, modelled after those in Australia, be developed with finances from the fund. Considering that these are lacking, it will take long for the country to be fully equipped to handle disabled patients effectively.

- The viability of the ideas contained in the white paper as well as the haste in which the paper is issued is open to criticism. The public needs to get involved and have a say in the passing of the white paper.

- A commission of inquiry chaired by a judge experienced in issues of third party insurance should investigate the highly complex issue.

- A key proposal in the draft paper is to do away with apportionment of blame in any given motor accident, in favour of a no fault system. Three earlier commissions concluded that such a system will not work.

Commercial Union on track with income hike

BD 7/8/96 (58)

Adrienne Giliomee

SHORT-TERM and life assurance group Commercial Union lifted net income 22,7% to R62,2m for the six months to June after a good underwriting and investment income performance by CU Insurance offset its flat life operation.

Earnings came to 124,4c (101,4c) a share with an interim dividend of 30c (25c) declared.

Gross premium income of CU Insurance jumped 42% to R599,4m, but CU Life managed to increase gross premiums 2,5% to R345,8m.

New annual premiums in CU Life dropped from R56m to R55,5m, and single premiums to R76,2m from R80,9m.

Group net premium income came to R746,1m (R585,9m), comprising of R432,7m (R287,3m) from CU Insurance and R313,4m (R298,6m) from CU Life.

Sentrasure, which was bought by the group in November last year, contributed R114m of the net premium income.

Profit before tax of R77,3m (R52,1m) consisted of a R10,1m underwriting surplus from CU Insurance, R55,2m from net investment income, R2m net realised gains and a R10m surplus from CU Life.

Commercial Union MD Roger Wanless said the underwriting surplus was achieved despite the effect of "severe storm-related claims" and a significant increase in fire losses.

He said the surplus should be stable for six months, although storm-related claims could increase during November and December.

The acquisition of Sentrasure added R2m to the underwriting result, which Wanless said bore testimony to the corrective measures taken since incorporation.

Group investment income grew 95% to R55,2m, but included the acquisition of Sentrasure. Without the Sentrasure stake, the growth in investment income was 18%, which Wanless said was on track with forecasts.

Earnings arising from CU Life operations and returns on shareholders capital increased to R10m (R8,5m).

The tax charge of R5,9m (R1,4m) was partly offset by an assessed tax loss in Sentrasure. Wanless said the tax losses had been fully used and the tax charge was expected to increase "commensurately" during the second half.

Subject to an unforeseen dip in the underwriting results, earnings growth was likely to be maintained for the year.

NEWS

Thahane calls on commercial banks to service small business

CT(BR) 8/8/96 (58)

By Roy Cokayne

Pretoria — South Africa has a critical need to create links between the formal banking sector and the informal sector, Timothy Thahane, the deputy governor of the Reserve Bank, said yesterday.

Thahane said the commercial banks should have specialised windows to serve small, medium and micro-enterprises.

He said the banks had to accelerate this service through training.

Project design was one of the constraints the informal sector faced in dealing with frontline banks, so loan officers should have the training and skills to enable them to make informal-sector projects bankable.

He said the government looked to the informal sector to create jobs and reduce poverty. The informal sector was also important for long-term growth in any economy.

Thahane said there was a great demand for finance from small and medium businesses in South Africa, but the informal sector was not adequately served by the formal banking sector, particularly in rural areas.

He questioned how the banks would meet the credit needs of the people in the informal sector if they did not distribute savings geographically.

Thahane said organisations such as the Development Bank and the Small Business Development Corporation filled some of the gaps left by the formal banking sector, but these institutions' coverage did not extend to every village and urban area.

He said secondary lending schemes had sprung up in South Africa because so many micro-enterprises were refused credit in various communities.

Thahane said there was a feeling that micro-enterprise financing or informal-sector growth was hampered by high interest rates and lack of access to credit. The Reserve Bank was often blamed for maintaining high interest rates.

He said deciding where to set the Bank rate was always a judgment call, but the key aspect was that the rate should be pitched at a level that allowed the country to maintain stable growth over time.

He stressed that many variables determined whether interest rates were high or low.

Thahane said if savings were insufficient for investment demand in any economy, interest rates could be raised to attract more funds.

These funds could also be supplemented by printing more money, though this would lead to higher inflation.

It was globally accepted that printing money caused inflation, which became a tax on the whole economy because it affected all the goods in the economy, he said.

Revision of home loan targets likely

BD 8/8/96 (58)

Lukanyo Mnyanda

FAILURE by major banks to meet their lending targets for government-subsidised housing begged the question whether the targets were realistic, Mortgage Indemnity Fund MD Nkululeko Sowazi said yesterday.

He said stakeholders in housing would have to meet and revise lending targets after SA's major banks failed to grant 50 000 new loans in areas covered by the MIF in the 12 months to May.

Of the 35 000 loans granted in MIF-covered areas, 15 000 were not covered by government's subsidy scheme, meaning the banks had granted only about 20 000 loans. The Council of SA Banks earlier this week said it had granted about 35 000 new mortgage loans, valued at R2,7bn, in areas covered by the MIF.

The original plan had been to grant 50 000 loans by May this year, increasing to 100 000 a year up to year 2 000.

Sowazi said the failure to meet the target was "disappointing".

"The shortfall is even bigger (than thought) because 15 000 of the loans don't fit in with the (50 000) target," Sowazi said.

He said the shortfall had emphasised the need to "debate whether the target was realistic" and that the recording of understanding had also made provision for the yearly revision of targets.

Sowazi said a collective judgement of the banks was unfair, saying they should be judged individually as some had performed well. "Builders and banks have been blaming each other. I think the truth lies somewhere in between."

Housing delivery was increasing every month and it was critical that government and the private sector worked together to "unblock" projects where subsidies had been approved.

Cosab housing GM Lance Edmunds said the banks expected to increase lending but declined to discuss possible target revisions until the matter had been discussed with all stakeholders.

Banks had the capacity to meet the original target, but had not received enough applications from potential new homeowners.

On new lending targets, Edmunds said: "That depends on what the building industry is going to produce. We need to see what the building industry and government are going to do."

Building Industries Federation of SA (Bifsa) executive director Ian Robinson said he expected housing delivery to accelerate and this should translate to an increase in the number of loans granted by the banks.

Government's recent plan to provide over R525m for the construction of high density housing would probably create about 40 000 units. The subsidy system was also likely to provide about 100 000 service sites. Overall, Bifsa was expecting an estimated 75 000 new loans for subsidised houses in the next 12 months.

Robinson said the building industry had the capacity to build more units, but it was constrained by the lack of financing for its programmes.

NEW REPUBLIC BANK (58)

MD's SUDDEN DEPARTURE

FM 9/8/96

The resignation of Mac Mia as MD of Durban-based New Republic Bank (NRB) ends another chapter in the troubled history of this small bank. The question now is whether prospects will improve under new Malaysian shareholder Dato Samsudin abu Hassan, who through his Virgin Islands-based Redbridge Assets holds 75% of SMG Holdings, which in turn owns 67% of NRB.

The sudden departure of Mia may not initially be well received, amid signs of dissatisfaction with NRB among KwaZulu-Natal's Indian business community.

Informal talks, aimed at setting up a new bank with an Indian business focus, indicate some prominent Durban businessmen feel NRB is moving away from its original focus on this market. This, however, may fit in with the longer-term refocusing of NRB as it aims to achieve a wider geographical spread and more of an international flavour.

Mia, who had been with NRB for nearly 10 years and with NBS for 19 years before that, would not comment on his resignation, saying only that he had "several options."

NRB executive deputy chairman Jonathan Scott confirmed Mia had tended notice with his resignation, but said: "Due to his office the practical effect was for him to leave immediately." He added the parting was amicable.

While not commenting, Mia does not deny that his authority was eroded after the entry of the new shareholder. For one, Scott was brought in over his head from Mercantile Bank after being recruited by Dato Samsudin abu Hassan, now NRB's new chairman.

After reporting dismal results for financial 1996 — attributable earnings halved to R6m and the final dividend was passed — the new chairman placed much of the blame on "previous management" and subsidiary Merchant Trade Finance, introduced to NRB by previous majority shareholder Christopher Seabrooke.

Scott says the implications of Mia's departure and a new MD are yet to be considered. He adds, however, that longer-term changes to the senior management structure were coincidentally being considered when Mia resigned.

His main concern at the moment is

getting through NRB's R120m rights issue, currently under way. The share price had not moved by Monday afternoon on news of Mia's departure.

The former MD is known to have been approached by business leaders to head up a proposed new bank, aimed at the Indian business community. Informal talks on the subject have apparently been under way for some time, with a group of Indian businessmen feeling they have missed the economic empowerment movement.

The thinking may be retrogressive. When NRB was formed 26 years ago, in the apartheid era, it may have served a purpose. But, given the considerable financial clout built up by the Indian business community, they should get the same discounts and service from the main banks today as anybody else. That raises the question of whether there is still any need for a niche bank serving this community. *Shaun Harris*

RANKING BANKS (58)

WHERE SA STANDS

FM 9/8/96

There are many ways of ranking banks — in terms of capital, assets or profits. Alternatively, performance ratios could be used: return on capital or assets. Growth is another criterion. Measuring primarily in terms of Tier One capital, *The Banker* has just published a list of the world's top 1 000 banks.

This shows Standard Bank has moved up a notch in the latest annual ranking. It is placed 183rd — up from 184th last year. It holds first tier capital of US$1,8bn. Absa has slipped from 186th to 187th, with $1,7bn.

They are followed by:

- First National Bank at 260th (previously 258th), with $1,1bn,
- Nedcor Bank at 262nd (well up on last year's 318th), with $1,1bn;
- Investec Bank at 497th (down from 475th), with $537m; and
- NBS Bank at 673rd (down from 659th), with $337m.

Rankings are based on consolidated figures and individual banks not listed are included within a banking group.

The Tier One definition of capital is used, which is stricter than total stockholders' equity available to cover actual or potential losses, and includes common stock, disclosed reserves and retained earnings, but excludes cumulative preference shares, revaluation reserves, hidden reserves, subordinated and other long-term debt. These are defined as "Tier Two capital."

Percentage changes, *The Banker* says, are calculated using local currencies

In terms of assets, the SA rankings are:

- Absa $28,7bn,
- Standard $27,5bn,
- First National Bank $21,2bn;
- Nedcor $18,6bn,
- Investec $14,3bn, and
- NBS Bank $4,7bn

Asset figures, *The Banker* explains, "exclude, wherever possible, third party items, such as acceptances, guarantees and securities, held with third parties."

Profit rankings are as follows

- Standard $465m;
- Absa $426m,
- First National Bank $364m,
- Nedcor $330m,
- Investec Bank $80m; and
- NBS Bank $79m.

Critical ratios of performance show a very different picture. In terms of profits on capital (the average of the latest and previous year's capital), Nedcor is first with 35%, followed by.

- First National Bank 34%,
- Standard 27,6%,
- Absa 27,1%,
- NBS 26,5%, and
- Investec 16,2%.

Ranked by return on assets, Nedcor leads again with 1,77% Then come:

- First National Bank 1,72%;
- NBS Bank 1,7%,
- Standard 1,69%;
- Absa 1,48%; and
- Investec 0,56%.

But when it comes to real pre-tax profit growth, Investec leads with 46,6% This figure strips out SA's 8,6% inflation rate. NBS is next with 45,7% Then come:

- Absa 19,7%;
- Nedcor 14%,
- First National Bank 10,7%; and
- Standard 4,5%.

World rankings — previously dominated by Japan — have been transformed. First is the UK's HSBC Bank, which has acquired the UK Midland Bank, followed by France's Credit Agricole, the Union Bank of Switzerland and US-based CitiCorp ■

Third-party proposals run into wall of resistance

(58)

ST(BT) 11/8/96

By DON ROBERTSON

THE draft White Paper on the Multilateral Motor Vehicle Accidents Fund has come in for severe criticism from constitutional lawyers and members of various health organisations because of proposals to introduce a "no fault" clause in the new Act.

They are also opposed to proposals to put a cap of R2 500 a month on payouts to families of accident victims for lost income, and the withdrawal of common law rights to sue the guilty party for losses in excess of the benefits paid by the MMF.

The White Paper, published in June, proposes to withdraw compensation for "pain and suffering" and introduce a limit of R1 875 a month for loss of support.

The MMF was previously funded by a 9c a litre levy on petrol and 5,8c a litre on diesel. Last week, the levy on petrol was increased by 1,5c and on diesel by 0,75c a litre. The proposal is to increase this by a nominal 9% a year.

In spite of this income, the MMF has a liability for claims incurred but not settled of R5-billion. The intention of the proposals is to reduce costs, improve administration and return the fund to financial stability with contingent liabilities covered by 2007.

The White Paper says that by putting a cap on R2 500 for lost income and R1 875 for loss of support, "'the overwhelming majority of victims will not be affected. People who would like to be insured for more than the levels of benefit we are proposing will need to insure themselves, as many people already do."

The main opposition for these proposals comes from the Victims of Road Accidents Committee based in Johannesburg, supported by similar organisations in Cape Town and Durban.

Patricia de Lille of the parliamentary portfolio committee on transport will hear submissions tomorrow and on Tuesday. Other submissions may be submitted to the Department of Transport until September 1.

Representatives from many other associations plan to oppose some of the proposals.

Attorney Malcolm Lyons, who heads up Vorac, questions why the Minister of Transport wants to "railroad" this proposed Bill through Parliament with such haste.

He also calls for a judicial commission to investigate the proposed drastic changes and asks what Government's intentions are for the surplus that might result from the increased fuel levy.

Also under discussion will be how the capping of R2 500 has been arrived at and how it was established as an average per capita earning, and why the issue of common law rights has not been resolved.

NEWS FOCUS

Little comes of govt's St Lucia ecotourism plan

BD 12/8/96 (58) ~~(288)~~

Tom Wiltshire-Robbins

MARITZBURG — Five months after government decided against mining the shores of Lake St Lucia, little has come of promises to develop it into an ecotourism mecca.

For more than 20 years, Richards Bay Minerals has held a government lease to mine titanium, between the eastern shores of the lake and the ocean, without being able to work the area. In recent years the mining company lobbied hard to get permission, pledging to invest about $1,4bn in what is one of the poorest areas in the country.

But there was an outcry from environmentalists, which gained an unprecedented level of public support and promised that community-based tourism could match the money promised by mining.

In March government relented and decided no mining would take place. The decision was greeted with glee by environmental movements and the local media but one small group of people was not that happy — the residents of Dukuduku, a fragile coastal lowland forest that borders the lake. Some said they had not been consulted about the decision and threatened to blockade Easter Holiday. They did not — but still harbour considerable suspicion about the tourism option.

The SA environmental media have argued that if ecotourism does not start delivering economic benefits the local community could be further antagonised and could carry on their slash and burn agriculture and poaching.

The Cabinet committee, composed of ministers involved in the decision to pursue ecotourism, said in March they would appoint a task team under the minister of environmental affairs and tourism, "to co-ordinate the development of a land-use strategy for the greater St Lucia area". But five months down the line government responses to questions paint a picture of confusion, with one or two exceptions.

Environmental Affairs and Tourism Minister, Pallo Jordan, has been in office only one month, and could not explain how the development process would work and could not answer to criticisms that development was moving too slowly.

A ministry official says an integrated development plan will be drafted for the entire region, looking at various options. But he says terms of reference are still being drafted. Questioned on the slow pace of development the official says: "It is a problem but these things take time. It is not as if nothing has happened, perhaps this is not obvious because no final proposal has been made."

A ministry of land affairs (another government stakeholder at St Lucia) committee was to have reported to Cabinet by early June on a feasibility study on ecotourism "but I don't think they have reported yet," says an official.

The head of the Natal Parks Board, the environmental agency charged with protecting Lake St Lucia, Dr George Hughes, is optimistic about the situation.

He says that apart from conserving the area, the board is looking at the possibility of a joint venture with a private company for a high income generating tourist operation — in conjunction with the local community. "If we do not have some projects moving and start building at the end of 1997 I will be very disappointed," he says.

Wessel Nel, a member of the DP's provincial parliamentary committee on the environment, is less optimistic, saying land ownership claims are among the problems inhibiting development.

Two land claims have been made, both under new legislation that aims to go some way in compensating land forcibly removed by the previous government.

Apart from the uncertainty caused by the land claims nearby forest dwellers also cause problems with their slash and burn farming methods and poaching. Nel says it is crucial that an effective agreement is struck with these people before progress can be made.

But provincial environment affairs MEC, chief Nyanga Ngubane, says he has spoken to the people and they now support ecotourism. He says there was an initial problem with the land claims in that people felt they could claim the whole area, not just the eastern shores of the lake, but now that he has explained the situation they are satisfied.

Nel and Ngubane both agree that the parks board cannot plan development properly until the land claim has been resolved. The regional land claims commissioner hopes this will be done by year-end.

Another major obstacle Nel lists is government-owned pine plantations around the lake. These forests were introduced from outside the area and fly in the face of an indigenous wetland park. But the danger is that if government does not act quickly there will be no job creation and the wetland park will have suffered further degradation. "There is a five-year period for ecotourism and the sands of time are already running out," Nel warns. — AIA.

NEWS IN BRIEF

Banks Bill tabled

(58)

DRAFT legislation to regulate banks' investment in joint ventures was tabled yesterday.

A memorandum on the Banks Amendment Bill said there was uncertainty on how free banks and their controlling companies were to enter into joint ventures.

It was advisable that written approval be obtained from the registrar of banks when the venture would expose the bank to more than 5% of its capital and reserves.

The Bill will also empower the registrar to obtain more information from foreign banks.

BD 13/8/96

More Sun Multi Serve funds found

BD 13/8/96 (58)

Lukanyo Mnyanda

THE fund manager appointed to wind up pyramid scheme Sun Multi Serve has discovered a bank account containing nearly R10m in investors' funds — nearly eight months after the Reserve Bank ordered the scheme shut down.

Tim Store said yesterday the account had been frozen alongside Sun Multi Serve's other accounts, but had been discovered only in the past two weeks as the move towards repaying investors neared completion.

The discovery means the fund manager has R60m in investors' funds to redistribute, which should be repaid from Friday. Investors' claims over cash pumped into the scheme run to R88m.

Store said the return of investors' money depended on the Supreme Court approving the list of investors drawn up in terms of an April truce with Sun Multi Serve's managers. It would be taken to the court today.

The R28m shortfall had been "expected", considering the manner in which the scheme was administered, and the total repayment would probably translate to a dividend of 68c to a rand.

The Bank ordered the fund closed in December after ruling it had breached Banks Act regulations. The Office for Serious Economic Offences is investigating the matter.

Previous attempts to track down investors were halted amid intimidation of the fund manager and his staff.

Bank supervision spokesman Johann de Jager said although the Bank was concerned about investors losing their money, "we did warn people against participating in pyramid schemes. The losses were inevitable."

In a newspaper advertisement yesterday, registrar of banks Christo Wiese's office said Store had received claims totalling R88m, with most investors wanting their funds to be redeposited to smaller and legal stokvels.

Of the claims lodged, only R3m would have been returned directly to individual investors.

"Approximate figures can only be given at this stage as the lists of investors are still being checked and the funds invested are still accruing interest. However, it is not expected that the adjustments still to be made will affect approximate figures materially."

Wiese's office emphasised that the agreement with Sun Multi Serve did not suggest that it condoned pyramid schemes. "Such schemes remain illegal in terms of the Banks Act and the Harmful Business Practises Act," it said.

Sun Multi Serve national investors' committee publicity secretary Nick Neniels said the scheme was unhappy with figures mentioned by Store, but admitted that the whole process was undertaken "in conjunction with us".

He was adamant that investors were unlikely to incur losses, but declined further comment until he had met Store.

Sentrasure transforms its loss into profit

(58) CT (BR) 13/8/96

By Sean Feely

FINANCIAL SERVICES EDITOR

Johannesburg — Sentrasure, the unlisted agricultural insurance company in the Commercial Union stable, said yesterday that it had achieved an underwriting profit in the six months to June 30 this year, compared with a loss at the same stage a year earlier.

Sentrasure attributed the profit to stronger underwriting controls.

The underwriting account registered a profit of R2 million in the first half from a loss of R19 million last year, reflecting a R21 million turnaround. Commercial Union, a JSE-listed insurer, holds a 60 percent stake and agricultural co-operatives have a 40 percent interest in Sentrasure.

John Moat, Sentrasure's managing director, said the improved results had been achieved by focusing on better underwriting standards, such as tighter claims procedures and more thorough customer selection. He expected Sentrasure to maintain its improvement for the full year. He said the effect of snow-related losses would affect the company in the second half of the year. Sentrasure provides short-term insurance to about a third of South Africa's commercial farmers.

"Snow is a natural disaster not often encountered in South Africa," Moat said. Last month, heavy snowfalls hit key agricultural regions, damaging crops and injuring livestock. The late grain crops had increased the risk of fire in the second six months, he said.

Groups lash capping of claims for motor vehicle accidents

(88) CT (PAR) 13/8/96

By Christo Volschenk

Cape Town — Consumer bodies yesterday lashed the proposed capping of claims lodged against the multilateral motor vehicle accidents fund by people injured in motor accidents.

The groups were addressing the parliamentary standing committee on transport on the first day of public hearings on the issue.

Amore Malan, the chairman of the national council of quadriplegics in South Africa, said the proposed capping of medical expenses over the lifetime of the injured to a cumulative amount of R800 000 was "ridiculously inadequate".

At present victims can claim compensation from the fund for all medical expenses supported by vouchers without any limitation, including expenses incurred outside South Africa.

The Association of Law Societies added its voice to the Road Accident's Victims Association in condemning the draft White Paper's "attempt at eroding the entrenched rights of South Africans".

A group of motor accident victims in wheelchairs will stage a "ride" on parliament today to present a petition against the proposed changes to Patricia de Lille, the chairman of the standing committee on transport.

The government proposed capping claims in the draft White Paper released two months ago as part of a fundamental restructuring of the fund to restore it to financial health.

The White Paper proposes radical changes to the three types of claims that the injured can institute: claims for loss of earnings, claims for medical and hospital expenses and claims for pain, suffering and the loss of physical and mental function.

It suggests that claims for lost earning and medical expenses be limited and that claims for pain and suffering should fall away.

Malan criticised the proposal that a victim of a motor vehicle accident be compensated for loss of earnings up to a maximum of R2 500 a month. Victims can now claim the full loss of earnings for the whole period away from work. She also complained that far-reaching changes had been presented in a "complex form requiring specialised knowledge" to understand.

African Bank plans to target rural areas

(58) Sowetan 13/8/96

The bank is downsizing some of its branches and expanding others

By Mzimkulu Malunga

AFRICAN BANK PLANS to grow its assets to about R1,5 billion within the next five years. The bank's chief executive Colin Franks says in the short to medium term Afbank wants to build credibility in order to attract new depositors and grow its savings section.

Currently savings deposits from Afbank's 100 000 depositors contribute to 40 percent of its funding and Franks says the plan is to more than double this figure.

Franks is hopeful that once the bank has built a new track record new depositors will come.

He says control systems which were introduced by the new management are beginning to bear fruit and all the bank's 32 branches are fully operational.

There is downsizing in some branches and expansion in others, argues Franks.

"Our focus is going to be on large rural towns because there you can compete with the big banks."

In smaller towns that are surrounded by big rural communities, he says, big banks do not have as many branches as in the fully fledged urban areas, a factor which makes it easier for smaller banks like Afbank to compete in those areas.

For the immediate future, the bank sees itself as a savings haven for people earning between R1 500 and R3 500 a month and as a provider of finance to small business people.

Afbank, which made news headlines around this time last year when it was hit by a major financial crisis, has been out of curatorship in the past four months.

New roleplayers

After a marathon crisis lasting more than two months, Afbank was finally saved from collapse by a consortium comprised of New Africa Investments Limited and the Natal Building Society, who together with the Government injected a R120 million to recapitalise the bank.

NBS is now Afbank's biggest shareholder with a 38 percent shareholding while Nail and its subsidiary, Metropolitan Life, have 21 percent each. The Government has a 15 percent stake.

The remaining five percent is owned by those who had shares in the bank before it was taken into curatorship in September last year.

Rating

Also, for the first time in its history, Afbank has been given a rating by rating agency IBCA.

The bank was given a short term rating A3 and a legal rating of three, meaning that it has capacity to honour its repayments timeously and it is backed by strong shareholders.

New objectives for debt-ridden MMF

Maharaj outlines history of inflated claims by lawyers and doctors and proposes capping of compensation for expenses and loss of income

(58) Star 14/8/96

Own Correspondent
Cape Town

An inaccessible and complicated justice system, fraudulent claims by lawyers, medical specialists inflating claims and a R5-billion debt were some of the reasons given by Transport Minister Mac Maharaj for the scrapping of the Multilateral Motor Vehicle Accident Fund (MMF).

The draft white paper proposes faultless liability; the capping of compensation for loss of income, medical expenses and loss of support; a scrapping of general damages claims; and the limitation of the victim's common-law rights against the wrongdoer. It also proposes that the MMF itself take over the administration of the fund from private insurers.

Speaking at the portfolio committee's public hearing on the draft white paper, Maharaj defended the white paper, saying it addressed the issue of motor vehicle accident claims within the context of the Government's "mandate to help the poor".

However, the white paper was open to debate. With the MMF fund R5-billion in the red, Maharaj said the new system would have to "incorporate the reality that there is insufficient funding to meet the needs of all".

He added that a new system would have to be victim-orientated with a reduction in settlement costs.

Maharaj conceded that the proposed limitation of the victim's common law right to claim damages above a capped amount would probably remain intact.

He suggested that the constitutional court would react to any limitation of the rights in a way that would ultimately benefit the country.

On the question of no fault being necessary on the part of the wrongdoer, Maharaj said the emphasis was "on assisting the victims". A simple objective test to ascertain whether a victim was involved in a motor vehicle accident would simplify claims.

Maharaj said it would be irresponsible of him to increase the existing petrol levy as it would burden the economy. "We must find the correct means to address inequalities and stimulate growth."

On the role of the private lawyer in the process, he said the present MMF was unfair as a victim who could afford a top lawyer and medical team would have a superior chance of winning a damages claim than a victim who could not afford such services.

"We need to find a balance between a system so complicated that the man in the street can't access the necessary legal advice and a system so simple it would be open to fraud."

Maharaj rejected suggestions that the new system would become the mother of all bureaucracies. "We would have to find a way to administer the fund most cost-effectively," he said.

New bid to stem rise in interest rates

Star 15/8/96

SA Reserve Bank takes unheard-of step to help commercial banks as pressure on rand threatens consumers' pockets

58

Staff Reporters

With the rand being battered daily, the Reserve Bank is taking extraordinary steps to stop the currency's weakness leading to another rise in interest rates.

The Bank is channelling taxpayers' money into commercial banks to ease pressure, delaying an otherwise almost certain increase in rates which would hit consumers hard.

Reserve Bank governor Chris Stals said yesterday all Government deposits – which included all tax payments as well as VAT – usually placed in the Bank's coffers were being kept in the banking system.

Instead of depositing these taxes into the Reserve Bank's exchequer account, where most of these taxes usually go, the Bank has been depositing them into Government accounts at commercial banks.

The commercial banks will therefore not be forced to borrow more money from the Reserve Bank to balance their books, and pressure to hike interest rates to maintain sufficent cash floats is therefore being held at bay.

This is good news for consumers, whose wallets, economists have warned, are likely to grow leaner as the currency continues to slide.

It plunged to a new low of R7,06 to the pound at the close of local trade yesterday and dropped around 2,5 cents to near its weakest point of R4,5580 against the dollar.

Executive director of South Africa's Consumer Council, Siva Jammine, has warned that short-term inflationary effects would push many already cash-strapped consumers "over the edge".

"We are told things will get worse before they get better, but the truth is that consumers cannot stand very much more.

"It is not about giving up luxuries or overseas travel. Too many will not be able to afford the basics – food, clothing and transport. For the consumer there is only one answer and that's bad news."

Pick 'n Pay managing director Raymond Ackerman agreed: "The rand's decreasing value is taking daily more and more money straight out of the man-in-the-street's pocket."

But, he said, the most severe blows will be dealt by soaring costs of imported goods.

"Most packaging and tinned foods are imported. Farming equipment is imported, which will affect food prices. They will gradually start increasing in every sector," warned Ackerman.

Another danger lay in the potential that some South African businesses had to abuse the weaker rand, which would cripple consumers and cause a "runaway" inflation rate, he added.

The Africa Council of Hawkers and Informal Traders (Achib) spokesman, Mongezi Sanqela, said he believed that further price increases would put a significant number of the already battling 85 000 street hawkers across the country out of business.

However, Gauteng Association for Chambers of Commerce and Industry chairman Frank Caldwell said there might be a positive side to the weak rand.

"South African producers stand to benefit as their cheaper products became sought after on overseas markets," he said. "And the increased cost of imported goods will give local businesses an opportunity to compete effectively."

Econometrix economist Dr Azar Jammine said another petrol price hike was likely as the rand continued to devalue, which would, in turn, force other prices up.

But the interest rate is safe for now. The taxpayers' money in government accounts at commercial banks will remain in tax and loan accounts until it is paid into whatever government expenditure it was intended to fund.

However, Stals warned of dangers from the Reserve Bank's intervention in the money market.

"You can't do it for too long. It's dangerous for the money supply."

▶ **Stals delays hike**
See Business Report

Feeding frenzy at the pension payout

ARG 16/8/96 (58)

CHENÉ BLIGNAUT
Staff Reporter

THE monthly payout point for pensions and other social grants, at the civic hall in the debt-ridden community of Bonteheuwel, is the perfect opportunity for loan sharks to prey on the poorest of the poor.

The handing over of grants to needy beneficiaries is only the first in a chain of payouts that take place on the scene.

From there, the money goes directly into the hands of the money lenders, leaving the pensioners with too little on which to live for the rest of the month.

This leads to more borrowing and eventually the beneficiaries become trapped in a vicious cycle of debt from which they never escape. Persistent complaints by community members that money lenders and debt collectors control the payout of social grants in Bonteheuwel were personally confirmed by Minister of Health Ebrahim Rasool and the department's forensic auditor Tim Steele during a surprise visit this week.

Mr Steele is heading an investigation into charges of fraud and corruption in the social security system. The moneylenders allegedly often "take over" pension payout books and collect the money on behalf of their "clients" to make sure the loans get repaid.

Other debt collectors hang around outside the hall, ready to prevent their "clients" from fleeing without settling their debts.

Debt collectors hang around outside the hall, ready to prevent their "clients" from fleeing without settling their debts.

The interest on these loans is believed to be as high as 50 percent.

In some cases, this means that a pensioner, who gets a monthly payout of R450, often ends up with less than R60 on which to live for that month.

This necessitates further loans, often from more than one loan shark at a time, and at the end of the month the vicious circle starts again.

At 7,30am, when the ministerial delegation arrived on the scene, the atmosphere at the community hall was akin to that of a bustling marketplace, with some traders even doing business inside the hall.

Within a few minutes the minister had verified most of the allegations of irregularities which had been made by beneficiaries during the past few weeks

Corroborating complaints from beneficiaries, a post official admitted they often paid out pensions to people who could not produce identity documents or on altered power-of-attorney forms

He also told the minister they often paid out more than one grant to the same person.

None of the officials who were questioned seemed to be aware of a new regulation which limited the number of relatives or friends on whose behalf money could be accepted.

The minister's investigation further confirmed that some of the people assisting in the payout were prominent members of a political party. This was significant because there had been allegations of political intimidation of beneficiaries. Tygerberg councillor Mary Jaftha, a member of the National Party, was one of the officials at the payout this week.

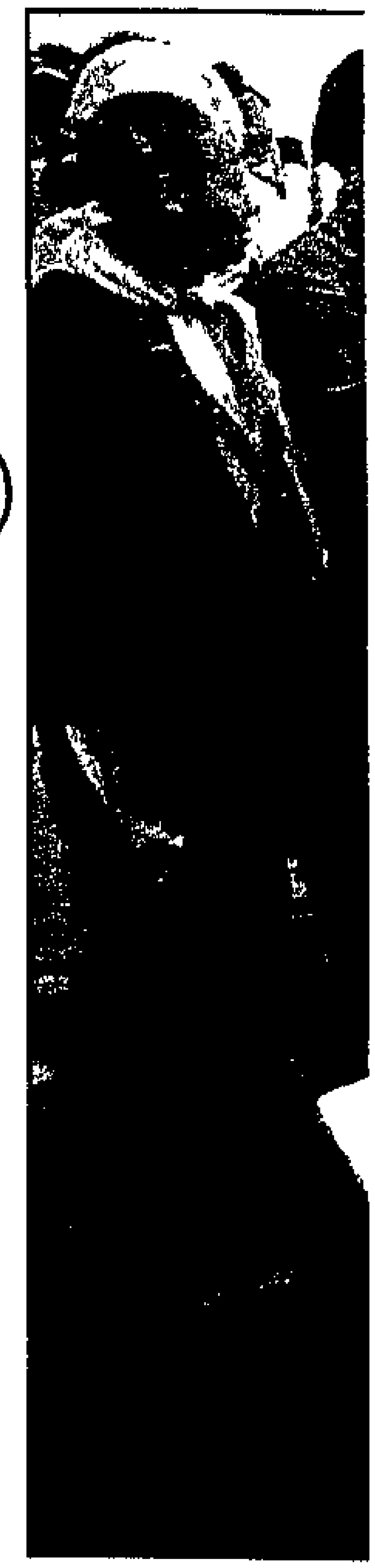
The security situation at the hall also left much to be desired. There were about four guards in the hall, but it was difficult to determine which of them had been appointed by the post office and which were acting as guards for moneylenders. The inspector noted with concern that the back door of the room where a large amount of cash was being kept, was bolted, but unguarded. And in the hall, where people were queueing behind various tables, stacks of cash were lying around openly on the tables

This was particularly worrying in the light of the fact that huge amounts of pension money had been stolen during armed robberies in Bonteheuwel on two previous occasions.

"It is very difficult to determine just who is who and who is doing what in this set-up," said Mr Rasool, who described his visit as "witnessing the underworld of of pension payouts".

He said his department would focus on Bonteheuwel as a pilot project to overcome corruption, fraud and irregularities which appeared to be rife in the social security system

Short-term measures would include a campaign to inform beneficiaries of the regulations pertaining to payouts, and interviews with community members to find out more about their experiences.



IN DEBT: Women gather around the car of an alleged money lender after getting their monthly maintenance pay-outs in Bonteheuwel.

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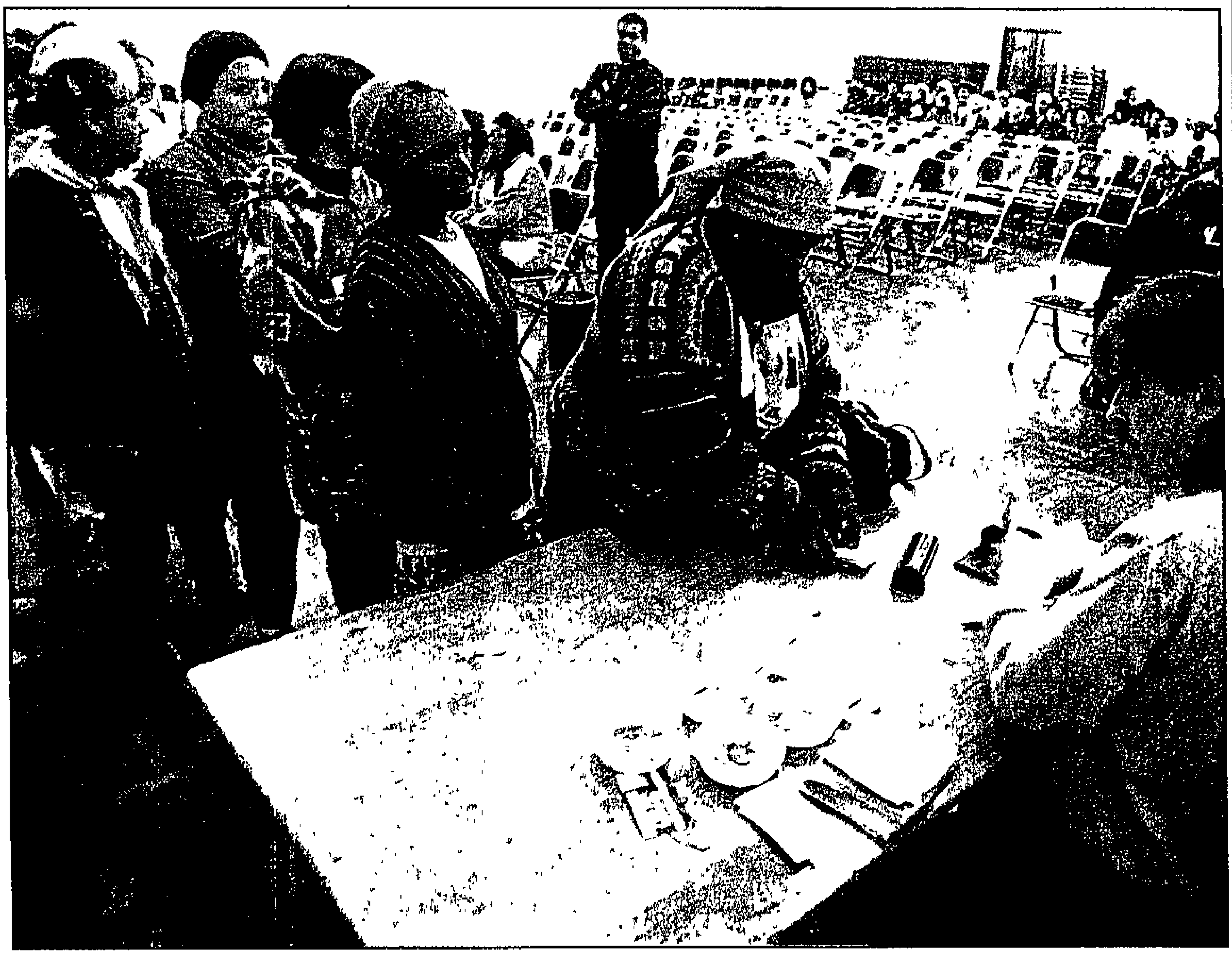

CASH OUT: A beneficiary gets her monthly maintenance money from an official in the Bonteheuwel community hall. Piles of cash lying around openly on the table were a cause for concern for a forensic auditor from the Department of Health and Social Services.

PATIENT: A group of Bonteheuwel women wait patiently for their turn during the monthly pay-out of maintenance money and other social grants.

Pictures ANDREW INGRAM, The Argus

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"Within five weeks all the personnel we needed were in SA and four months later a computerised system, known as Computicket, was ready to be shown to clients and the press," says Tucker.

"It was a momentous occasion when Computicket opened to the public on 16 August 1971."

Computicket is still unique in the world's entertainment industry, in that it is the only system in the world where the public has a choice of the entire cinema, theatre or sporting event seating plan at their service terminal.

Stokvel gets the green light after clampdown

Star 16/8/96 (58)

By Patrick Phosa

Months of wrangling between the Reserve Bank and investors of Sun Multi Serve, an informal savings scheme, are over and the scheme will come back into operation today.

SMS is a scheme which promised its investors a 300% return on their investments. However, its accounts were frozen by the registrar of banks after investigations indicated it had contravened the Banks Act. The act stipulates that a stokvel should not have funds in excess of R9,9-million. SMS had about R50-million in assets.

Elated SMS national investors' committee publicity secretary Nic Neniels said yesterday negotiations were over and that it would be business as usual.

"I am upbeat because the uncertainty regarding the fate of the scheme is gone. We have 28 legally constituted branches among which the funds will be distributed.

Now we will operate within the legal framework without any fear of a clampdown," Neniels said.

SMS's accounts were unfrozen after a landmark agreement in April enabled the funds to be paid back into the scheme's accounts and into the accounts of investors who wanted to quit the scheme. The agreement stipulated that SMS should submit a list of investors and their claims.

On Tuesday the Supreme Court approved the list and the accounts will be with effect from today.

Fred Mare from Deloitte and Touche, the accounting firm entrusted with overseeing the fate of the funds, said the investors' claims over cash injected into the scheme ran to R96-million and the frozen accounts had R61-million.

"I hope the scheme will now run differently from a pyramid scheme that promises investors a lot of money," he said.

There have been problems with pyramid schemes, which have seen investors lose thousands of rands after they have promised high returns.

DBSA hands out record amount

CT (BR) 16/8/96 (58)

By James Lamont
INDUSTRIAL EDITOR

Johannesburg — The state-owned Development Bank of Southern Africa disbursed loans and grants to development projects to the tune of R1,3 billion in the year to March 31, a record level, compared with R1,1 billion last year, the bank said yesterday.

In its new role as an infrastructure-development bank no longer funded by the government, the bank's disbursement of R1,3 billion, including just R5,7 million in grants, was 15,7 percent up on the previous financial year.

Loans worth R1,1 billion were approved for 173 new development projects this year, a rise of 26 percent on last year's figure of R863 million.

A further R770 million was committed to projects from co-financing agreements from the private sector, thereby mobilising a total of R1,9 billion for new projects.

A total of 80 percent of the bank's loans went towards infrastructure projects.

Multimillion-rand projects supported by the bank included the KwaGuqa-Mhluzi roads and stormwater upgrading in Mpumalanga, the electrification of Cradock in the Eastern Cape, the upgrading of Port Elizabeth's water and sanitation system, the Cato Manor development project near Durban and the Olifants River to Sand River inter-basin water transfer project.

The net surplus to the bank for the year dropped 30 percent to R114 million.

This decrease was mainly because of the reduction in government contributions, an increase in the provision of loan losses, and the costs of forward-exchange cover on foreign borrowings.

Wiseman Nkuhlu, the chairman of DBSA, said the bank — which was formerly the financier to the homelands — was no longer dependent on state subsidies and grants but now relied on borrowings from the local and international markets.

He said the bank was striving to become "self-sustaining without sacrificing its development duty".

Ian Goldin, the bank's chief executive, said its domestic and foreign borrowing was rising sharply.

He said that joint private-sector financing would play a much greater role in the coming years, particularly in the Maputo and Wild Coast corridor initiatives.

GLAD HAND *Wiseman Nkuhlu, left, and Ian Goldin, right, contemplate a record year* PHOTO: SELWYN TAIT

THIRD PARTY & MMF

REARRANGING THE WRECKS ON A PANTECHNICON

(68) FM 16/8/96

Right to sue under threat

In 1992, a 28-year-old accountant on his way home to his wife and child found himself in the path of a lorry driving on the wrong side of the road. It mowed into his car, turning him into a quadriplegic.

Several years later, a court awarded him more than R5m for medical expenses, pain and suffering, and loss of earning capacity.

If the proposals in the recent White Paper on the Multilateral Motor Vehicle Fund (MMF) are implemented, the same victim would be entitled to less than a quarter of that amount. But no damages for pain and suffering, and no more than R2 500 a month to make up for his lost salary. For 18 months, all medical expenses would be covered. Thereafter, he would get no more than R720 000 in medical expenses for the rest of his life.

In the same year, a 28-year-old labourer with a wife and child, earning R1 500 a month, lost his leg below the knee. He was awarded up to R700 000 for his pain and suffering, medical expenses and loss of earnings.

If the proposed changes were in place, the victim would not be entitled to claim damages for pain and suffering. For the first 18 months after the accident, excluding the first month, he would be entitled to R1 500 a month for loss of earnings and only R600 a month thereafter, even though he was now unemployable.

For 18 months, all medical expenses would be met. But, thereafter, he would be entitled to basic medical expenses of no more than R170 000 for the rest of his life

His total compensation would be less than R400 000

If the victims had lost their lives, all dependants would collectively have been able to claim no more than R1 875 a month in the case of the accountant and R1 125 for the labourer Only the higher income earner's dependants would suffer.

These cases are hypothetical and not actual examples But they illustrate the size of awards made over the past few years which, according to the Multilateral Motor Vehicle Fund, are threatening to cripple the fund They also demonstrate the inadequacy of awards which would be made under the system proposed in the draft White Paper on the third party insurance scheme

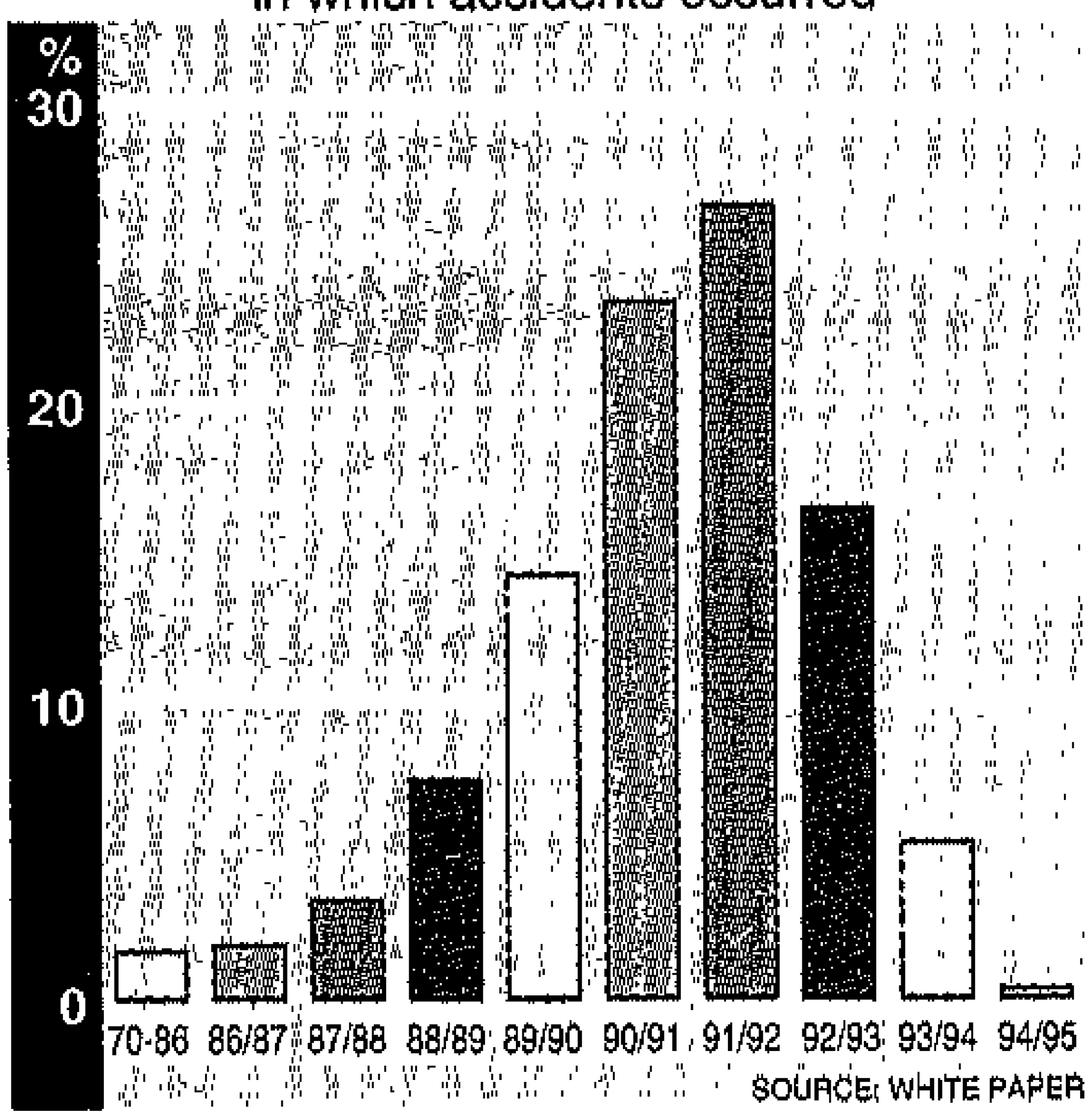
The fund is financed through a fuel levy of 10,5c/l. Until recently, claims were administered by insurers acting as agents, except for the 10% of cases arising out of hit-and-run accidents In the mid-Eighties, it was regarded as desirable business because of the fees paid to companies selected as agents.

Mac Maharaj

Over time, however, as the third party deficit mounted, the fund started to attract bad publicity The Melamet Commission was set up to inquire into the system.

THE "LONG TAIL" NATURE OF ACCIDENT CLAIMS

% of claims paid in 1994/95 relating to years in which accidents occurred



Fund CEO Willem Swanepoel says: "Though no fraud was found in the MMF, it was severely criticised for not monitoring the quality of work done by its agents, for having made ill-advised investments, for lack of reliable statistics and generally for poor direction and management."

Certain aspects of its operations were referred to the Attorney-General of the Transvaal.

Many short-term insurers then terminated their agency agreements. Only five still remain in the field, administering about 40% of the claims. The fund administers the rest.

Insurers' views on the proposals are not yet known. SA Insurance Association CEO Barry Scott says an official response to the White Paper is still being formulated

The mechanism for providing general protection to those injured on the roads has undergone many changes but, despite six commissions of inquiry, no satisfactory system has yet been devised.

There are a number of key issues raised by the White Paper

The first is how to make the fund affordable. It has an actuarial deficit of R4bn and is, therefore, technically insolvent

Ginsburg, Malan & Carsons actuary Elna Croeser says that, in practice, the third party system is funded on a pay-as-you-go basis, with the fuel levy as a guaranteed source of income. Accident claims have a long tail, so today's motorists are paying yesterday's claims.

Under the new system, which aims to settle claims in a shorter time, reserves may be inadequate, putting the pay-as-you-go funding approach under pressure. This does not mean the fund's deficit must be fully financed But it certainly means it should be contained.

The next issue is whether the proposed no-fault system, which would entitle all accident victims to compensation, is workable — or even equitable.

At present, apportionment of blame determines the extent of awards. If no settlement is reached between the insurer and the insured, apportionment is decided in a court of law.

The system is flawed and open to abuse by claimants, insurers and lawyers, as well as by doctors and other expert witnesses

Litigation is lengthy and costly. The White Paper says attorneys' fees constitute 20% of total claims expenditure. Melamet recommended two potential time-saving devices: an ombudsman and simpler claim forms. Neither of these proposals were implemented.

The legal fraternity says settlement delays are caused by the MMF itself because:

- No interest is paid on damages, so there is no incentive to settle early;
- It does not concede liability for negligence until the last minute to avoid making interim payments and earlier settlements;
- Its offers are usually inadequate, forcing litigation; and
- Postponements of trial are sought regularly on frivolous grounds.

Under the proposed system, a victim will, theoretically, simply have to fill in a form, submit it to the fund and wait a few months for the cash

This is wishful thinking. Association of Law Societies committee chairman Dudley Honey points out many South Africans are illiterate. How will they correspond with the fund? And how will they collate their medical bills?

Like the current system, the new system will be open to abuse. It is not known how a no-fault system will affect the number of claims.

SA has an exceptionally high accident rate combined with high unemployment. An unemployed person is entitled to loss of notional earnings at a statutorily determined level.

So the moral risk would be much higher than it is in the case of workmen's compensation.

A third key issue is capping payments for loss of earnings, loss of support and medical expenses.

The level of capping for loss of earnings was based on a 1994 survey, by the Human Sciences Research Council, which showed only 28% of the population earn more than R2 500 a month In 1996, it is possible that 50% earn more than that

The fourth issue relates to the scrapping of damages for pain and suffering.

Says Swanepoel: "Experience shows 25% of compensation paid is in general damages." So it will effect a saving but will disadvantage many victims, especially with capping in place.

Finally, there is the attempt to abrogate a victim's common law right to sue for the balance of damages not covered by third party insurance. The proposal has been made because a person "could be ruined by a huge claim," according to the White Paper.

If accepted, this proposal would constitute an infringement of several constitutional rights

Transport Minister Mac Maharaj has asked for more input on this.

Essentially, the problem is that the results of research underpinning the White Paper are ambiguous and the costing is incomplete.

No Green Paper has been published, indicating insufficient consultation. Lawyers, for instance, have not been consulted because they are seen to have a vested interest in maintaining the existing system.

There is an unrealistic time frame for receiving public input — initially two months but later extended to three — and implementing the changes.

Following the public hearing on the draft on August 12-13, Maharaj plans to have legislation finalised by October and the new Road Accident Fund in full operation by May 1997

It is not possible to devise an affordable system that will compensate all victims. There are an estimated 5m cars on the road and a potential victim population of 50m — including illegal aliens.

So the funding base will not stretch to the needs of the situation. If a social security system is to be introduced to help these victims, or victims of any other type of accident for that matter, it must not be embedded in the third party system.

There may be no perfect way to provide adequate third party cover. And we may have to make do with a less-than-perfect system But we will not find even this unless more research is done, especially in countries with similar demographic profiles to SA's.

The White Paper proposals were partially based on a model used in the Australian state of Victoria, which has a very different demographic structure.

The best approach may be to combine a fuel-funded base with private-sector enterprise and efficiency.

We may have to accept modest increases in the fuel levy It is at least an equitable way of rating road usage proportionally And, to create incentives for short-term insurers to administer the fund, they could be asked to tender annually for the fund's entire claims processing business (*Leading Articles* March 1). After a few years, greater efficiency and competition among insurers should bring down the price

The actuarial deficit could be funded over a longer period. What is important is that the deficit's growth trend should be sharply reversed.

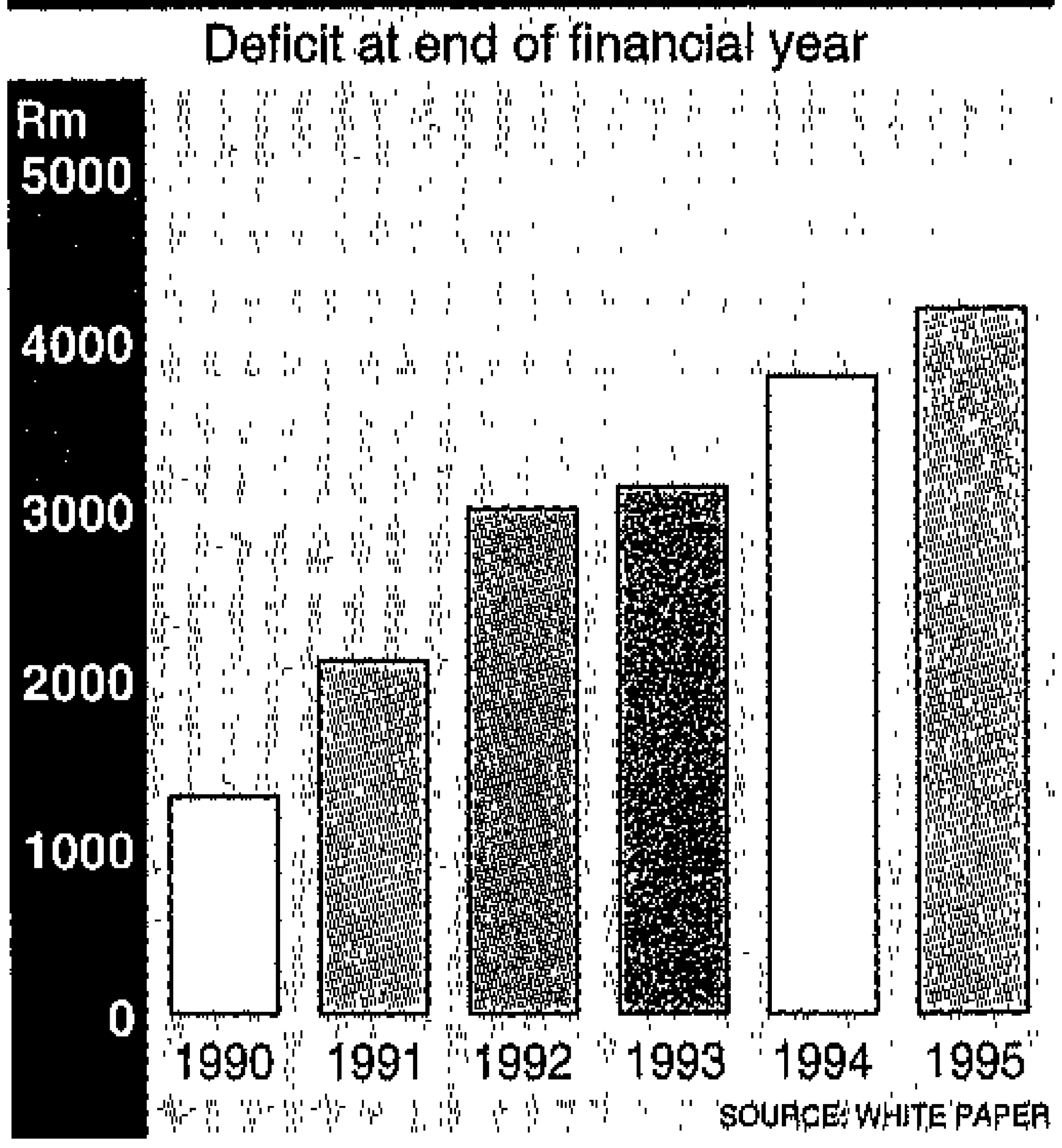
To make the fault system more user-friendly, a fast-track court procedure could be introduced to process claims below R50 000.

Certainly, the common law right to sue for excess damages should be treated as inalienable.

Underlying the entire problem is the notorious road accident rate. It would go a long way towards solving the MMF's problems if penalties for drunken driving were to be increased and the issue of fake drivers' licences were tackled seriously by law enforcement agencies.

Without an initiative of this sort, the fund will simply remain a massive damage control exercise which treats the symptoms, not the cause. ■

FINANCIAL HISTORY OF THE MMF



Sun Multi Serve stokvels are back in business

Sow 17/8/96

(58)

The Sun Multi Serve stokvels reopened for business yesterday after months of negotiation.

SMS said it was happy with the agreement reached with the Reserve Bank and that the frozen funds had been returned to the stokvels.

SMS national investors' committee publicity secretary Nic Neniels said the stokvels would for the time being accept funds only from SMS members.

Registrar of Banks Christo Wiese said the constitution which the national investors committee's lawyers had presented to the bank was satisfactory. He said the Reserve Bank had a duty to ensure the Banks Act was adhered to, to ensure investor protection.

The scheme's accounts were frozen by the registrar in November after investigations revealed the company had contravened the Banks Act. According to the act, a stokvel may not control assets in excess of R9,9-million. SMS had 53 000 investors and assets of R61-million.

In terms of the agreement, each of the 28 former Sun Multi Serve branches will operate as individual stokvels, with SMS assisting with administration functions.

The stokvels will conduct internal audits and will begin repaying investors from September 16. – Sapa

Gearing up to fund change

(58) ST (BT) 18/8/96

Development Bank of Southern Africa

By THABO KOBOKOANE

THE record R1,3-billion disbursed by the Development Bank of Southern Africa for the financial year to end-March, from R1,1-billion a year ago, reflects the bank's commitment to transformation and increased infrastructure funding.

Approved commitments for the year under review increased by 26% to R1-billion from R863-million last year.

Chief executive Ian Goldin, who is tasked with overseeing transformation, says: "The plan was to take the transformation process in the bank forward as rapidly as possible and maintain the momentum of disbursements and project activities."

The bank, formed in 1983 by the apartheid government to provide an integrated regional focus to the policy of separate development, has been undergoing fairly rapid transformation over the past few months. In 1994 the then finance minister, Derek Keys, appointed a transformation task team in an attempt to refocus the bank in line with the changed social and political climate.

The team's recommendations, which were accepted by the government, proposed that, once restructured, the bank should concentrate mainly on the provision of infrastructure. Goldin was appointed to oversee the process and the task team formed the interim board.

The government is expected to table legislation during the current parliamentary session to provide the necessary legal framework for the reconstituted bank.

Of the R1,3-billion disbursed, about 80% went towards infrastructure development and 1% to technical assistance grants aimed at building the capacity of clients and policy design.

The remaining 19% was allocated to the financing of small, medium and micro enterprises, housing and agricultural development in terms of an interim warehousing arrangement. These temporary functions will eventually fall away and the funds will be transferred to Ntsika Enterprise Agency and the National Housing Finance Corporation.

At least 70% of new infrastructure funding — the bulk of which was borrowed by local government and national utilities — went towards the financing of bulk and connector services for the provision of water, sanitation and energy in areas undergoing urbanisation.

The provision of municipal reticulated services made up 28% and the remaining 2% financed the provision of support for agricultural development.

Goldin attributes the low investment levels in rural infrastructure to the "need to focus on activities in which costs can be recovered at market-related rates and lack of institutional capacity of local governments structures in the rural areas."

Although local government borrowing levels are expected to increase, Goldin warns of pitfalls. "Institutional and financial capacity problems, particularly at local government level where cost recovery for the infrastructure services rendered remains problematic, continue to impede the delivery of development programmes and projects and could curtail them in the long term," he says.

In total, the bank financed, directly and through joint financing arrangements, 173 projects, including the R11-million KwaGuqa/Mhluzi road and stormwater upgrading project, and the R2,9-million electrification project in Michausdal in Cradock in the Eastern Cape.

In terms of the transformation recommendation the government, as the sole shareholder, will cease to provide subsidies to the bank — these amounted to R500-million in 1994 — and the bank will seek to become self-sustaining without reneging on its development commitment.

While the bank did not receive any subsidy for the year in review, Goldin says it managed to raise R770-million in loans from the private sector.

Two of these loans were from offshore institutions, the Japanese Export Import Bank and the European Investment Bank.

Goldin says further offshore loans are being considered, but these will be "closely evaluated in view of the related cost of obtaining forward exchange cover and the effects of currency fluctuations".

Goldin expects that in its new role the bank will serve as a catalyst for infrastructure projects. In addition, it will increase scope for co-funding arrangements between the bank and private-sector institutions.

"Co-funding arrangements between the bank and the private sector are continuing. Notwithstanding the uncertainty and relative inexperience of many of the new borrowers, especially at local municipal level, a target has been set for mobilising at least 50% of new disbursements from the private sector," Goldin says.

He expects internal transformation to be complete by end of the year.

R34 m lost in banned pyramid scheme

(58)
eP 18/8/96

By SIFELANI MLAMBO

THOUSANDS OF underprivileged South Africans who invested millions of rands in the pyramid scheme Sun Multi-Serve have lost more than a third of their investments – because R34 million of the R96 million invested in the controversia scheme has gone missing.

On Friday, Sun MultiServe and the National Investors Committee announced that the Reserve Bank had returned R51 million to be either distributed among investors or to be retained in 28 new stokvels if the investors so wished.

This was the funds plus interest which the Bank had frozen in the scheme's bank accounts after declaring it illegal earlier this year.

In reply to questions David Mogashoa, an adviser to Sun MultiServe, revealed only 65 c would be repaid for every rand invested. This means investors – who were promised three times their investments in the scheme – have lost 35 c for every rand invested.

In a press release Victor Monamodi of Sun MultiServe and Nick Neniels of the National Investors Committee, formed by Sun MultiServe to represent the investors, said the two organisations were "happy that their agreement with the Reserve Bank have finally resulted in funds being returned to stokvels."

Monamodi and Neniels said the deficit of about R34 million shown in the final statement came from a reinvestment agreement that 30 percent would be reinvested and would only be refundable sometime in the future.

However, Registrar of Banks Christo Wiese told City Press all investors would receive less than their initial investments – as millions of rands had gone missing.

He said the the Office for Serious Economic Offences would continue to investigate what had happened to the missing R34 million.

Severance deals in bank reshaping

Robyn Chalmers (58)

BD 19/8/96

SEVERAL top executives at the Development Bank of SA are negotiating voluntary severance packages as part of the parastatal's transformation.

Regional communications divisional manager Sandile Madolo confirmed at the weekend that talks were under way as "part of the transformation initiative taking place at the bank".

He declined to identify which executives were involved, but the focus is understood to include the bank's executive committee — which sits just below the CE in the bank's management chain — and other top management.

The discussions follow expressions of unhappiness among some employees arising out of what was perceived as the slow pace of the bank's internal transformation.

The transformation involves focusing the bank on infrastructure finance and reshaping management.

Chairman Wiseman Nkuhlu said in the bank's annual report, released last week, that plans concerning the organisation's structure and permanent executive management appointments

Continued on Page 2

Bank (58)

BD 19/8/96

Continued from Page 1

would "progress rapidly" following CE Ian Goldin's appointment in April.

"Major retrenchments are not envisaged," Nkuhlu said, "but a considerable degree of retraining and reskilling of staff is likely to be necessary in view of the revised mandate of the organisation."

Goldin conceded in the report that considerable unhappiness had existed due to a perception that decision making was concentrated in the hands of a few people. The bank's staff was concentrated numerically at the professional and technical levels rather than at the lower occupational levels.

"Consequently, a vast pool of knowledge and experience had in the past effectively remained untapped in transformational design and decision making," he said.

Goldin said that, as a result, a new participative approach was formulated towards the end of last year, which placed all transformation issues on a public platform to allow staff to express their views on them.

A task force to synthesise the transformation work had been established, and its recommendations should start being implemented by next month.

Accident compensation 'will not be raised'

(58) CT (PR) 19/8/96

By Françoise Botha

Cape Town — The only measures the transport department is considering to compensate road accident victims are those contained in the draft White Paper on the Multilateral Motor Vehicle Accidents Fund, said Ketso Gordhan, the department's director-general.

None of the other government departments had been approached to structure further compensatory measures for accident victims, Gordhan said last week at the end of public hearings by the parliamentary standing committee on transport.

It was unlikely the proposed limits would be increased, he said.

The draft White Paper has come under fire over the past few weeks as groups representing the interests of road accident victims have called for larger payouts.

The White Paper proposed limiting loss of earnings claims to R2 500 a month and loss of support claims to R1 875 a month.

Gordhan dispelled any hopes of increasing the compensation limits, which have caused intense public outrage.

"I do not think we will get the necessary fuel levy increases we need to be able to meet our expenditure requirements.

"This means we have had to look at how we use that limited income to benefit the largest number of people possible," he said.

The draft White Paper proposes adequate benefits for only 72 percent of the population, leaving 28 percent of accident victims without sufficient compensation.

Pressure groups have called the benefits limits short sighted, saying that in some instances they would not even go half way to meeting medical costs.

Alternatives that have been suggested include supplementary tax rebates to compensate victims or enforced taxi passenger insurance for providers of public transport.

"I do not think it would be viable to go for enforced insurance for taxi passengers in the South African context.

"The very large number of people who are driving those vehicles (taxis) currently cannot even insure those vehicles themselves," Gordhan said.

"Our estimate is that 50 percent of taxi operators have vehicles that are not insured because the premiums are very high owing to the perceived high risk in the industry," he said.

Heritage Insurance Brokers has launched the first insurance package for taxi commuters.

"We would not be sitting with this problem now" if Judge Richard Goldstone had been listened to three and a half years ago, said Bernard O'Sullivan, the lawyer acting for Heritage. Judge Goldstone recommended that the number of road traffic inspectors be drastically increased.

Mia linked to Community Bank bid

Amanda Vermeulen

(58)
BD 22/8/96

FORMER New Republic Bank MD Mac Mia has been linked to the consortium which emerged earlier this month as a last-minute bidder for Community Bank.

Sources said yesterday that Mia, who resigned from Malaysian-owned NRB this month after nine years with the bank, had been approached to head the bank once it is sold.

Mia's only comment was that he would make an announcement early next month on his future business plans. Sources said, though, he had acted as an adviser to the consortium.

Mia resigned from NRB after the restructuring which followed its acquisition by Malaysian businessman and former Landmarks Berhad chairman Dato Samsudin abu Hassan.

Community Bank sources also said Landmarks Berhad had made an approach to buy the bank for its banking licence. Curator Stewart Patterson is understood, however, to have spurned the approach to preserve the institution's focus on lending in the low-cost housing market.

Patterson would not comment on Mia's involvement. It is still unclear when a final decision on the future of Community Bank will be taken.

Landmarks earlier this year exchanged all its SA assets for Samsudin's 25% stake in Landmarks, and Samsudin resigned as chairman. He bought control of NRB via his Virgin Island-based firm Redbridge Assets.

Swart's daughter given contract

First National Bank board censures MD

BD 22/8/96 (58)

Adrienne Giliomee

THE board of First National Bank has stopped just short of dismissing MD Barry Swart after an internal investigation found he had given his daughter a contract to help decorate the bank's new headquarters.

Bank sources said yesterday the probe had found Swart allocated the Bank City contract, worth several million rands, to his daughter's company.

The company collapsed, and Swart's daughter completed the work in her personal capacity.

The investigation, sparked by anonymous allegations, was led by FNB non-executive directors Mervyn King, who chaired the King committee on corporate governance, and CG Smith vice-chairman Robbie Williams.

Sources said Swart's directors had decided against pushing for his departure after auditors and external decorating experts had determined the fees FNB paid had been market-related. Swart's resignation was not offered or requested, but the board warned him against pursuing similar activities. It is understood the door has also been left open for the probe to look at other allegations that might be tabled.

The anonymous allegations were circulated within FNB senior management three months ago. Swart was in management meetings most of yesterday and would not take calls.

King declined to comment beyond saying Swart's conduct had been found to be unacceptable and insensitive.

"While we concluded that Swart had acted insensitively in a number of areas and members of his family benefited in some cases, the bank suffered no financial loss," he said.

King, the outgoing chairman of Frame Group, also heads government's standing advisory committee, which is looking at new company legislation.

Anglo American, which with associate De Beers is FNB's controlling shareholder, said it was satisfied there had been no financial wrongdoing.

"Anglo is satisfied with the conclusions reached by the investigation and that nothing will be done or should be done regarding Swart's position at FNB," spokesman Michael Spicer said.

The official censure nevertheless resounded through the bank — SA's third largest — with some sources saying they were "puzzled" by Swart's refusal to comment on the matter.

Executive director Viv Bartlett also declined to comment, though other sources said Swart had been "embarassed" by the board's admonition.

FNB lifted earnings 17,5% to 103,5c a share for the six months to March — below expectations — after a sharp rise in costs, thinner margins and a higher bad debts charge. Latest figures from the Reserve Bank have shown the bank losing market share.

Insufficient evidence to prove bank collusion

Star 22/8/96 (58)

Cape Town – There was insufficient evidence to conclude that major commercial banks were guilty of collusion when they raised their interest rates by 1% on May 17, a parliamentary probe has found.

The investigation, carried out by a sub-committee of the trade and industry committee and representatives of the finance and housing committees, was called after allegations arose that the banks had violated the Competition Act of 1990 by raising their rates simultaneously.

The committee recommended that Parliament agree to the sub-committee continuing to oversee the issues under examination until the Competition Board was fully empowered, and competition policy in place.

However the sub-committee was unable to comply with a request from the Council of SA Banks that it find "the banks did not act in collusion in raising their prime rate".

It accepted that conditions in the capital markets were causing difficulties for the banks.

"What is more difficult to understand is why they could find no other way to meet the situation and why they all had to raise their rates by the same amount at the same time, given that their cost structures are different."

Other recommendations made by the trade committee included that new legislation on competition policy be drawn up urgently. – Sapa.

Bank regulation 'must be debated'

(58) CT (PMB) 23/8/96

By Nancy Myburgh

Johannesburg — The possible regulation of commercial banks' interest rate changes should be debated publicly, Edna Sethema-Molewa, the chairman of the department of trade and industry's special portfolio committee, said yesterday.

The country's main commercial banks all raised their prime lending rates by 1 percentage point on May 17, which sparked charges of collusion and investigations by the Competition Board and Sethema-Molewa's committee.

The committee held public hearings on the charges last month. In its report released this week, it said "there is insufficient evidence to prove the alleged collusion".

However, "(banks') social obligation should be taken care of, not necessarily by legislation, but in some way.

"Some people may feel banks should be regulated regarding interest rates. We are saying we must debate that and involve all of civil society," she said.

The report also recommended that the power of the Competition Board should be strengthened.

Development Bank treads a new path

(58) (~~27~~) M+G 23-29/8/96 (DM)

Tebello Radebe

THE meandering road leading to the Development Bank of Southern Africa (DBSA) Midrand headquarters has changed little from the late 1980s. It is possibly the only thing that has remained the same about the bank as it faces the millennium with a new direction and mandate.

This year has been characterised by instability, in part caused by the resignation of André le Grange as chief executive in February. Div Botha and Nick Christodoulou held the fort until June before the appointment of the present incumbent, Dr Ian Goldin.

On the operational side, the bank has had to concentrate on two main issues: to take the transformation process forward and maintain existing disbursements and project activities.

Goldin said the latter was influenced by the knowledge that infrastructure would be the main thrust of the bank's future activities, while projects in other sectors were being gradually phased out.

The extent and timing of this phasing out have been guided by the knowledge that the bank would probably have to perform a significant warehousing function for projects in rural, small business and human resource development previously approved and funded. This would continue until new institutions were in place to take over these functions, he said.

Chairman Professor Wiseman Nkuhlu and Goldin are confident the bank will continue its near-perfect cost recovery record even though the bulk of its future clients will now be local authorities. This despite reports that local authorities in six provinces are owed a staggering R3-billion for services by their residents. Gauteng local authorities alone are owed R2,415-billion, according to Constitutional Affairs Minister Valli Moosa.

"The availability of grant funding from the government and other donors for capacity-building of local authorities will contribute to developing the financial sustainability of the new borrowers," said Nkuhlu.

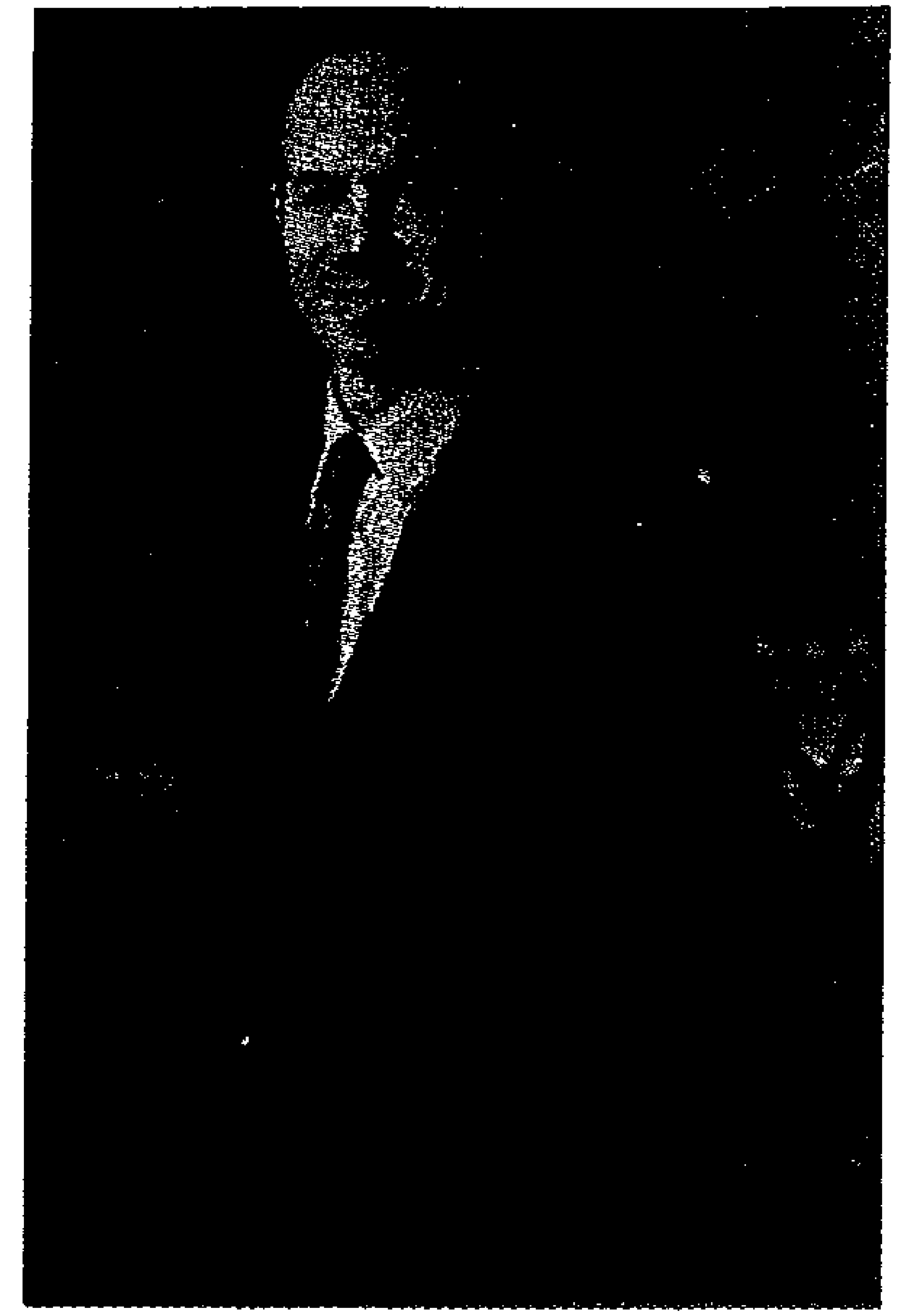
Established in 1983 by the government as a funding conduit to develop "the constellation of Southern African states" (including the "independent" homelands) and funded by the government to the hilt (a total of R3,7-billion has been pumped into the DBSA to date), the bank grew into a top-heavy structure with layer-upon-layer of senior management.

It was headed by a 15-member council of governors drawn from the ranks of homeland and senior government functionaries. A 10-member board of directors, complemented by eight alternate directors as well as an executive management team, took charge of the bank, which six years after its inception had a staff of 682.

Now, having shed over 150 staff since 1989, a few senior managers are currently negotiating severance pay deals. According to Goldin, "considerable unhappiness existed as a consequence of the perception that decision-making was concentrated in the hands of a few people".

Says Goldin: "It was soon realised that the internal transformation of the organisation would require an approach in which the bank had not been greatly successful in the past —that is, offering staff a meaningful opportunity for participation in the process."

These and several other cutting-edge changes follow the report by a Finance Ministry Transformation Team, appointed last May, which tabled a range of recommendations to alter the fabric of the bank and to bring its structure and purpose in line with the overall democratic changes in the country.



Wiseman Nkuhlu and Ian Goldin: Confident the bank will continue its near-perfect cost recovery record

PHOTOGRAPHS: GUY STUBBS, DBSA ANNUAL REPORT 1996

Nkuhlu says there is now broad agreement on the bank's new mandate, which is infrastructure development. Another main change has been the reduction of state funding, which means the bank has had to both increase borrowings and cut its capital funds.

As a result, disbursements in development loans and grants have risen by 15,7 % to a record R1,328-billion; there is an additional R2,621-billion in approved, but undisbursed loans.

A sharp contrast can be drawn against total disbursements of R473-million five years ago, with R60-million paid out for infrastructure development, and average total disbursements of R1-billion a year for 1988, 1989 and 1990.

Mandla Gantsho, finance general manager, describes the role of the bank then as "trying to be all things to all people" by financing projects for a wide array of needs from education to small business, roads and health.

"All this came about to ensure that the apartheid policy and ideology could be advanced through this funding processes," he said.

Another major departure is the bank's new role in mobilising private sector investment in infrastructure. So far this year, R770,5-million has been raised from the private sector, bringing about a new form of private and public sector partnership, with the bank serving as a catalyst for linking the finance sources and the projects.

Nkuhlu notes that political change has opened up international funding opportunities. He argues that the country's internal resources alone cannot cope with the funding needs of the Reconstruction and Development Programme, the new macro-economic growth plan, job creation, a national crime prevention plan, and a system of welfare security nets.

"It is therefore encouraging that other countries and overseas institutions have offered an initial package of concessional and grant funding, technical assistance and export credits to a total value of R12,5-billion," said Nkuhlu. He, however, stressed that these will be accepted with extreme caution, taking into account risks associated with foreign borrowing.

It is indeed a meandering road to travel, but at least the road ahead seems much clearer.

INSURANCE (58) FM 23/8/96

MATTER FOR THE LAW

A crackdown on irregularities in short-term insurance coverage has begun The SAPS commercial branch is investigating allegations that a Johannesburg-based firm of insurance brokers — Prokor — collected more than R1,7m in "premiums" in July this year without placing the funds with an insurer.

This follows a 1994 investigation by a Financial Services Board (FSB) inspectorate into the role of brokers, agents and underwriting managers in the short-term insurance industry (*Economy* February 16) It's estimated that thousands of people thought they were insured but were not.

The inspectorate has handed over reports on two other short-term broker firms to the authorities. Its investigation into Eagle Underwriting managers and administrators has been referred to the Pretoria regional court prosecutor, while the Johannesburg commercial branch has been asked to probe Profin CC.

Johannesburg commercial branch Captain Piet Muller's investigation into Prokor began after the FSB tried to place Prokor under curatorship. The application was rejected by the Supreme Court because Prokor was not a financial institution in terms of the Act.

The FSB alleged that Prokor underwriting managers contravened Section 5 of the Insurance Act for 10 months in 1994-1995, when its binder was terminated by two underwriters

Between February-July last year, Prokor again failed to place its clients with an insurer, though it accepted premiums. Clients were not informed. Last month the FSB learnt that the same situation was again prevalent at Prokor.

However, Prokor (name changed to Megasure) claimed it had coverage with Absa. But Absa Insurance executive director Jan Swanepoel denied that Prokor had ever been covered by his group. Swanepoel confirmed this to FSB inspectorate member Gerrie van Deventer

Short-term insurance broker Steven Daly, of Steven Daly Holdings, says that the FSB had asked him whether Prokor had placed its insurance book with his company in July. "I denied this and gave the board an affidavit to that effect."

He says Prokor's Bernard Haasbroek later asked him whether Lloyd's of Lon-

Continued on page 55

Continued from page 50

don (for whom Daly is a registered agent) would assist Prokor with coverage for its nonvehicle insurance. Daly claims Haasbroek had told him that Prokor's short-term vehicle insurance had been placed with Price Forbes.

"I asked him for a letter from Price Forbes to substantiate that but never received confirmation. Later, he told me that the vehicle insurance had been placed with Absa. But again I could not get a letter from him to confirm this."

Prokor (or Megasure) has apparently now placed its insurance book with brokers Product Protection Plan (PPP). However, it's further alleged that PPP has deposited R850 000 of the R1,7m premiums paid to Prokor in July in a trust account.

Attorney Francois Botes, of Botes & Raubenheimer, confirms that R850 000 was deposited in a trust account held by his firm, adding: "This is a sensitive issue and I would like to discuss it with my client before commenting." *Eddie Botha*

How to stop ripoffs: One regulating authority

(58) ARG 24/8/96

■ South Africa has multiple supervising authorities to act as watchdog over banks and financial institutions, but only a single regulating authority can stop the public being ripped off, the Nel Commission has said.

JEAN LE MAY
Staff Reporter

A JUDICIAL commission probing the collapsed Masterbond group has come up with some stinging criticisms of a report produced by a government body which spent two years looking for some way of protecting the public from being ripped off in investment schemes.

The Policy Board for Financial Services and Regulation, which supervises the country's multiplicity of financial authorities, put together a committee after hundreds of millions of rands went down the drain in the crash of Masterbond, Supreme, Fundstrust, the Cape Investment Bank and several smaller operators.

Severe hardship was caused to thousands of individuals and untold embarrassment to the financial authorities.

This committee has now produced a 9 000-word report on "the regulation of retail investment services in South Africa" - in other words, how it proposes to overcome the very inadequate protection given to consumers in South Africa.

One of the first questions to be asked is why the work of the judicial commission appointed by the state president to investigate the affairs of the Masterbond group has been duplicated by a committee headed by a deputy governor of the Reserve Bank and consisting of members of the existing regulatory authorities together with people from the very institutions they are supposed to supervise. In effect, they were asked to investigate themselves.

Briefly, this committee's report favoured a self-regulatory system with statutory protection based on complaints rather than on compliance-driven regulation aimed at stopping abuses before they happen. Bruce Cameron, Personal Finance editor, has commented that this was "putting Dracula" in charge of the blood bank. The committee "tended to pussyfoot on key issues, including the disclosure of costs and commissions", he said.

The Masterbond commission is headed by Mr Justice Hendrik Nel, assisted by two assessors - a lawyer and an accountant - and by a team of highly qualified investigators including a senior police officer. It has spent the last four years investigating what went wrong in Masterbond.

Its terms of reference specifically asked it to establish whether the laws which regulate a wide range of financial undertakings were adequate to protect investors and the public in general. It has heard evidence from hundreds of professional people and has collected information on financial regulatory systems from all over the world. Three Masterbond directors are in jail thanks to spadework done by the commission.

Be that as it may, the Nel Commission apparently received a copy of the policy board's report only after it was released to the public in mid-July and was asked to comment by August 19.

It has produced a 24-page memorandum in which it stressed the qualifications, "or rather the lack thereof, of the average broker in South Africa".

As far as possible, commented the Nel Commission, regulatory standards must be brought in line with international standards and must also "establish an opportunity for the economically excluded population to participate in a relatively safe investment environment".

It slammed the policy board's suggestion that there should be yet another registrar and advisory committee with their own infrastructure and ombudsmen. There should be one regulating authority, it went on.

"At present, regulation in South Africa is fragmented between, among others, the Reserve Bank, the Registrar of Banks, the Financial Services Board, the Department of Trade and Industry, the Registrar of Companies, the Registrar of Co-Operatives, the Registrar of Medical Schemes and the Harmful Business Practices Committee."

Roy Bamber, a Reserve Bank officer who has acted as secretary to the policy board committee, told SATURDAY Argus that the policy board's statutory duty was to supervise and coordinate all these regulatory authorities. A similar recommendation for single regulatory authority was made some years ago by the Melamet Commission, he said, but it was ignored.

The Nel Commission in its memorandum shed light on a skeleton in the cupboard in quoting from letters exchanged between the Registrar of Banks and the Financial Services Board in which both tried to avoid responsibility for keeping tabs on what was going on in the Owen Wiggins Trust, which crashed last year.

"You are earnestly requested to stop your semantic smartness," the registrar wrote acidly to the FSB in 1994.

The Nel Commission also criticised the secrecy which prevents a regulating officer from disclosing information to other regulators.

"All banks are regarded as customers of the Reserve Bank, with the result that the Reserve Bank, even when aware that a bank is hopelessly insolvent, does not warn the public supervisors or other institutions whose investments may be at risk".

The commission has first-hand experience of this. One of the most shattering revelations made to it came from an inspector of the FSB who disclosed that the FSB knew Masterbond was acting illegally three years before it crashed - and did nothing about it.

The members of the regulatory authority must be completely independent and must be seen to be independent, said the commission, which criticised the policy board's recommendation that an advisory committee should include investment service providers.

"A conflict of interest is inevitable," said the commission. "Self-regulation must be avoided."

ST(BT) 25/8/96 (232) (58)

Police probe 'deal' among big insurers

By ZILLA EFRAT

POLICE are investigating allegations of collusion between four short-term insurance companies.

According to superintendent Trevor Johnstone of the commercial crime branch in Johannesburg, the allegations relate to a formal "non-aggression pact" between Commercial Union, SA Eagle, Gaurdian National and Mutual & Federal. The companies allegedly agreed not to poach customers from each other on commercial lines and not to undercut one another's prices.

The charges were handed over to the police by the Competition Board earlier this year. Chairman Pierre Brooks confirms that the Competition Board began an investigation of the companies a year ago after receiving several formal complaints from all over the country.

David Hersch, managing director of Compuquote, which provides comparative insurance quotes and information via Beltel, says the "non-aggression pact" has been an open secret in the insurance industry for many years.

He claims that since the Competition Board began looking at their activities the four companies have abandoned their formal pact, but have maintained their arrangement on an informal basis.

Law puts onus on banks to report suspect transactions

BD 27/8/96 (58)

Tim Cohen

CAPE TOWN — Legislation was tabled in Parliament yesterday which further toughens SA's criminal law, depriving lawbreakers of the proceeds of their crimes and forcing businessmen and banks to report suspicious goods and transactions.

Reuter reports that parliamentary justice committee chairman Johnny de Lange (ANC) said the measures affecting banks and others involved in financial deals could be controversial.

"For example, if a person making a very humble salary suddenly deposits a million rands in his account, there will be an obligation on the bank to let the police know something fishy is going on," he said.

The measure is among those in three Bills — the Proceeds of Crime Bill, the International Co-operation in Criminal Matters Bill and the Extradition Amendment Bill — aimed at stamping out drug trafficking.

De Lange said the legislation aimed to close loopholes which allowed people to conceal the source of criminal funds. The Proceeds of Crime Bill will allow the State to claim from offenders any benefit that the offender might have gained from a crime.

The legislation, which has Cabinet approval, includes presumptions which allow the court to assume that property held by the offender when convicted was derived from the offence.

The Bill allows an amount equal to the value of the offender's criminal proceeds to be confiscated.

The legislation provides that the confiscation order will have the effect of a civil judgment. It provides for a restraining order which will function proactively to ensure offenders are not able to dissipate assets before trial.

The legislation anticipates that a confiscation procedure would provide an incentive to offenders to hide proceeds of crime and thus money laundering would become a crime.

(58)

Accident-plan row rages on

CT (BR) 27/8/96

Cape Town — The transport department and Ketsho Gordhan, the director-general of transport, came under fire from the Road Accident Victims Association yesterday for not "dumping" the draft White Paper on the multilateral motor vehicle accident fund "as promised in parliament" two weeks ago.

Gordhan withdrew the draft White Paper from a public hearing in parliament two weeks ago after it was widely criticised. Last week he said the draft would be retained as the basis for discussion and would be revised after talks between the government and other stakeholders next month.

A spokesman for the department of transport said independent assessments of the financial position of the fund had been commissioned and the results would be publicised and debated at length with all stakeholders. — Christo Volschenk

REGULATION

Fragmented = fallible

CT (BR) 27/8/96 (58)

The Nel commission released a draft report on a model for supervision of financial advisers for the protection of the small investor last week. A final report will be handed to the government soon. The commission proposes a set of strict rules to be administered by a strong, independent supervisor who can impose fines and strip financial advisers of their licence to work in the financial services sector. The final report will be debated in the coming months. Christo Volschenk, economics editor, compiled these extracts from the report.

The most important function of any regulating authority is to protect the public.

At present, regulation of the financial sector is fragmented among the Reserve Bank, the registrar of banks, the Financial Services Board, the trade and industry department, the registrar of companies, the registrar of co-operatives, the registrar of medical schemes and the the harmful business practices committee.

That is wrong. There should be one independent supervisor.

Fragmentation of supervision means divided responsibilities, restricted powers of inspection and supervision, restricted access to information and grey areas where no supervision takes place.

The fragmentation of supervision between the registrar of banks and the Financial Services Board and its predecessor led to inadequate supervision of the Masterbond, Owen Wiggens and Supreme Bond groups with the resultant losses to investors.

At present each supervisor has to preserve secrecy about all matters that may come to his knowledge. For instance, section 33 of the South African Reserve Bank Act imposes strict secrecy on the Reserve Bank. Therefore the Bank does not warn the public or supervisors of other institutions whose investments might be at risk — even if it knows that a bank is hopelessly insolvent.

The Policy Board for Financial Services and Regulation suggests supervision of financial advisers should not be proactive but reactive after complaints are received. It is said that proper supervision would be too costly.

That cannot be accepted. Investors should be entitled to reasonable and adequate protection, which would be available if adequate and efficient staff were appointed by the authorities.

A few figures will illustrate the absurdity of the argument that adequate supervision would be too costly.

There are about 27 000 financial advisers with a combined annual income of more than R1 billion. If that represents an average commission earned of 10 percent, about R10 billion must have been invested on the advice of these 27 000 advisers.

An annual registration fee of R1 000 would generate R27 million, more than the present budget of the Financial Services Board.

These figures are conservative but illustrate the point that adequate, reasonable and effective supervision is possible at a minimal cost to the individual product supplier, investment adviser and investor.

Regulation can be effective only if adequate criminal sanctions and civil remedies exist.

No person should be allowed to give investment advice for reward unless he is registered and licensed to do so by an independent supervisor. He should satisfy the supervisor that he is fit to advise on investment in a particular field or fields before registration. His licence should state in which field he is allowed to give advice.

Anyone who gives advice without being registered should be guilty of a criminal offence carrying a penalty of, say, 10 years' imprisonment or a fine of, say, R1 million or both.

He should also be personally liable for the immediate repayment of any investment made if called upon to do so by the investor.

The supervisor should be empowered to impose fines.

In the context of a relatively young South African market and a relatively inexperienced investing community, it is essential there be rules that scrutinise and impose requirements such as registration and licensing on service providers before they can enter the industry.

There should be a minimum standard of personal competence for all service providers. For example, an appropriate industry qualification or examination or substantial experience in the industry could be required of an investment adviser.

A policy of professional indemnity insurance in a prescribed form should be put in place. The policy board suggests financial advisers should not be compelled to disclose their commissions on the ground that it might be embarrassing.

That is unacceptable. The only reason an adviser might be embarrassed is that the commission might be excessive or the disclosure that another type of investment would have been more favourable.

A computer database would enable the supervisor to get the necessary information about investment advisers, their clients and investments made, is proposed. Every adviser would have to submit at least the following information each month: the number of people advised during the past month, the types of products advised on, the volume of business advised on, the amount of funds received from clients, the amounts placed in different investments and the commission earned during the month.

Inspectors would verify the the information from time to time.

Ministry under fire from Rava

By Waghied Misbach (58)
Political Reporter

THE Ministry of Transport has come under fire from the Road Accidents Victims Fund (Rava) for failing to revamp its White Paper on the Multilateral Motor Vehicle Accidents Fund. Sowetan 28/8/96

The draft paper was the subject of considerable criticism earlier this month when the portfolio committee held public hearings on the issue.

The result of the hearings was that the Ministry would have to redraft the paper and start consulting again.

At the time, chairman of the Portfolio Committee Mrs Patricia De Lille said that the hearings – attended by taxi drivers, trade unions, legal and insurance practitioners – were a "victory for the people and demonstrate the importance of the role played by standing committees in fostering transparency in government".

Rava spokesman Ms Jacqui Sohn yesterday said the Transport Ministry was reneging on the assurance given to the portfolio committee that it would consult the correct role players before proposing changes to the Act.

Banks in community alliance

(58) BD 28/8/96

Patrick Wadula

AMALGAMATED Banks of SA and First National Bank have launched separate initiatives aimed at boosting businesses in disadvantaged communities.

Absa has signed a R4m agreement with the National African Federated Chamber of Commerce to assist in the financing of the chamber's small-builder projects, while FNB announced yesterday it had teamed up with development consultancy Bill Hattingh & Associates to develop small, medium and microenterprises.

Details of Absa's plan will be provided next week, but the bank has said it intends having a representative at Nafcoc's offices to co-ordinate activities and ensure that small builders receive assistance in costing their projects, as well as training in business and financial skills. The bank would provide advances for material and labour.

FNB local government business senior manager Philip van den Heever said the bank would provide financial support for all projects facilitated by Bill Hattingh & Associates and the full range of banking services, medical aid and retirement plans.

The bank intended to be a strategic partner in marketing Bill Hattingh & Associates' business concepts and assisting entrepreneurs with education. Bill Hattingh of Bill Hattingh & Associates said consultancy services would "enable local authorities to deliver efficient service, while local entrepreneurship is stimulated, developed and empowered".

Those community-based projects such as road maintenance, grass cutting and tree felling were envisaged, while joint ventures were possible in mining, forestry and transport.

INSIDE BUSINESS

Pyramid structures put black business in Catch-22

(58) CT (PAR) 28/8/96

Changes to competition policy could have serious implications for black economic empowerment. The issue of pyramids, a control structure used by shareholders with small economic clout to control bigger companies, is a case in point.

To recap a little, the Securities Regulation Panel, the regulator of company takeovers and mergers and the country's policeman on insider trading, defines a pyramid as a company which holds 50 percent or more of the shares of another company, the pyramid company derives more than 75 percent of its pretax income from such a company or such a company represents more than 50 percent of the pyramid company's assets.

The panel can also deem a company to be a pyramid if, in its view, that company has control and the controlled company generates at least 50 percent of the pyramid company's total attributable income before tax or represents 50 percent or more of its assets.

Jos Gerson, an economist at brokers Smith Borkum Hare, who did his thesis on pyramids, adds that the difference between pyramids, non-voting shares and voting pool agreements is very small. Voting pool agreements refer to an arrangement between two or more shareholders to pool their interests to give them effective control of the underlying company.

The government has made clear its dislike of pyramids. Alec Erwin, the minister of trade and industry and Trevor Manuel, his predecessor, have said the use of pyramids for black economic empowerment is "dangerous". The government views such structures as perpetuating the concentration of economic power in a few hands.

JABULANI SIKHAKHANE

As an example, Rand Africa Finance, an investment company owned by a group of black businessmen led by Don Ncube, owns 18 percent of Rand Africa Finance Holdings which owns 28,5 percent of Real Africa Investments. Real Africa Investments owns 51 percent of Real Africa Holdings, which has a 46 percent interest in African Life, the life insurer. Through this series of pyramid structures and agreements with other shareholders, Ncube's group exercises control of African Life. Without this structure, African Life would have been out of reach for Ncube's group.

Nthato Motlana, the chairman of New Africa Investments (Nail), another pyramid which has effective joint control of Metropolitan Life, has argued that if pyramids were outlawed, it would be impossible for blacks to own companies or to help transfer wealth to the disadvantaged people.

The proverbial Catch-22 is how to prohibit pyramids without damaging the emerging black business class.

As part of the debate on competition policy, the trade and industry chamber of the National Economic, Development and Labour Council (Nedlac) will shortly debate the pyramid issue. The JSE has also been examining whether to allow pyramids for the purpose of listing requirements.

Reuel Khoza, the chairman of Co-ordinated Network Investments, a black-controlled investment company, said recently that legislation cannot be applied only to white business.

Khoza argues that there is no direct correlation between unbundling and black economic empowerment. The former is a consequence of market forces and the latter happens because of political decisions. He says that although the effect of unbundling on black economic empowerment is not clear cut, it can increase the number of deals available to blacks.

However, because there is nothing in market logic that will make companies unbundle for black empowerment purposes, the rules of the market place would have to be re-written.

The change in the rules would include the passing of competition legislation that prohibits and punishes collusion, cartels and other anti-competitive behaviour; legislation to limit the number of directorships any individual can hold and forbids cross-directorships; and the prohibition of pyramids and undemocratic voting structures on the JSE.

However, black business would be as much subject to these laws, regulations, and market disciplines as white business.

"Nail, Thebe and Rail would be as much subject to the market discipline that punishes agglomeration as would be Anglovaal, Anglo American, Sankorp and Barlows. Is this a price we are willing to pay?" asked Khoza. "Does it serve or defeat the purpose of black economic empowerment?"

Khoza warns that South Africa can only deliberate whether there should be conglomerates. It does not enjoy the luxury of distinguishing whether there should be white or black conglomerates.

☐ *This is the first of a regular column on business matters*

Money market funds to become law

(58)
ARG 29/8/96

CAPE TOWN. – Draft legislation aimed at providing the public with an alternative savings mechanism in the short term money market was introduced in parliament yesterday.

The Unit Trusts Control Amendment Bill will allow money market unit portfolios to be established under existing laws governing unit trust schemes.

It will make it more difficult for "grey market operators", such as money brokers and pyramid schemes, to take money from unsophisticated small savers, the Finance Department said. – Sapa.

❑ LUSAKA. – The Zambia Privatisation Agency said yesterday that bidding for the assets of Zambia Consolidated Copper Mines Ltd, which controls the country's entire copper production, would start on February 28.

"The privatisation agency will start advertising the assets, locally and internationally, next week for six months, and bidding is expected to start on February 28 1997," agency head Valentine Chitalu said.

Mr Chitalu said negotiations with successful bidders were expected to start in the third quarter of 1997.

Zambia produced around 380 000 tons of copper last year, making it the world's seventh largest producer. The government said in June it expected copper output to treble following privatisation.

The Zambian government intends to sell ZCCM's assets in four parts and is already negotiating with a consortium led by Anglo American on the acquisition of the Konkola mine.

PER

Black hole products removed from the insurance market

(58)

BD 30/8/96

Adrienne Giliomee

BLACK hole products, which exploit loopholes in the Insurance Act, have been pulled from the market less than two years after they were launched following a meeting this week between the Life Offices Association and the Financial Services Board.

LOA executive director Jurie Wessels said yesterday unhappiness about the advantages derived by the products had prompted the association to decide to temporarily withdraw the products from the market.

The issue is sensitive — Wessels declines to say exactly who is unhappy, though it seems clear the banks are concerned about such products infringing on their market — liquid, short-term investments.

"We will discuss the issues in a more relaxed environment with the authorities — which include the Financial Services Board and the Ministry of Finance — so that we can come to an amicable solution."

Black hole products are aimed at high net worth individuals and are perfectly legal.

An investor will go to a bank and borrow up to 25 times of his initial single premium investment.

If the investor has R100 000, he will approach a bank and take out a loan of R2,5m.

The investor then goes to the insurer with R2,6m and purchase a single premium endowment policy with that amount.

At the same time, the investor will apply for its first loan against the policy — which he is allowed to in terms of section 59 (d) of the Insurance Act — take out R2,5m and repay his loan at the bank.

Access

In terms of legislation, this is all above board, as the investor is allowed to make one loan against his policy within the first five years.

However, the investor has now created a loan debt of R2,5m against his policy.

The investor will have to wait five years before he can access cash in the policy.

However, he has the opportunity to repay the loan debt created at any time. In other words, loan debt repayments is just another way for the investor to put more money into the policy.

After the five years has lapsed, the investor can make withdrawals and deposits as often as he wants.

The result is that the long-term insurance policy has become a very liquid investment.

Instead of having to put additional money into a new policy with new constraints, the investor can repay the loan inside the existing policy.

Insurers who have black hole products — including Momentum, Fedlife, Liberty Life and Old Mutual — say the nature of the investment is long-term.

"It is an open-ended endowment structured with people contemplating retirement who are looking for a home for future commutation of retirement benefits," one source says.

The administration fees of black hole products and traditional products are the same.

The management fees are charged over the net value of the policy — the R100 000 — and not the gross amount.

Nel commission draws fire of financial advice industry

Samantha Sharpe

BD 30/8/96 (58)

CAPE TOWN — The Nel commission's call for incompetent financial advisers to face criminal or civil prosecution is drawing fire from the industry.

The commission, investigating Masterbond's collapse which helped prompt calls for greater regulation, suggested the plan last week in its submission to the policy board for financial services and regulation.

Last month the policy board issued a paper on retail investment service regulation — proposals drawn up after widespread consultation with the life industry.

The proposals stopped short of a supervisory set-up similar to that overseas, aiming instead for customer complaints to keep financial service sellers in check. The relief in the industry when the board's proposals were tabled was palpable.

The Nel commission, however, says improved regulation can work only where adequate criminal sanctions and civil remedies exist. Advisers should be registered once they achieved a minimum standard of personal competence. The policy board document suggests action that is "no more than a figurative slap on the wrist".

The commission says: "Investors certainly can lose money as a result of fraud and theft, but they equally and more often lose money because of the incompetence of their financial advisers.

"Any person who gives investment advice without being so registered ... should be guilty of a criminal offence carrying a penalty of, say, 10 years' imprisonment or a fine of, say, R1m or both." This should be accompanied by alternative civil remedies and effective prosecution.

The Institute of Life and Pension Advisers agrees protection for investors is insufficient, but says the commission should "get real ... Murderers in this country get away with far less a sentence" (10 years in jail), president Christopher Bean says.

SHORT-TERM INSURANCE OMBUDSMAN (58)

A TIDE OF CONSUMERISM

FM 30/8/96

When the short-term insurance ombudsman was established in 1988, to mediate in the case of consumer complaints about personal lines cover, only two companies agreed to abide by his decisions.

This, together with the fact that the ombudsman is employed within the structure of the SA Insurance Association and has no statutory powers, gave rise to a strong public perception that the ombudsman had little influence.

However, in the past year another 18 insurers have been drawn into the process — almost the entire market for personal lines business. This has improved the status of the ombudsman, and the public perception of the office, says ombudsman Michael Bennett.

Lloyd's syndicates operating in personal lines business in SA, have also agreed to abide by his decisions, says Lloyd's local representative Ronny Napier.

There are certain limitations to the scope of the ombudsman's activities which apply to all insurers. Claims above R100 000 cannot be referred to his office. But, in the case of Lloyd's, "these claims would be referred to its complaints department," says Napier.

Consumerism is becoming a more powerful factor in the short-term insurance industry, says Bennett This is highlighted by the continuing increase in the number of complaints received by the ombudsman. In 1995, 1 268 complaints were lodged — an increase of 81% since 1992 About 1 061 of these cases were resolved.

COMPLAINTS

The increase is due to:

- Greater volume of insurance sold;
- The high cost of implementing legal action — the ombudsman represents the complainant at no charge;
- An increased awareness by the public of the ombudsman facility; and
- Quicker turnaround time on complaints, made possible by the increase in the office's staff complement.

Of all complaints, 40% related to comprehensive motor policies. This includes theft, hijackings and damage. The balance of complaints related to household policies (theft), personal accident/disability policies and houseowners' policies (building damage).

There is still an important area of concern says SA Insurance Association CEO Barry Scott This relates to complaints against brokers.

The ombudsman cannot help people who have been defrauded by rogue brokers operating without the sanction of any insurance company

There is now a draft Financial Institutions Amendment Bill, which would give the Insurance Registrar a greater degree of authority to act against such intermediaries.

Scott says: "The amended legislation, together with increased regulation of intermediaries, should help reduce these types of complaints. ■

PERSONAL VIEW

Let the Nel commission get real

(58) CT(BR) 30/8/96

Christopher Bean

The draft report on the supervision of financial advisers that the Nel commission released last week proposed that legislation be enacted to register all financial advisers. The proposal displays an alarming lack of consideration of the realities of South Africa and the disastrous effects that similar legislation caused in the United Kingdom and Australia.

Nobody could argue that investors should not be entitled to reasonable and adequate protection. They are, without doubt, not adequately protected by the present dispensation.

But to suggest that the cost should be borne by the financial advisers themselves is ludicrous. That is tantamount to saying that the insurance carried by households to protect themselves against theft should be paid for by potential thieves. The suggestion is unfair and unrealistic.

The report and the proposals from the policy board said there were likely to be 27 000 financial advisers in South Africa. That figure is extremely improbable.

There may be about 25 000 or even 27 000 people actively involved in selling the products of the members of the Life Offices Association. Of these I believe only about 15 000 are permanently employed advisers. To this figure must be added all the other financial advisers employed by the banks and the trust companies, and the lawyers, accountants, bookkeepers, and estate agents who dabble in financial advice, not to mention all the thousands of spotters employed by many of these.

Who would be brave enough to guess the total figure?

I will be the first to admit that many of these people are not equipped to give advice on investments or even on life assurance. But let us look at the real picture, not this mythical group of 27 000.

I also agree that no person should be allowed to give investment advice without the required skills and without being authorised in some manner. But I take issue with blanket registration as being impractical.

The provider of the financial products should be responsible for authorising an adviser to market his products. He should not allow anybody to market his products unless he is satisfied that the adviser is capable of doing so. Having allowed the adviser to represent him, the product provider should accept responsibility for his actions.

That would take care of the difficult question of professional indemnity insurance. The cost of insurance is so high that, even if it is supposedly obtainable by everybody, it is beyond the reach of all but the top-earning advisers.

The suggestion that a person who gives financial advice without being licensed to do so should be liable to 10 years' imprisonment or a fine of R1 million must be a joke. In this country one can kill people and get away with far less than that.

I agree that there should be a minimum standard of personal competence for all service providers, but it should be particular to each product provider.

Some organisations operate at a very low economic level and advisers in that market do not need the level of competence that a company at the top end of the market would.

The estate planner working for the Board of Executors, for example, would laugh at the level of expertise required for a person selling simple funeral assurance.

Each product provider must decide on the level of competence required to market its products, though there should be a minimum level of expertise required for any class of business.

Fellowship of the Institute of Life and Pensions Advisers is considered to signal the pinnacle of education in the field of life assurance, pensions and health benefits, but it is never suggested that the qualification should be held by every adviser. That would often be overkill.

In fact, the institute is busy with proposals to widen its membership to offer a standard of competence at different levels.

My final point refers to the commission's suggestion about the returns to be submitted by advisers each month.

If that were implemented it would very likely be the final straw to break the camel's back. The advisers would be so busy completing their returns that they would not have time to produce any more business.

I wonder if the Nel commission took any note of what happened in the UK when this type of regulation was imposed — 255 000 agents and brokers were put out of business in three years because they could not comply with the unrealistic requirements of overzealous legislators.

The Nel Commission must get real.

☐ *Christopher Bean is the president of Institute of Life and Pensions Advisers*

Good investments help Prosure almost quadruple its earnings

(58) CT (BR) 2/9/96

By Marc Hasenfuss

CAPE EDITOR

Cape Town — Protea Assurance (Prosure), the composite insurer now up for sale, notched up markedly higher interim earnings of R9 million from R2,4 million previously in the six months to June 30, mainly because of strong gains on income from investments.

Earnings a share came in at R1,15, while the dividend payout was maintained at 30c a share.

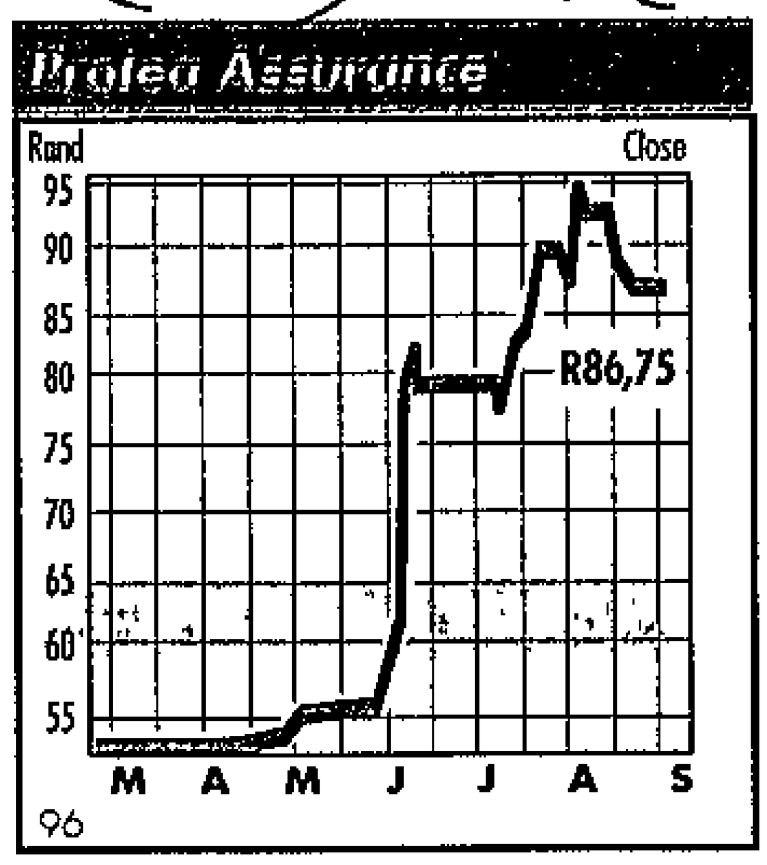
Andrew Tainton, the chief executive of Prosure, attributed the improved profit to the income from investments, which rose 30 percent to R20,7 million.

"Our investment team is to be congratulated on another 6 months of excellent performance," he said.

Prosure showed a slender increase in net written premiums to R319,5 million. Net written premiums for general business dropped 9 percent to R217 million.

However, that was partly offset by the income from life business premiums, which rose 28 percent to R103 million.

Tainton attributed Prosure's



slight dip in general business premium income to continued efforts to improve underwriting controls.

The company's general business underwriting loss was static at about R14 million.

"The repositioning of our general business operation is well under way and, had it not been for flood-related underwriting losses, results from this area would have shown a significant improvement," Tainton said.

The underwriting result also included the development cost of Prosure's long awaited direct insurance project.

Tainton said that new business recurring income for Prosure's life arm increased more than 30 percent. "A strong investment performance has been recorded, both in terms of income and capital. which has improved life (R758 million) and shareholders' funds (R596 million) significantly."

Protea issued another cautionary notice with the interim results, again advising shareholders that the recently merged Royal Sun Alliance Insurance Group was evaluating its controlling stake in Prosure. The British-based insurance group also has a sizeable stake in Mutual & Federal (M&F).

Tainton said selected organisations had been invited to make firm offers for Prosure by the end of this month and that shareholders would be advised of the outcome of the process as soon as possible thereafter.

Potential suitors could include M&F, the Board of Executors, Boland Bank Holdings and a black empowerment consortium.

Prosure's management has also been tipped as likely contenders for part of Royal Sun's stake.

Auditors call for legal action against FNB

(58)

Farouk Chothia

BD 3/9/96

DURBAN — Independent auditors yesterday called on the KwaZulu-Natal government to consider legal action against First National Bank to recover about R2,6m in taxpayers' money the bank allegedly cashed for provincial government employees without proper authorisation.

KPMG auditor Eckard Volker told the legislature's public accounts committee in Maritzburg that the R2,6m was part of about R6,6m used to pay salaries to IFP-aligned self-protection unit members.

This is the latest twist in a scandal which has been raging since earlier this year when KwaZulu-Natal auditor-general Chris Foster found that illegal payments had been made to unit members from taxpayers' funds. He has asked the auditors to assist in the investigations.

Auditor Wilfred Ngubane said payment of the R6,6m had been authorised by Stan Armstrong, secretary in former KwaZulu chief minister Mangosuthu Buthelezi's department, after the new government took office in 1994. Armstrong did not have power to give such authorisation, Ngubane said.

He said non-negotiable and crossed cheques, as well as cheques made out

Continued on Page 2

FNB

BD 3/9/96 (58)

Continued from Page 1

to the police commissioner, had been cashed at FNB's Ulundi branch.

On one occasion the bank had cashed the cheques without written instructions. The cheques had been cashed after verbal instructions were given to the bank telephonically. The bank kept no record of the people who gave the instructions.

Volker said he believed FNB had made payments of about R2,6m in this manner, but the exact figure had yet to be established. FNB could be held liable for the cost of the cheques, as its actions amounted to negligence.

The committee accepted a proposal from Volker that legal advice be sought to recover the money from FNB.

FNB Ulundi branch manager Paul Bouden said he could not comment. Other spokesmen could not be reached late yesterday.

The funds to pay the unit members had come from the police budget. However, no official from the safety and security department had anything to do with authorisation of cheques.

He said vouchers for issuing cheques had been signed by, among others, acting finance department secretary Daan de Waal.

Volker said only one KwaZulu-Natal government employee, Muzi Lombo, had thus far had legal action instituted against him in connection with the iregularities. This was depite the fact that there were "strong indications" that other government employees had also been involved.

The committee decided to request from provincial director-general Otty Nxumalo that disciplinary proceedings be instituted against implicated employees and criminal charges be brought where necessary.

Volker said he had sought meetings with Mdlalose and provincial MECs to inquire about Lombo, but "the whole issue seems shrouded in secrecy".

Proposed MVA fund changes are 'unworkable'

BD 4/9/96 (58)

Susan Russell

THE Association of Law Societies has strongly criticised government's proposed changes to the Multilateral Motor Vehicle Accidents (MVA) Fund, describing them as "unworkable" and warning they would lead to chaos.

Government's recent white paper outlining the changes includes proposals to introduce a no-fault system, the scrapping of general damages and the capping of benefits.

Association president Michael Pinnock criticised the proposed no-fault system as totally inappropriate for SA.

"No country can afford a scheme which compensates all road accident victims, guilty and innocent alike, for their full common law damages," Pinnock said.

"The next best option is obviously to compensate innocent victims properly for their full damages. It is simply not equitable for a seriously injured victim to have to forfeit a substantial portion of his actual damages in order to subsidise the drunken driver who ran him down."

Pinnock said it was unacceptable to expect the public to pay increased fuel levies for drastically reduced benefits.

If there was to be an apparently unavoidable increase in the fuel levy, which finances the MVA fund, it should be accompanied by tangible benefits, Pinnock said.

Instead the public was faced with a system which exposed the motorist to personal liability for claimants' damages or which left the victim substantially at the mercy of the state.

Pinnock said the scrapping of general damages was also insupportable.

"It adversely affects virtually every accident victim and in many cases deprives the victim of all his damages," he said.

Pinnock also criticised the proposals for excluding the attorney's profession from the system.

This, he said, would exclude road accident victims from using the legal expertise of attorneys and leave them to lodge and handle their own claims.

"The extent to which illiteracy prevails in SA renders that proposal untenable," he said. Proposed time limits and prescription periods for claims would make compliance difficult even for sophisticated victims.

Pinnock urged the government to set up a judicial commission of inquiry to investigate and formulate a new system which would best fit the country's socio-economic circumstances and serve the needs of the public.

"The implications of the proposals in the white paper have not been properly considered," Pinnock said. "More time is needed for research and the formulation of an improved or alternative compensation scheme."

Government should not shirk the undertaking of the task in a thorough and responsible manner, he said.

Govt slaps further 14% VAT on bank charges

(58)

Move will take extra R100-million from consumers

Star 6/9/96

By Troye Lund
and Shirley Woodgate

The Government is planning to take advantage of the high service fees banks charge their customers, by slapping on a further 14% value added tax (VAT) from October 1.

The move, signalled in the March Budget, will take an extra R100-million from consumers over the next year.

The VAT charge adds to the 20c the Government already charges for each bank transaction.

While local banks persist with their practice of charging fees that are among the highest in the world for routine transactions, clients will have no choice but to pay up.

Big business will not be affected. It will simply claim the VAT back from the Government.

The levying of VAT charges on bank services has been made possible for the first time, thanks to the level of sophistication of modern banking systems. Computers are able to distinguish between interest and service charges, said Econometrix economist, Tony Twine.

"The sky is the limit for people who write cheques for a carton of milk. South Africans are going to have to learn to bank more wisely," warned a Nedcor banker.

Although bank service fees are negotiable, indications are that annual bank charges for an average, middle-income householder with a cheque account, bond and a few debit orders will be increased substantially.

The VAT charges will apply to a vast range of services, including cash deposits, withdrawals (at tellers and ATMs), cheque payments, debit orders and transfers. Bankers have compiled a 12-page list of services which will become taxable.

Economists pointed out that cash businesses like the informal sector would be hard hit, as it relied on daily cash transactions.

The South African Council of Banks confirmed that banks had not been instructed on how to convey the VAT charge to customers on statements.

But three of the country's major banks – First National, Nedcor and Standard – said statements would distinguish clearly between the service fee, the VAT added to that fee and the government levy, which is not taxable.

Standard Bank general manager of financial and secretarial services, Henry Shaw, said its clients would effectively be paying between 12% and 13% because the bank would pass on any benefit of VAT credits it could claim.

Absa bank said: "The net effect on Absa's own financial position and its pricing structure is still being investigated."

South African Chamber of Business economist, Keith Lockwood, said the total amount the Government expected to recover by levying VAT on service fees was about R150-million.

PROTEA ASSURANCE (68)

PREPARING FOR CHANGE

FM 6/9/96

This will probably be the last time Protea Assurance (Prosure) reports to the market before control changes

Its results for the six months ended June 30 corroborate opinion that an attractive premium over net asset value is likely to be paid when the majority shareholding is sold to the highest bidder at the end of the month.

Prosure sells life assurance and short-term insurance. Its life side, left for a long while as the stepchild of the company, is now making a useful contribution to profit. Though the interim premium income rose by 28% to R103m, recurring premium income rose 30%. The taxed surplus achieved in this division was 75% better than a year ago and the life fund, at R758m, was 39% higher

RISING ASSET BASE

Six months to	Jun 30 1995	Dec 31 1995	Jun 30 1996
Net written prem (Rm)	317,3	358,8	1 319,5
Underwriting loss (Rm)	(14,0)	(9,5)	(13,9)
Investment income (Rm)	15,9	18,4	20,7
Profit after tax (Rm)	2,5	9,5	7,6
Life taxed surplus (Rm)	1,9	3,2	3,2
Attributable (Rm)	2,4	12,5	9,0
Earnings (c)	30,0	100,0	30,0
Net asset value (c)	5 712	6 997	7 577

General business, the short-term arm, did not fare as well. Chairman Clive Hirschsohn attributes the decline in premium income to "more selective business practices in a continued programme to improve underwriting controls, while the underwriting result includes development costs of the direct insurance project."

Gross written premiums were down 4,9% while the underwriting loss (R13,8m) was virtually unchanged.

Investment income provided the real boost to group earnings. A recent ranking of fund managers placed Protea's investment performance among the top quartile. At R20,7m, its first-half investment income was up 30,3%.

Since Protea's main shareholder, Royal & Sun Alliance, announced its intention to divest from the local company, Protea's top management has spent much time preparing for an assault by suitors and the evaluation of their bids. CEO Andrew Tainton contends the expected change of control has had little effect on results.

To maximise its return, Royal & Sun Alliance opted for a tender sale. Tenderers, after signing a statement of confidentiality, received detailed information about the assurer not usually available to the public. Tenders must be submitted by September 30. Hirschsohn says the successful suitor will be known soon after

Market opinion is that the price paid will exceed the NAV of R75,77 and could be as high as R100 a share.

Forecasts for prospective EPS run as high as 250c, 32% ahead. After the growth seen in the first half, this looks achievable. With the current price at R86,75, the share should be held for now. *Gerald Hirshon*

Saga rages on over bank law

MtG 6-12/9/96 (58)

Pressure to change the Usury Act is growing now that the government has called on the public to suggest improvements to the law, writes Tebello Radebe

THE "David and Goliath" battle concerning overcharging by the banks, spearheaded by the Financial Research Foundation (FRF), rages on even though the principals do not seem to differ on whether people are in fact paying over the odds. This week the government entered the fray by calling on the public to suggest changes in the law at the centre of the storm.

FRF's Dave Thomas is adamant the banks are guilty of "overcharging" thousands of people with instalment credit deals ranging from bonds to cars and thereby breaking the Usury Act and other credit laws daily.

He estimates that in the minibus taxi industry alone an average of R20 000 per transaction is overcharged "and the figures owed to taxi owners run into billions".

However Nico van Loggenberg, general manager of the Council of South African Association of Bankers (Cosab), was quick to repudiate the FRF's claims.

Cosab has found evidence of a few isolated cases where people were overcharged. "These instances have and are being corrected as they are being discovered and they are nothing more than largely the result of genuine human error," Van Loggenberg said.

"We have done our own investigations. We admit that mistakes do occur." He added that these mistakes are not as many as the FRF made them out to be.

A highly placed government source told the *Mail & Guardian* that while key decision-makers in the government were sympathetic to the views raised by the FRF and agreed that a solution should be found, there was concern about the methods the FRF uses as well as the implications for the government if it were seen to be taking the FRF's side.

In response to the government's move to seek changes to the Usury Act, Van Loggenberg said he welcomed both the need to consolidate the different laws that arose from the homelands legacy, as well as the need to make the law more "understandable, user-friendly and to enable it provide more protection to the consumer".

Asked why the Department of Trade and Industry (DTI) has decided to run adverts calling on the public to submit ideas to change the Usury Act, DTI official Lizell Schultz said the department felt the law needed to be reviewed because "to our knowledge there has been no prosecution under this law since 1968 — probably because it allows for wide interpretations".

She said the DTI was aware of the claims made, but declined to comment on them. The FRF has taken these cases to the ministries of Finance, Justice, Transport and the DTI, but has received scant response to date.

FRF legal adviser Doug de Lange says the key aspect of the law which the banks break with impunity is their refusal to disclose details of the deals in dispute. This, he said, is compounded by the judicial system, which refuses to look at the Usury Act provision.

De Lange said he did not see any reason why the laws should be changed, as in his view the Usury Act is simple and clear enough to give adequate protection to all. What really irks him is that the law is not applied at all.

"The attorneys general are not prepared to prosecute since it is generally accepted that the banks do not have the intent to commit a crime," said De Lange.

In keeping with what appears to be the operational style of the FRF, the *M&G* was supplied with press cuttings and references to undetailed cases, such as one in June involving criminal charges laid against Wesbank.

Advocate Billy Downer of the Western Cape attorney general's office said the case docket had just arrived at his desk "two days ago". A decision to prosecute or not still had to be taken and this may be in another "two weeks or so or even up to two months".

So while the FRF will pull out one or a handful of cases to support its claims, the authorities seem to be taking all the time in the world to address the issue. Meanwhile, discontent is believed to be brewing, at least among sections of the taxi industry in the Cape who are reported to be planning disruptive protest actions.

Says Thomas: "The banks are hoping the problem will go away if they keep their heads in the sand. They are aware of the heavy workload on the courts which make them unable to cope ... The banks need to be forced to admit — preferably in court — that they have overcharged. They also need to commit to pay back every cent that they have overcharged." And so the saga continues.

Now consumer faced with 14% VAT on bank charges

(58) CT 6/9/96

OWN CORRESPONDENT

JOHANNESBURG: The government is planning to take advantage of the high service fees banks charge customers by slapping on a further 14 % VAT from October 1.

The move, signalled in the March budget, will take an extra R100 million from consumers for government revenues over the next year

The VAT charge adds to the 20 cents the government already charges for each bank transaction.

While local banks persist with charging fees that are among the highest in the world for routine transactions, South Africans will have no choice but to pay.

Big business will not be affected. It will simply claim the VAT back from the government.

The levying of VAT charges on bank services has been made possible by the level of sophistication of modern banking systems. Computers are able to distinguish between interest and service charges, said Econometrix economist, Mr Tony Twine.

"The sky is the limit for people who write checks for a carton of milk. South Africans are going to have to learn to bank more wisely," warned a Nedcor banker.

Although bank service fees are very negotiable, indications are that annual bank charges for an average, middle-income householder with a cheque account, bond and a few debit orders will increase by almost R500 from R3 260 to about R3 716.

The VAT charges will apply to a vast range of services, from deposits and withdrawals, cheque payments to debit orders and transfers. Bankers have compiled a 12-page list of services which will become taxable.

Economists said the informal sector would be hard hit as it relied on daily cash transactions.

The South African Council of Banks (Cosab) confirmed that banks had not been told how to convey the VAT charge to customers on statements. But three of the country's major banks — First National, Nedcor and Standard — said statements would distinguish clearly between the bank's service fee, the VAT added to that fee and the government levy, which is not taxable.

Standard Bank is expected to increase fees by between 12,5% and 13,3%. General manager of financial and secretarial services Mr Henry Shaw said the benefit of VAT credits which the bank was able to claim would be passed on to customers.

South African Chamber of Business (Sacob) economist Mr Keith Lockwood said the total amount the government expected to recover by levying VAT on service fees was about R150m.

But the financial services levy which was previously payable by banks and institutions, would fall away. This meant a R50m loss to the government when banks no longer had to levy the additional quarter percent on interest.

This was a drop in the ocean compared with the additional R2,7bn the government hoped to collect from the taxation of the retirement fund industry, and the R2bn which the government had foregone as a result of restructuring personal income tax.

Standard Bank economist Mr Nico Czypionka said the new tax would make no difference to the Receiver's income as the timing of its introduction would coincide with the scrapping of the levy on interest, one tax more-or-less replacing the other.

"Consumers will foot the bulk of the bill for the new levy unless money market conditions at the time of introduction make it possible for banks to drop lending rates by a quarter percent — because interest rates were raised by that amount when the levy on interest was introduced," he said.

Marcus warns financial services industry on tax avoidance investment schemes

(58)

AKG 7/9/96

BRUCE CAMERON
PERSONAL FINANCE EDITOR

South Africa's financial services industry, including the powerful life assurance companies, could face tough compliance regulation if they continue to use loopholes in the law to create tax avoidance products.

The warning came this week from the deputy Minister of Finance, Gill Marcus.

Although tax avoidance (tax evasion is illegal) is legal, in recent years the Government has been increasingly concerned about products that are specifically designed to take advantage of loopholes in the law. The schemes and products were described by former minister of finance Derek Keys as "tax evoision".

Tax laws have been toughened up to reduce the spread schemes. If the schemes are designed specifically with the intention of carrying out transactions that would not normally be made but are initiated with the intention of avoiding tax they can be declared illegal retrospectively. This provision is mainly aimed at business.

The warning from Ms Marcus to the financial services industry follows the suspension under pressure by Ms Marcus of a product called a "blackhole" investment which took advantage of a loophole. The product allowed people to effectively create short-term investment products allowing them to escape tax on speculative capital growth while avoiding interest bearing and taxable investment instruments like bank deposits.

Marcus said the continued creation of these products "which sail close to the wind" could force the Government to rethink its approach to regulation. At the moment the Government supported the view that new consumer protection regulation should be based on complaints-driven self-regulation.

In other words if someone justifiably complained about an investment, action would be taken by the industry and the affected person recompensed.

Ms Marcus says if the financial services industry continues with the practices, the Government could change its stance to statutory regulation under which companies would be forced to comply with rigid rules.

"This may be the only way we will be able to stop the abuse of loopholes, whether it affects taxation or the rights of the individual investor. We are talking

(58) CT 9/9/96

Thousands 'creamed off' in pyramid money scam

OWN CORRESPONDENT

EMPANGENI: Traffic in Empangeni's busy town centre came to a standstill as thousands of people descended on an office block demanding their money back after being fleeced in an investment scam.

At one stage, an estimated 10 000 people had gathered around the building, according to municipal officials at the scene. Saturday was the "maturity date" for investments in the pyramid scheme, but the operators had already packed their bags and fled.

One woman was said to have paid out her entire pension of R60 000 last week believing she would get a huge return on her investment.

People were seen wandering around in stunned disbelief that they would probably never see their hard-earned money again. They had queued patiently for hours — many of them right through the night — to collect their fortunes on Saturday.

An elderly man had receipts for R400 and a pamphlet stating his money would "multiply by five". His "special" ticket bore no name of the company and no address or telephone number.

The pamphlet, however, gave physical addresses of the investment society's branches in Newcastle, Maritzburg, Vryheid, Estcourt and Isipingo.

An SANDF Commando platoon was called in to protect surrounding shops and offices as the excited but orderly crowd swelled.

Empangeni station commissioner Director Gent Ngobese addressed them, saying the police were investigating the matter. He appealed to people to stay calm.

FNB's Swart quits after controversy

58 BD 10/9/96

Adrienne Giliomee

FIRST National Bank MD Barry Swart resigned yesterday, saying his censure by the FNB board could hurt the bank, its staff and shareholders.

Swart, who was appointed MD in 1989 and has a contract until 1999, said he would take early retirement following lengthy board meetings at the weekend and yesterday.

No details of his retirement package were given, but chairman Basil Hersov said Swart's departure had been discussed for some time. Swart, who turns 56 next week, had offered his notice.

Hersov said the board would meet today to discuss Swart's successor, but declined to be drawn on candidates.

Sources tipped senior GM Johan Meiring and executive directors Viv Bartlett and Peter Thompson as contenders. JSE president Roy Andersen was also touted, but Andersen dismissed this.

Swart's departure follows the disclosure last month that the board had stopped just short of dismissing him after an internal probe found he had awarded his daughter, Tania Labuschagne, a R6,3m contract to redecorate the bank's headquarters at Bank City. The bank had suffered no financial loss, the investigation found.

The probe by non-executive directors Mervyn King and Robbie Williams also looked into other allegations. Swart's other daughter, Kim Swart, works for the bank's external marketing and communications agency.

Swart said he had "publicly expressed my sincere regret for any embarrassment" the censure had caused FNB. "Views have been expressed that there has been an erosion of confidence and thus my credibility has been the subject matter of public debate.

"This could well result in prejudice to the bank, its staff and its shareholders which I would not wish to incur ... I have decided that in the best interests of the bank and as the proper action for a person in my position I should take early retirement ... I will be standing down as MD with immediate effect."

Anglo American, which with De Beers is FNB's controlling shareholder, declined to comment yesterday.

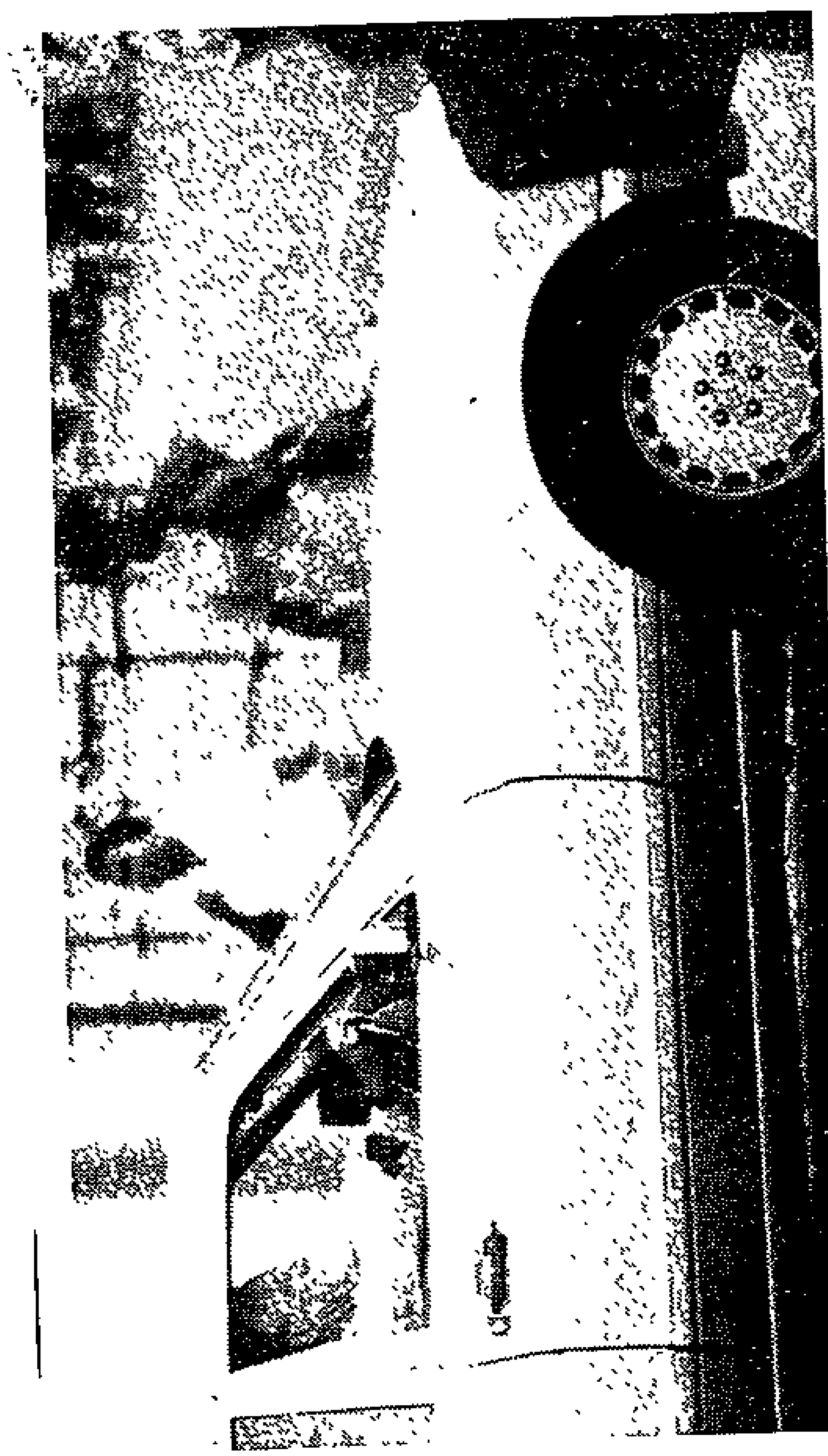
Following the disclosure of the board's censure, however, Anglo had said it was "satisfied ... that nothing will be done or should be done regarding Swart's position at FNB".

Hersov said the board thanked Swart for the "valuable role" he had played as MD.

Swart's departure is the third case of the bank losing its chief in controversial circumstances. Predecessors Chris Ball and Bob Aldworth departed earlier than their contracts stipulated.

Finance union Sasbo, which led much of the opposition to FNB's initial handling of the issue, said yesterday the bank had acted correctly this time. General secretary Graeme Rowan said Swart should have set an example. It was a sad end, however, to an outstanding career at FNB, he said.

See Page 13



First National Bank MD Barry Swart drives from Bank City headquarters in Johannesburg yesterday, soon after announcing his resignation. Picture: TYRONE ARTHUR

Western Cape bank gets RDP contract

(58) CT 11|9|96

By Marc Hasenfuss

CAPE EDITOR

Cape Town — Cape of Good Hope Bank, whose commercial and industrial property business at the end of last month topped R1 billion, is about to bolster its book further with an agreement for RDP structural development.

The Western Cape-based bank, held in the Nedcor stable, has secured a contract for a R15 million township development outside Oudtshoorn.

Work is already under way by the Power group at Bongolethu-Bridgetown, which is the first such bank-funded project to be approved under the National Housing subsidy scheme. Similar projects are also being undertaken by the bank and Asla Construction.

Mike Thompson, the bank's managing director, said the new venture looked profitable and would increase the bank's foothold in property development.

"We are laying the foundation to take advantage of the massive housing drive in South Africa."

He said that with many RDP projects stalled because community representatives could not be identified and with continuing disagreements between communities and contractors, approval from a social compact comprising 27 local organisations should be seen as a coup.

He said a large proportion of labour would be hired from the local community. "The civils part of the contract will employ 120 community workers while 136 will be hired for the building phase."

Banks scramble to match rate cut

ARG 12/9/96 (58)

Leading banks today rushed to catch up with Standard Bank's lending rate cut.

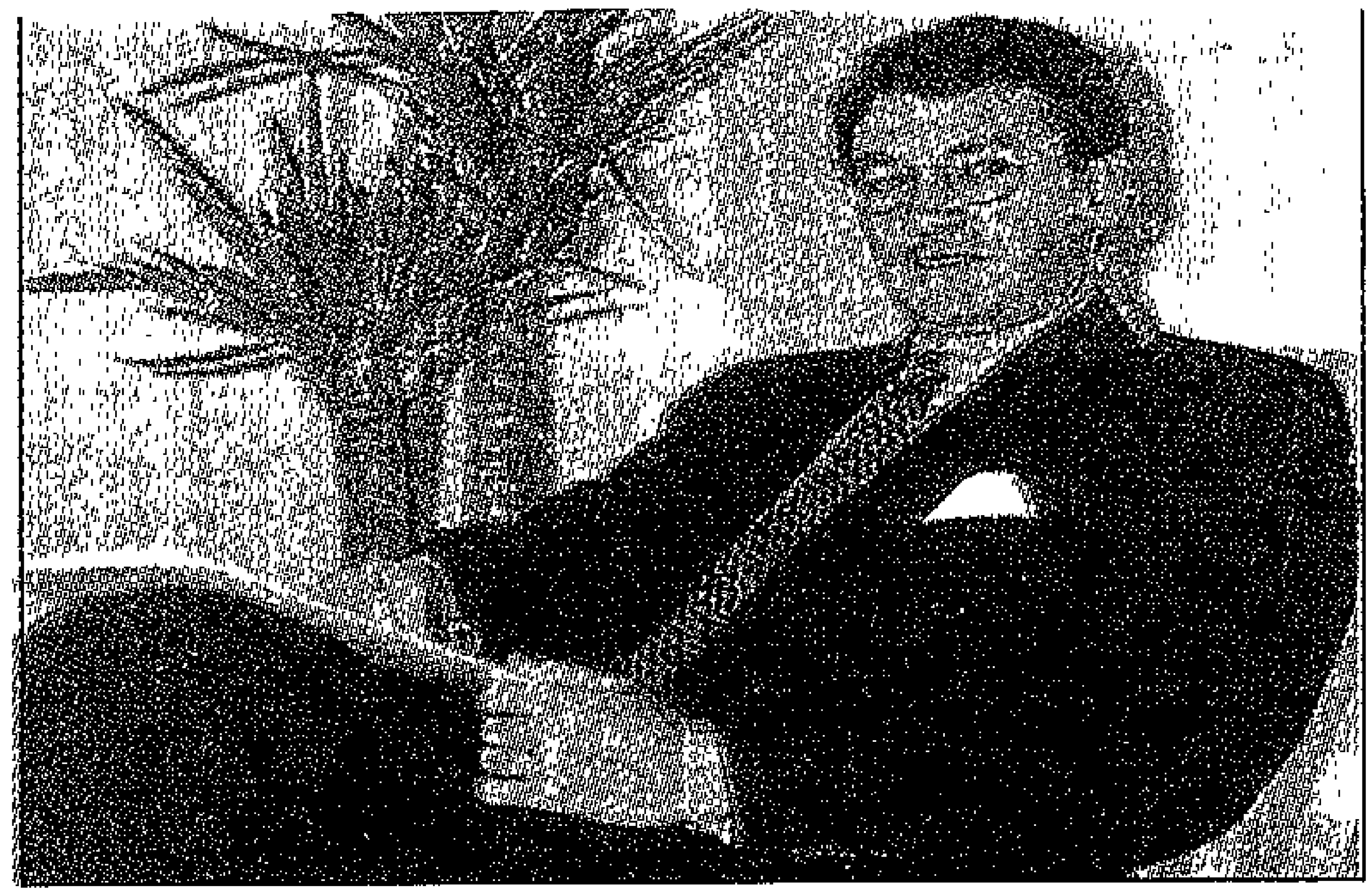
First National was first to knock 0,25 percent from its home loan and prime overdraft rates, followed by NBS, Cape of Good Hope Bank, Absa and Nedcor.

The new prime overdraft rate of 19,25 percent and home loan rate of 19 percent will take effect from the beginning of next month to coincide with the removal of the financial services levy which commercial banks pay to the government.

The levy was introduced in place of VAT in 1991.

Standard Bank chief executive Mike Vosloo dispelled rumours that the cuts were part of a rate war, adding the bank was honour-bound to pass on the cut to its customers. – Business Staff

Private banking a cut above the rest



CLIENTS FIRST . . . Brian Bechet places a premium on discretion

(58) ST(PT) 15/9/96

FINANCIAL SERVICES

By CIARAN RYAN

IT SMACKS of elitism in a country with such huge wealth disparities, but private banking — unashamedly pitched at the wealthiest 2% of individuals — is big business in South Africa.

It's still a long way from the European concept of private banking, where services offered might include walking the dog while you are on vacation and keeping the refrigerator stocked with bubbly.

But if you're worth R1-million or more you will probably never have to join a bank queue again. The dog might have to walk itself but the bank manager will gladly join the queue outside your office.

Definitions vary depending on who you talk to, but private banking is the Rolls-Royce of banking services. Potential clients in South Africa probably number no more than 10 000 to 20 000.

Brian Bechet, managing director of BOE Private Bank, which has been catering to the banking needs of South Africa's wealthy for 158 years, says: "The emphasis is on professionalism, above all discretion, and attention to the individual needs of clients."

Coutts of the UK, owned by National Westminster (which owns 50% of BOE NatWest), is the standard by which other private banks are judged. Bankers to the queen and many of Europe's wealthiest families, Coutts has built its reputation on absolute discretion and a level of personal service which goes far beyond that extended to the rank and file.

European private banks have been compelled to lift the veil of secrecy surrounding their client relationships to clamp down on money laundering. Banking laws in many countries now require banks to disclose unusually large cash deposits, but the US Drug Enforcement Agency reports that drug lords are able to bypass this by making smaller cash deposits into hundreds of apparently unrelated accounts.

To avoid ending up in the service of the drug lords, many private banks accept clients on a referral-only basis.

South Africa's private banks dismiss the elitist label, arguing that it is no more than market segmentation, aimed at meeting the banking needs of the wealthy.

All commercial banks engage in market segmentation through specialised customer accounts, but private banking is in a category of its own. Products are tailored to clients' needs and are seldom off-the-shelf vanilla-type financial services available through the branch network.

Standard Bank, for example, offers its private banking clients mortgage bonds with interest-rate caps and collars, interest holidays, variable repayments — in fact, any permutation you can think of.

Although Standard's private banking is still in the pilot stage and available only in selected areas, it is envisaged that the concept will in time be offered countrywide.

Eric Tomlinson, Standard Bank's general manager, personal market, says the emphasis in private banking is on maximum flexibility.

"Customers at this end of the market have very different needs to those at the bottom end. It's a question of finding out what services they need or want, and giving it to them," he says.

'The emphasis is on professionalism, above all discretion, and attention to the individual needs of clients'

There are also attractive interest-rate sweeteners for those qualifying as private banking clients. Mortgage bonds and bank loans would typically be charged at prime or below, subject to negotiation with the bank.

Syfrets, one of the country's leading private investment banks, says qualifying individuals would generally have at least R250 000 in investable assets. Many European private banks require a minimum portfolio of about R3,5-million.

The core of Syfrets's private banking service is investment management, in terms of which portfolios are structured to suit risk profile and income needs.

Specialised staff look closely at the client's financial, estate and retirement planning needs. A personal-relationships manager ensures a high level of personal contact and pro-active service.

Through Syfrets International, the group's offshore operation based in the Isle of Man, clients with more than £100 000 are offered a full discretionary management service via the Syfrets International Global Funds range — spread across a selection of international investment portfolios and denominated in international currencies.

Gary Hampson, head of Syfrets's international division, says: "We tend to bend over backwards for our private banking clients."

There is no formal minimum asset requirement for Investec's private banking clients. Services offered range from traditional lending to asset management, stockbroking, estates, wills, retirement planning and investment.

Sam Hackner, Investec's head of private banking, says: "We will offer whatever the client wants."

Syfrets and the Board of Executors are generally recognised as leaders in this market, with Investec, Standard and Absa also making inroads. In many cases, admission to the club is by referral or invitation — a case of "don't call us, we'll call you".

Absa recently launched its own private banking operation, but says it is still in the development phase.

BOE's private banking clients are not required to meet any income threshold, and many have been with the bank for three or four generations.

The target market is the "discerningly wealthy" and admission is generally by referral from existing satisfied customers.

Bechet says there are no real product or service boundaries in private banking.

"It's about forming and developing very close relationships with clients. When a client phones us, he or she should not be referred to someone else or asked their account number.

"The client manager is intimately involved in the client's financial affairs."

Court unable to rule on compensation case

By CARMEL RICKARD

A CASE challenging sections of the law under which motor vehicle accident victims are paid compensation has been sent back to the Supreme Court after the Constitutional Court decided it could not make a ruling on the questions raised.

Elias Tsotetsi, who was injured in a car accident in 1991, claimed the Multilateral Motor Vehicle Accidents Fund Act was unconstitutional. The law says if a driver is found to have been negligent, his passengers are paid out less than those in a vehicle whose driver was not at fault.

He said this discriminated unfairly against him and others who could not help the fact that the driver of the vehicle in which they were travelling had been negligent.

But the court decided it could not deal with the problem he raised because his accident had happened before the new Constitution had come into operation. The Bill of Rights' guarantees could not be extended retrospectively.

Justice Kate O'Regan said this was not a special case which would justify making the judgment apply retroactively. If the court were to agree to Tsotetsi's claim, declare the section invalid and make this order retrospective, it would cost the fund an extra R200-million annually, and a R440-million one-off cost, she said.

(58) ST 15/9/96

Life group keeps up momentum

Adrienne Giliomee

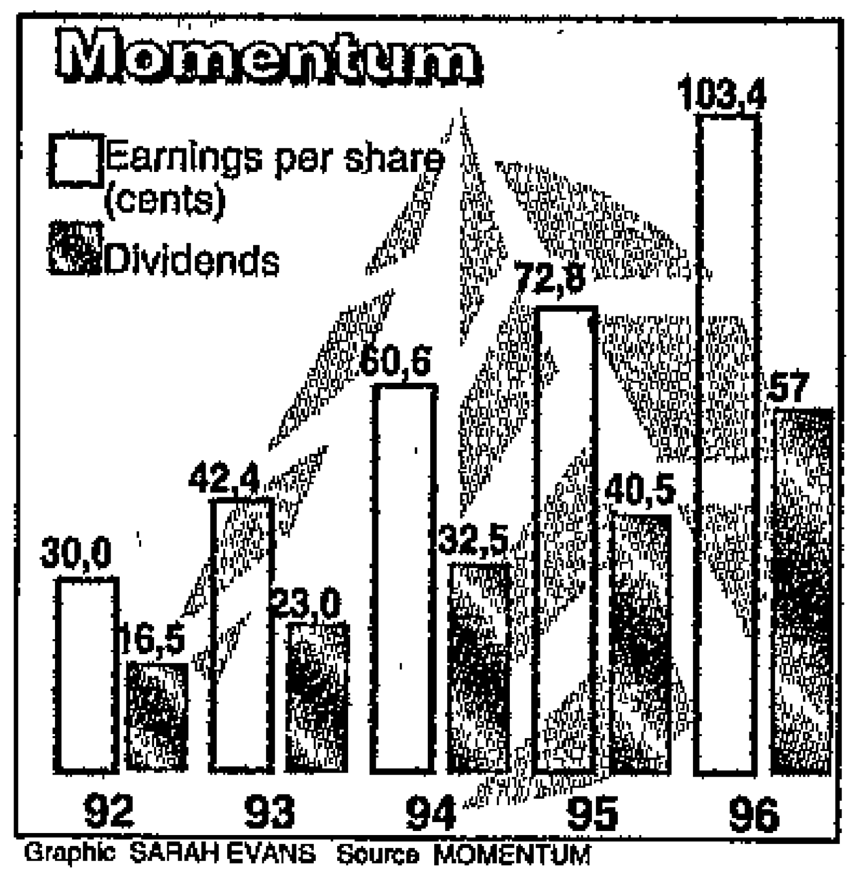
LIFE group Momentum lifted its attributable surplus 42% to R139,3m for the year to June, underpinned by strong performances by its management, life and banking divisions.

Headline share earnings rose 42% to 103,4c. A final dividend of 38,5c (25,5c) was declared, bringing the total to 57c (40,5c).

Chairman Laurie Dippenaar said Momentum had launched a second five-year growth plan, up to 2000.

The life insurance and asset management division contributed R76,1m or 54,6% of the total taxed surplus, while the banking activities brought in R57,7m or 41,4%.

Momentum Life lifted total premium income 41% to R2,7bn, with life recurring premium income increasing 32% and single premiums growing 55%.



Graphic SARAH EVANS Source MOMENTUM

Dippenaar said other life companies had showed a slowdown in recurring premium growth, but Momentum had maintained strong growth through an aggressive sales force and operating from a relatively smaller base.

The actuarial surplus — excess of assets over liabilities — jumped 39% to R1,3bn following new Actuarial Society of SA guidelines.

Dippenaar said RMB Asset Management had produced the most satisfying results. Assets under management jumped to R30,9bn from R19,8bn last year, with the company's five unit trusts accounting for R1bn.

Subsidiary Rand Merchant Bank posted a 35% increase in net income to R96,1m for the financial year, of which R57,7m flowed to Momentum. Dippenaar said investment banking operations had a particularly good year.

RMB Properties had turned in a satisfactory performance, with positive economic growth translating into improved occupancies. Property sales had been sluggish.

Short-term assurer Aegis, in which Momentum has a 50% stake, recovered from a R15m loss in the first six months to a second-half R18m profit.

(68) BD 16/9/96

Accident fund paper may be unconstitutional

BD 17/9/96 (58)

Tim Cohen

CAPE TOWN — Submissions on the Multilateral Motor Vehicle Accident Fund draft white paper suggested important elements of the paper ran the risk of being declared unconstitutional, legal expert Dennis Davis said yesterday.

Davis presented a memorandum on submissions made to the parliamentary transport committee to guide it in drawing up a report for Parliament on the future of the beleaguered fund.

Davis said the theme which ran through all submissions was that a more comprehensive plan should be established to deal with road accidents.

The white paper would also have to give further attention to the "capping" of claims, the exclusion of general damages and the eradication of the victim's common law right to proceed against the wrongdoer. Davis said there was substantial agreement that the attempt to abolish the rights of the innocent party against the guilty driver would be rendered unconstitutional.

Submissions claimed that legislative abrogation of the victim's right to sue the guilty driver would involve the violation of the rights to security of person, access to court and equality.

Davis said much of the criticism directed against "capping" — setting a maximum limit for claims — was based on the submission that it acted in the harshest manner against the most seriously injured victims.

On the question of general damages, Davis said it had been submitted that the white paper fundamentally misconceived the nature of general damages because it classified them as "lesser claims".

A number of submissions said there was a preoccupation in the white paper of the financial state of the system, while the real solution lay in a creative approach to road safety.

Old Mutual goes up to R200-bn

(98) Sowetan 17/9/96

By Mzimkulu Malunga

LIFE assurance giant Old Mutual has increased assets under management to almost R200 billion in the financial year ended June 30.

The company's chief operating officer Gerhard van Niekerk said the company paid out R18,5 billion in benefits to its clients last year.

A substantial component of the payments were policies which had matured instead of death benefits.

In the past financial year, Old Mutual increased its total income from R28,4 billion the previous year to about R32 billion this year.

Income from premiums rose to just over R23 billion.

Most of the cash that flew into the company's coffers from investments came from interest bearing stock, debentures and loans.

The company invested less money in shares and property during the 1996 financial year.

Property got the coldest shoulder with money invested in the sector declining from R625 million in 1995 to R185 million this year.

Van Niekerk said although the number of Aids cases were rising fast in South Africa, the company claims resulting from Aids were yet to spiral. However, in other parts of Southern Africa where his company was operating, Aids claims were already substantial.

"It is a serious problem although it is yet to be felt in South Africa."

Old Mutual, he argued was also "lining its ducks" in preparation for the lifting of restrictions on how much money South Africans can take out of the country commonly known as exchange controls.

The insurance giant was already positioning itself in a number of countries in anticipation of the abolition of exchange controls.

De Lille's answer to MMF's ills

(58) CT(BR) 17/9/96

By Christo Volschenk

Cape Town — The parliamentary portfolio committee on transport said yesterday that restructuring the multilateral motor vehicle accident fund (MMF) alone would not solve the financial problems of the fund, which is technically insolvent to the tune of R5 billion.

The committee will submit its report on the draft White Paper on the restructuring of the MMF to parliament on Friday.

"Our report will suggest that the department of transport launch a comprehensive road safety plan to limit the number of road accidents which lie at the foot of the MMF's financial problems," Patricia de Lille, a PAC member of parliament and the chairman of the committee, said yesterday.

The transport department recently published a draft White Paper suggesting how to nurse the MMF back to financial health.

One suggestion, that claim payouts to accident victims be capped, was heavily criticised by consumer bodies at a recent public hearing held by the portfolio committee on transport

Dennis Davis, a member of the Katz commission on tax reform, presented his assessment of the evidence given during the two days of the public hearings to the committee in parliament yesterday.

Davis said several proposals, including the suggested removal of the common-law right of accident victims to claim compensation from negligent road users who caused them damage, may be unconstitutional.

rise in operating profit to 3%. Operating margins slipped to 7,2% (7,6%).

Good results from Alpha, Consol and Grinaker and modest results from AVI Diversified offset earnings declines of 14% in I&J and 10% in National Brands. I&J may have bottomed out; some analysts view it as a sound defensive stock.

The share has drifted off its 12-month high of R33 and, at a p:e of 13,6, offers value. It is still a blue-chip investment. *Margaret-Anne Halse*

RUSSIA

GOLD IN THEM THAR STEPPES

JCI MD Bill Nairn was poking about in Moscow this week. His visit isn't a new phenomenon for SA miners, though Many have strolled through Red Square — almost every mining house has sent a senior executive to Russia recently.

What makes Nairn's visit worthy of note is that he was there just as Russian PM Victor Chernomyrdin ordered the lifting of secrecy restrictions on the Sukhoi Log gold deposit, the world's largest unmined gold reserve. Sukhoi is to be developed by Star Mining of Australia in partnership with Russia's Lenzoloto. It is estimated that Sukhoi will cost more than US$1bn to develop.

Star's chairman, Ian MacNee, was in Johannesburg last week talking to mining consultants Steffen Robertson & Kirsten, who are contracted to prepare what is called a bankable feasibility study. It is due in November. MacNee is known to have held discussions with various SA mining houses, including JCI.

What makes Chernomyrdin's latest directive electric is that SA houses stand to benefit directly. Gencor is looking at several gold projects including, apparently, Olympiada, in the Krasnoyarsk krai, in partnership with — guess who — yes, Lonrho. And Anglo is bidding to develop the still-secret diamonds in the Archangel region, far north of Moscow. Hitherto secret documents now reveal the presence of more than 60m oz of gold near Bodaibo, in the Irkutsk region of south-eastern Siberia. At current prices, that's worth about $23bn.

Last month, President Boris Yeltsin ordered the reorganisation of the State's gold administration. This embraces changes expected soon to permit Russian commercial banks to sell gold actively abroad, which could profoundly influence new mine projects.

All this signals what may be the start of the next big gold rush. SA's mining houses need to look lively about it. *John Helmer in Moscow and David Gleason*

MOMENTUM LIFE (58)

STILL LOOKING FOR GROWTH

FM 20/9/96

Above-average growth from most of the diversified components of RMB Holdings points to outstanding figures for the top company, due later this week.

Mainstay **Momentum Life**, 68% owned by RMBH and also home for asset management, health insurance, short-term insurance and wholly owned Rand Merchant Bank, appears to be escaping early signs of a slowdown in new demand for traditional life products.

STILL GAINING

Momentum Life

Year to June 30	1995	1996
Total assets (Rbn)	16,2	22,8
Attributable (Rm)	98	139
Earnings (c)†	73	103
Dividends (c)	40,5	57,0

† Headline.

Premium income grew 41% to R2,78bn, reflecting an increase in single premiums of 55% and of 32% in recurring premiums, the more stable, more profitable component of premium growth.

Momentum chairman Laurie Dippenaar says new recurring premiums increased by 25%. "We're excited about this. It supplements asset growth (34% to R14,6bn in Momentum Life alone, but 40,7% including other businesses) and lays a good foundation for the future."

The expectation that the strong gains made by the life company in the past few years will continue led to the decision, after year-end, to raise R300m in fixed-rate, unsecured subordinated compulsorily convertible debentures.

"This will strengthen our ratio of capital to permanent liabilities and support new business growth," Dippenaar says. The debentures, convertible into non-redeemable preference share capital, will not dilute future EPS growth.

Apart from life insurance, the largest contributor to group attributable income of R139,3m is **Rand Merchant Bank**. It grew attributable earnings 35% to R96,1m, though only 60% of this, or R57,7m, goes to Momentum shareholders, the rest goes to policyholders.

Bank MD Paul Harris says sound bottom-line performance reflects strong organic growth in all divisions· corporate finance, structured finance, investment banking, treasury and special projects.

Investment and other income nearly doubled to R202,2m, and includes for the first time Australian Gilt Holdings (AGS), acquired from RMBH at the beginning of the financial year. Harris says, however, that after finance costs AGS's impact on the figures was not that large.

Offshore interests are consolidated into RMB International, including AGS, a London office to consolidate what Harris calls "our parcels of offshore activity" and other activities in Australia. Apart from being the bank's vehicle for offshore expansion, Harris says AGS will leave the group well placed for the phasing out of exchange controls

Momentum Life and the bank provide consistent, sustainable growth The boost this year should come from the smaller, newer operations as they raise contributions off lower bases.

Momentum Health made its maiden contribution (R3,6m for Momentum's 70% stake), which should accelerate this year, in what Dippenaar describes as a growth industry.

RMB Asset Management had a good year, but higher profits should now flow from assets under management, which have grown from R19,8bn to R30,9bn.

RMB Properties seems to be holding its own, but has the potential to increase fee

***Laurie Dippenaar** . . . new companies will come through this year* income as economic growth translates into improved occupancies.

The big swing could come from 50%-owned Aegis Insurance It's still making an underwriting loss, against short-term industry trends, but its second-half net loss of R15m (to December) turned to a profit of R18,8m over the interim.

Momentum's share price has more than doubled in the past year to R38 That makes it one of the highest rated in the insurance sector. But prospects of another year of above-average growth give value to a share that's justifiably in expensive territory. *Shaun Harris*

MINORCO

In the fertiliser

When a mining house demonstrates reliance on its agricultural portfolio, it will always attract curiosity. For Minorco, this will continue to be the case until major new mining projects come on stream — probably not for three or four years.

The interim results are largely what the market expected. A few brokers were slightly adrift in their forecasts but what stands out is the strength of the consensus. Net EPS before exceptionals are US89c, just 5c short of last year's 94c. Considering the sad state of the world commodities market over the period, this is no mean feat.

It is also worth noting that Minorco's investor awareness campaign clearly achieved its goals — many analysts who might otherwise have pitched expectations at unrealistic levels were encouraged to temper their forecasts. This is an important attribute in markets intolerant of companies which are deemed, fairly or not, to have fallen short on delivery.

Some elements stand out. The first is that Terra, Minorco's US Midwest agribusiness, contributed much less this time — only $208m (1995: $270m). The big problems were the collapse of the methanol market, which provided operating income of only $6,5m ($53,5m), and lousy weather, which delayed plantings and fertiliser offtake.

Surprisingly, given the collapse of copper prices after the Sumitomo disaster, base metals operations produced a solid performance. However, it's as well to record that realisations averaged 105c/lb, which compares rather starkly with the current 90c. So there's every reason to be concerned about the second half.

Another division to report good results

PRUDENT MANAGERS

Six months to	Jun 30 1995	Dec 31 1995	Jun 30 1996
Sales (US $m)	2 415	1 833	2 770
Operating income ($m)	385	214	342
Attributable ($m)	210	165	317
Earnings (USc)*	94	69	89
Dividends (USc)	21	111,5	21

*Headline.

is paper and packaging. Some of this is due to the consolidation of Aylesford Newsprint but the overall result, on the back of a comprehensive fall in world pulp prices, suggests careful and prudent husbandry. Even industrial minerals, facing up to significantly stronger competition from Polish and Spanish suppliers, managed to hold its own.

The broad result is encouraging but the feeling persists that the fall in earnings may accelerate into the second half.

Other features worth considering include the perception that Terra, vital though it now is to Minorco's well-being, doesn't really fit The possibility that it will be sold if the right buyer offers a good price can't be discounted.

Another feature is that the interest in the giant Brazilian State-owned enterprise CVRD has increased. Executive director Guy Young told analysts that CVRD's package presented unusual opportunities. This approach is something of an about-turn because a year ago Minorco's interest was barely lukewarm.

But the tortuous workings of the Brazilian political system ensure that privatising CVRD does not mean exactly that If, as now seems probable, the sale of CVRD is really only for a minority stake in the business, one must ask what Minorco might get out of such a transaction.

Minorco's performance is heartening in a tough climate. But it is a long way from realising its potential. That won't be until the turn of the century, which suggests investors can afford to be choosy about when to buy. *David Gleason*

PRIMEDIA

Taking aim

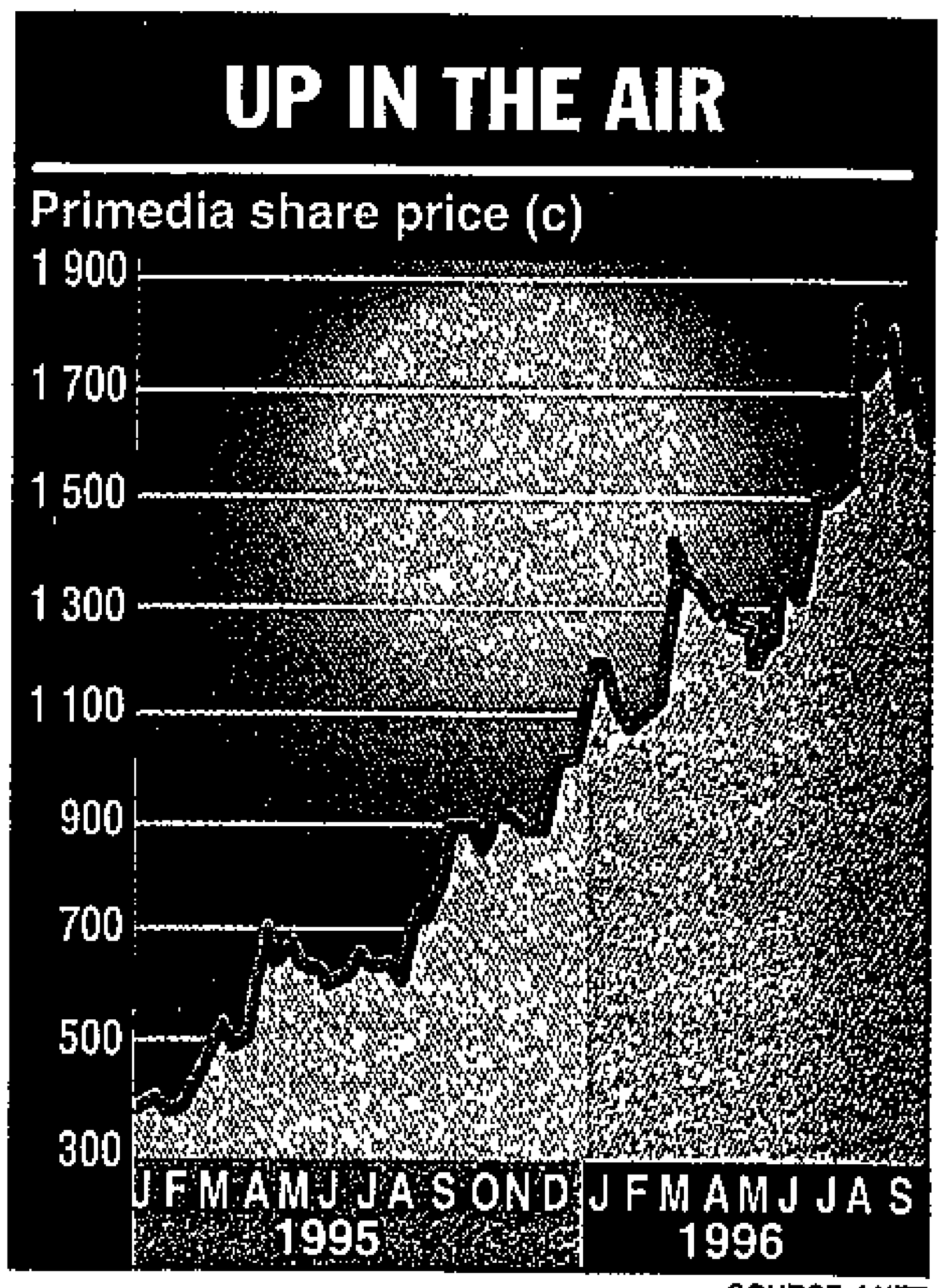
The current deliberations of the Independent Broadcasting Authority (IBA) herald a new era in SA broadcasting.

Primedia CE William Kirsh says: "It's not just the sale of SABC's radio stations — we're seeing the birth of a new industry Overseas experience shows deregulation spurs growth in the market."

The IBA's deliberations may also have helped spur the rise in Primedia's share price, which has more than doubled in the past year to a high of R18,50 on August 14 This week the price had retreated to R16,70, possibly reflecting concerns about the IBA's verdict.

In a consortium with black empowerment groups, Primedia has applied to buy two radio stations — Radio Highveld and KFM — from the SABC. Acquisition of one or both would mean a large step in this media group's rapid expansion.

Several deals in the past year have bolstered capacity and enabled growth in new markets. Kirsh aims to create "an integrated media and communications



SOURCE: I-NET

group," and much of the new development is in the communications arena. "Our approach to media is all-embracing," he says.

Little time has been lost in getting new assets to perform: of the 77% increase in operating profit (to R39,7m) in 1996, 47% was attributed to businesses acquired during the year. These include specialist information provider Mead & McGrouther and a 21% stake in listed electronic communications company Datatec — which has doubled its value.

Primedia's profit before tax and exceptional items for the year to end-June was R17,2m (1995: R6,7m), and pro forma figures, assuming Claude Outdoor and Taxinet had been held for the full year, show this figure at R28,1m.

FIRST NATIONAL BANK

MULTIPLE CHALLENGE CONFRONTS BARTLETT

FM 20/9/96 (58)

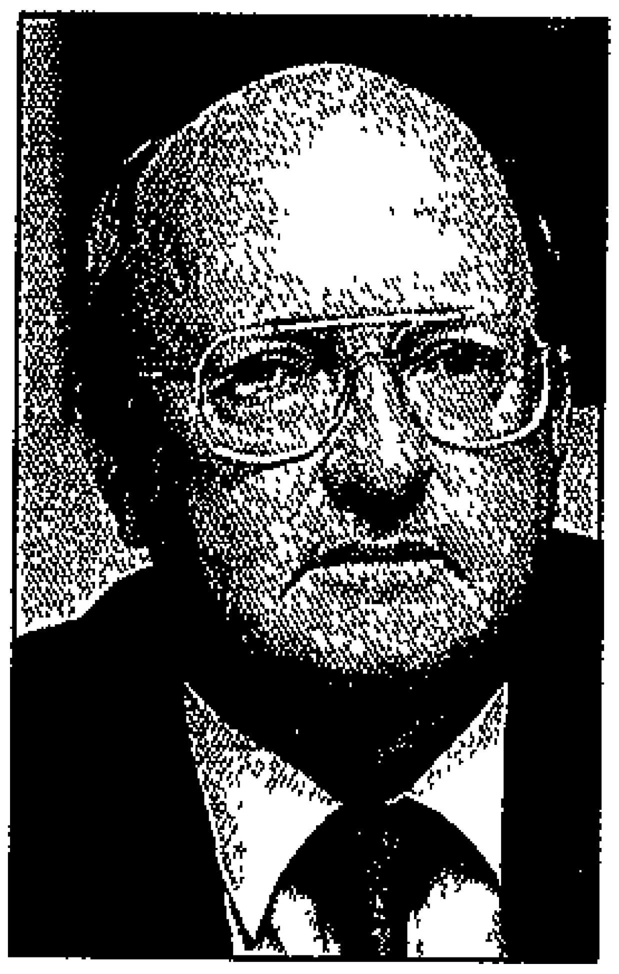
Need for paradigm shift in thinking

Has First National Bank (FNB) lost its way? In the wake of the debacle surrounding the departure of former MD Barry Swart, questions about the bank's direction, strategy and focus are being asked freely by both investors and analysts.

As is usually the case, FNB's problems show up in a number of areas simultaneously. First on the list is lost market share. New MD Viv Bartlett (see *People*) denies this, but concedes that, in one area at least, FNB has retreated considerably.

By his own numbers, the attack launched by Nedcor won it considerable support in the instalment credit business. A year ago, FNB's share of the market was 29,9%. By June this year it had fallen to 28%. If that doesn't seem much, the raw figures tell the tale better: had FNB held market share it would have written an additional R1,2bn of business over the year. Put another way, the market grew by 23% over the 12 months, but FNB's book grew by only 15%.

So when Bartlett demurs about overall market penetration, he may be right — but some nasty holes are appearing. And analysts are convinced FNB has suffered in other areas, such as in the campaigns by Investec and Nedbank to attract and service high net worth individuals by offering Rolls-Royce-type packages. The underlying thrust isn't exactly disguised: if you capture captains, their industries will follow.



Viv Bartlett

Some brokers are now shaking their heads about FNB's horizons. "Its managers want it to be the complete bank for the people, targeting everyone. In the end, it's a policy that can't work."

Bartlett adroitly sidesteps the assessment, but in the process comes as close as he can to admitting it probably isn't far off beam. "In the FNB 747," he says, applying airline terminology, "we intend to attract high-value clients by offering them first-class seats. It's true they've been drifting off elsewhere and we have to get them back But everyone has to recognise that superior service costs "

This leads naturally to a consideration of FNB's cost structure. It's common cause that, of all the banks, it has most to gain from a concerted and well-considered cost-cutting campaign. Unfortunately, this is easier said than done. Knowing precisely what everything costs is a banker's dream, because it means cross-subsidisation can be stopped and areas producing inadequate rewards can be sealed off or simply dropped.

Barry Swart

This ideal also implies that FNB is moving rapidly to the point at which its MD will know precisely which are the best- and worst-performing areas. If that is to happen, much will depend on the speed at which information systems are turned to this purpose.

"First National," says Bartlett, "is in transition, moving from being a straightforward commercial bank for everyone to a bank which delivers products and services electronically. Over the past five years, we've spent R700m-R800m on technology improvements. Now we have to break out of the mould by shortening the process. We simply don't have the luxury of time any longer.

"In the next six to eight months some bold decisions will be made. We need a paradigm shift in thinking, which is easy to say and difficult to deliver. But I would like to leave you with the thought that, by nature, I'm a quick starter I don't like hanging about for long."

The division of FNB's structure between wholesale (headed by Johann Meiring) and retail (led by Peter Thompson) is already far down the road. Bartlett admits there were some crossed lines, but says these have been tidied up.

However, the exercise does point to the issue of market segments, not all of which may be as profitable as they seem. "We may well decide to shed some segments," says Bartlett — but he won't, of course, say which ones.

"If you ask me whether I want First National to be the biggest bank in SA in five years, my response is that I don't intend to indulge in a headlong drive for growth. If we become the biggest by accident, that's fine — but it's not a goal. I would rather First becomes a J P Morgan than a CityBank."

Changing the face of FNB in five years, though, also means it must alter radically in other areas. Branches will have to be closed or merged Service and product delivery will increasingly be electronic — to many high-earners these days, banks are places to be avoided. Cash can be had from ATMs, other services by phone and fax or personal visits (by bankers to clients, not the other way round).

FNB's tradition was to run a major branch portfolio. Indeed, about 3,5% of its total assets are in zero-yielding, fixed assets. Most other SA majors have an exposure below 2% in this area

A key question is whether Bartlett has the people available within FNB to do what's necessary. "He has the opportunity," says another analyst, "to establish a new team, untainted by the old systems and culture. But to do it, he needs to go outside the bank with a big chequebook."

Asked what peculiarity within FNB has encouraged such a cascade of disasters among its CEs, Bartlett blames a strong hierarchical structure in which process eventually mattered more than substance and no-one had the temerity to question the actions of senior managers.

It may explain why he makes it clear that he doesn't intend to be intimately involved in day-to-day operational matters.

"It's not my style," he says, "to breathe down others' necks. They have their responsibilities; that includes being accountable for their actions. If I want to be known for anything here, it's that I want to grow a culture which doesn't permit arrogance and autocracy."

This raises yet another issue: until now, FNB has been run like a bank, not as a business. But as banking is changing so swiftly and dramatically, it's as a business that it will prosper or falter. This suggests that Bartlett's real job is to leave the banking side to operational managers and get on with managing the business from the centre.

Is he, for instance, as close to corporate SA as he needs to be? The question is apposite, because the CE of any major bank now needs to be a super-marketer. And Bartlett needs to relaunch FNB on the corporate market and to demonstrate that he's in earnest about delivering superlative service.

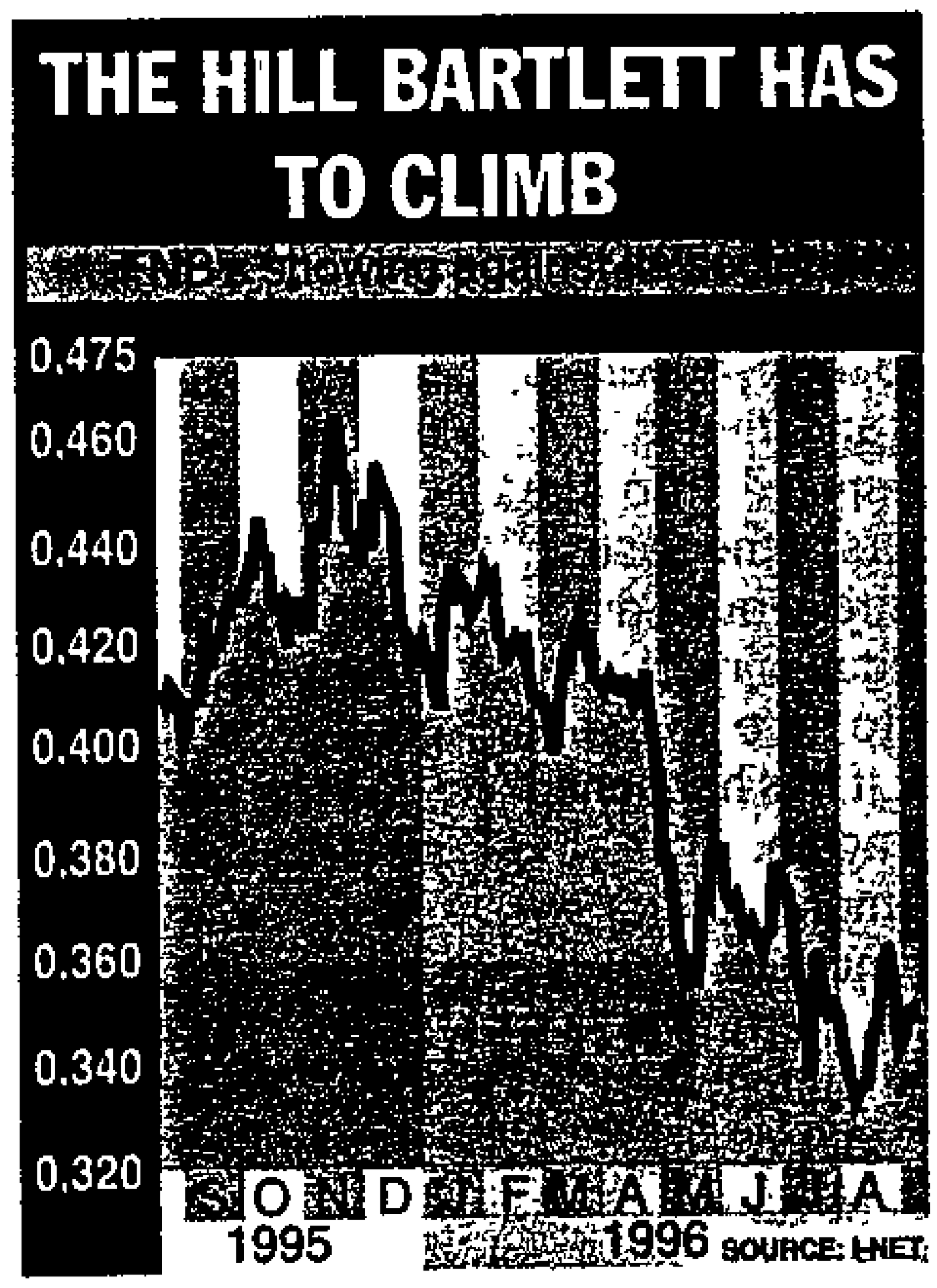
Another aspect of FNB's profile is the vulnerability of its positioning in some areas. Along with all the others, FNB must face up to the growing challenge from Imperial's new role as a financing bank. After all, Imperial sells 24% of all the new VWs, 25% of the Mercs and 8% of the Fords and Mazdas to hit SA roads. It's a big portion and, with R3bn of financial assets, Imperial is bound to have an impact on the wheels market.

Yet another aspect is FNB's bad debts provisions. These are likely to be worse than many expected in the next set of results (due November 7).

A specific area is the exposure to McCarthy Retail, where FNB decided it wanted to become the furniture bank and has taken punishment ever since. What was a brilliant deal for McCarthy's Terry Rosenberg exposes a strategic decision by FNB which has comprehensively backfired. This is precisely the kind of positioning about which analysts express misgivings. In response, Thompson says: "This may be true in the short term, but we still regard it as an important strategic investment by the group."

Peculiar to FNB is the intriguing issue of the bank's ownership. The Anglo American Corp group holds just more than 50% of the issued equity spread between Anglo itself, De Beers and Southern Life. However, Anglo is engaged in a long process of stripping itself of noncore assets, the definition of which, of course, can be a moving feast. Even allowing plenty of latitude, however, it's hard to see how a controlling stake in a major commercial bank sits easily in the portfolio of a group aspiring to be the world's leading resource corporation.

Anglo's problem — assuming it does seek to sell — is that potential buyers aren't exactly falling over themselves. Anglo executive director Mike King's response to inquiries about selling out is always consistent — as an investment, FNB has been a very good buy; there's no rush to get rid of it and, even then, only at the right price.



Of course, Bartlett has to deal with standard, industry-wide problems too.

For one thing, a wave of consumerism is only now gaining momentum but, having started late, it's moving fast. Already, life companies are finding selling significantly more difficult. Clients are asking probing questions about costs, returns, worth and wealth creation.

The banks won't escape this attention. And they may have a bigger problem. In October, the Financial Services levy falls away and will be replaced by Vat. The banks had no intention of handing back the levy to clients until Standard stole a march by dropping prime 0,25%. The effect will be to deny all banks the pleasure they thought they would get from the levy — in FNB's case, it might have been as much as R50m.

Customers must steel themselves for a double whammy.

They will be whacked first by the imposition of Vat, and you can be sure that later the banks will raise their own charges. Bank fees could go up by about 20% this year.

It's easy to be pessimistic about FNB's immediate prospects. The irony is that a year ago it looked to be in near tiptop condition. Since then, problems have developed in its merchant banking operation, with skilled staff who are difficult to replace peeling off.

On top of that have come the slip in market share, tough conditions facing WesBank and bad debt provisions, which will detract from overall performance.

But Bartlett knows his biggest job will be to attack the cost structure — and at least in this area he has a lot to play with. Bankers look at cost-income ratios intently. Really good international banks now spend about US55c to produce $1 income. In SA, however, the best of the bunch is NBS, admittedly a niche player, followed by Nedcor in the early 60s, Stanbic at about 68c, FNB at 69,9c at the interims and finally by Absa.

Bartlett is adamant that he will get FNB down to 60c. "Don't put an impossible time limit on this, but that's what we have to do and I'm determined to achieve this.

"Even then, we'll still be behind the worldclass players."

One broker's rule-of-thumb assessment of SA banks, again using an airline/airport analogy, goes like this: NBS is already in the arrivals hall, Stanbic and Nedcor have just left on their journey, and Absa and FNB are still checking in their luggage.

What this apparently simplistic analysis takes account of, without spelling it out, is that in the short term FNB is unlikely to present the returns investors will get from other banks.

In the longer view, however, and as the impact of Bartlett's strategies take hold, FNB will probably put in a strong run.

Bartlett's unexpected spell at FNB's helm is vital, because it will clearly establish how well the bank will perform after the turn of the century.

How he delivers will be crucial to the bank's prosperity. *David Gleason*

Report earmarks Post Office for rural banking role

(58) BD 27/9/96

Louise Cook

PRETORIA — The government task team appointed to investigate rural financial services has earmarked the Post Office as the central pillar of finances to such regions.

The Strauss commission, which presented its final report this week, said government should provide funding to the Post Office so it could offer linked accounts, and that the institution should lift interest rates to savers and widen its product range to boost rural savings.

"The Post Office is recognised as a financial institution well suited to take the lead in satisfying financial needs of the rural poor, namely saving facilities and transmission services," the report said.

"The commission notes with concern the reduction in fully fledged post office outlets."

The commission also recommended that Finance Minister Trevor Manuel appoint a team to write new deposit-taking legislation for credit unions, village banks, alternative retailers and NGOs. The team should report back within six months.

The final report also scrapped the suggestion that the Land Bank be converted to a rural bank.

The Land Bank should instead act as an agent for the departments of agriculture and land affairs.

The Agricultural Credit Board should be shut and its staff transferred to the Land Bank. The report said the Land Bank should take over the Development Bank of Southern Africa's portfolio on equity schemes linked to land reform.

The role previously suggested for the Land Bank — responsibility for rural development — should pass to a new development council.

Development bank scraps 55 senior management jobs

BD 27/9/96 (58)

Robyn Chalmers

THE Development Bank of Southern Africa has axed 55 of its 75 senior management posts in a major restructuring of its business.

The transformation is in line with the bank's focus on financing infrastructure and will lead to a greater emphasis on the Southern African Development Community and on clients regarded by commercial markets to have unacceptable risk profiles.

CE Ian Goldin said the reshaping revolved around a flat management structure with the introduction of new business units. The existing hierarchy will lose a layer of 55 managers.

About 70% of the management positions created in the reshaping had been filled by affirmative action candidates — doubling such representation in top management.

"The new structure is far more empowering to staff in that it has decentralised authority (to make it) closer to the client," Goldin said.

"Business units have been established which will operate according to agreed strategic and business plans."

There was a broad commitment from government to ensure the bank had sufficient capital, grant capital and reserves on call so it could maintain a focus on higher-risk clients.

A new interest rate policy which would match the cost of funds, the development needs and riskiness of borrowers would be phased in from October 1. The bank would offer a full spectrum of interest rates on floating and fixed terms.

"The key to the transformation of the bank is the revision of its financial policies and internal organisation to respond to the development needs of the southern African region," Goldin said. The bank would support infrastructure development in three categories — economic, institutional and socially orientated infrastructure.

The main focus would be on water and sanitation, electricity and energy, roads and other transport, telecommunications and other information infrastructure.

In areas other than finance, the bank would liaise with development finance institutions. It would step in where these institutions were not yet functional, such as Khula on small, medium-sized and micro-sized enterprises, and on the Land Bank's role in rural finance.

Goldin said the bank would collaborate with the public and private sectors, but would not compete with or substitute for the private sector or other public sector sources of finance.

A sophisticated conflict resolution strategy had been put in place and the decision to reduce the number of managers had been accepted by those involved, he said.

Big boost to black empowerment?

(58)

ALIDE DASNOIS
BUSINESS EDITOR

ARGT 27/9/96

Plans by Bellville-based life assurer Sanlam to sell part of its R20-billion industrial empire could mean a huge boost to black empowerment.

Sanlam said this week it was planning to shed some of its industrial holdings to focus on financial services.

The group said it would be looking for "black empowerment opportunities" during the shake-up, expected to take about three years.

Analysts said the move was probably driven by political considerations.

See page 10

THE BIG STORY

Big boost to black empowerment?

A shrewd political motive is seen in Sanlam's plan to sell off billions in assets

ARG 27/9/96

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WHY HAS SANLAM DECIDED TO SELL OFF PART OF ITS GLITTERING R20 BILLION INDUSTRIAL EMPIRE? BUSINESS EDITOR ALIDE DASNOIS REPORTS THAT ANALYSTS SAY THE MOVE, WHICH COULD BE A MAJOR BOOST FOR BLACK EMPOWERMENT, WAS PROBABLY PROMPTED BY POLITICAL CONSIDERATIONS

Black investors could be offered a slice of some of South Africa's prime industrial companies, following Sanlam's decision to sell off part of its R20 billion industrial empire.

Sanlam chairman Marinus Daling said this week the giant life assurer would scale down its strategic stake in a range of industrial companies to concentrate its efforts on financial services.

Sanlam's interests, held directly or through its investment arm Sankorp, stretch across the economy and include sizeable chunks of many of the country's top mining and industrial groups.

The group holds 29 percent of Gencor; 9 percent of Sasol; 37 percent of construction group Murray & Roberts; 26 percent of expanding paper group Sappi and 15 percent of Engen.

Gencor is the world's third biggest gold producer and second largest producer of platinum, with interests in ferro-alloys, chrome and coal.

Through an effective 33 percent stake in holding company Malbak, Sanlam also has major stakes in Servgro, Haggie, Tedelex, Ellerine Holdings, ICL, SA Druggists, packaging group Kohler and retail chain New Clicks.

"We will be keeping an eye open for black empowerment opportunities in the process of scaling down these stakes", Dave Brink, chairman of Sankorp, says. And once the process is complete – within three years, he says – Sankorp's role will change.

'In South Africa now, the major groups which control the economy have to foster the growth of grassroots enterprises'

"Sankorp will become more like an investment bank, taking small stakes in up-and-coming companies.

"It will have a strong black empowerment flavour," says Mr Brink.

The main reason for the restructuring, says Sanlam senior general manager George Rudman, is to enable Sanlam to concentrate on its main business of financial services.

Investments of policyholders' money in other sectors, he says, will be reduced to "portfolio" size.

But the decision, taken two years ago according to Mr Rudman, has left some analysts baffled.

Simon McGregor, director of McGregor's Information Services and publisher of the authoritative "Who owns Whom" guide to the country's top companies, says he finds Sanlam's plan hard to understand.

"I'm surprised Sanlam has decided to reduce its holding in these companies.

"It's a mutual society, with a duty to make good investments for policyholders. Where are they going to get the sort of return on policyholders' funds that they are getting from Sasol, for instance?

"Why give up stakes in top companies like that?"

"It's not good for too much to be concentrated in one group," says Mr Rudman. "We decided a couple of years ago that these industrial holdings were not strategic for our business, which is a financial services business."

Echoing Mr Daling, he emphasises there will be no "fire sale" of Sanlam's assets.

"We will only put money into quality investments. We are not in a hurry. We will use opportunities which arise."

These opportunities, he says, could be in emerging black groups, in financial services – or offshore.

Sanlam already owns 25 percent of banking group Absa, and nearly 30 percent of Metlife (the rest was sold off to New Africa Investments in a black empowerment deal).

Boosting this core financial services business, says Mr Rudman, will absorb some of the money from the sell-off of the industrial equity.

And some will be used for "good investment opportunities in smaller companies", particularly black companies.

"Instead of the large conglomerates, we will be looking at developing companies which also need some finance," says Mr Rudman.

He will not elaborate on any possible plans to invest offshore, other than to say: "there will probably be new opportunities abroad, in future."

At present, financial institutions like Sanlam are prevented by exchange control regulations from investing abroad more than 10 percent of the assets they manage on behalf of policyholders and investors.

So far Sanlam has bought about R1,5 billion in offshore assets, through the asset swap mechanisms authorised by the South African Reserve Bank.

And the Bellville-based life assurer announced in May this year that it would open an office in London, ahead of an expected relaxation of exchange controls.

Mr McGregor says it would make sense for Sanlam to plan further overseas investments.

"I'd have thought, though, that they had enough liquidity to boost their offshore investments at any time, even if exchange controls are relaxed. They don't need to sell off domestic industrial equity to do it."

Much more likely, he says, is that Sanlam is acting for political reasons.

Though the government has not yet come up with a policy on competition, several ministers, including Minister of Finance Trevor Manuel, see dangers in the high degree of concentration in the economy, where four top groups jointly account for nearly three quarters of the value of shares on the Johannesburg Stock Exchange.

Alongside the Anglo American Corporation, the Rembrandt Group and Old Mutual, Sanlam is one of these groups and, says Mr McGregor, may be running ahead of possible pressures from the government.

Shareholders' Association chairman David Sylvester agrees.

Like Anglo American's sale of its stake in industrial conglomerate Johnnic to black investors, Sanlam's decision is mainly political, he thinks.

"But it also makes good business sense. Companies like Gencor or Malbak are fine but they are now mature investments. The real growth – the exponential growth – is in new viable companies."

Mr Sylvester says the Shareholders' Association welcomes any move to unpick the pyramids which characterise South Africa's industrial fabric.

"We're against pyramid structures and we also think that holding companies should not have stakes of more than 50 percent in other companies.

"Sanlam's decision will make these industrial shares easier to trade and will mean that trading prices are closer to the correct share price," he says.

The black empowerment aspect of the plan is also to be welcomed, he says.

"In South Africa now, the major groups which control the economy have to foster the growth of grassroots enterprises.

"That's the way the country will grow. It's the way any economy grows, but it's particularly true in South Africa where economic growth has been stilted for historical reasons."

Sanlam, which as a mutual society is owned by its policyholders, could be transformed into a listed company owned by shareholders, says Mr Rudman – though this is unlikely at this stage.

Studies in 1990 and 1995 suggested a listing on the Johannesburg Stock Exchange would not add value for clients, he says.

But changing domestic and international business environments mean that the listing of Sanlam – or a separate service company – is one option.

Before making a decision, Sanlam will seek approval from policyholders, Mr Rudman says.

FNB's standing has deteriorated, survey finds

(58) CT (BR) 30/9/96

NANCY MYBURGH
MARKETS EDITOR

Johannesburg — First National Bank (FNB) suffered a dramatic loss of confidence among the country's most influential fund managers and analysts even before Barry Swart, the bank's former managing director, resigned earlier this month amid a nepotism scandal.

A Campbell-Belman confidence survey, which has been conducted every six months for the past eight years, measures the perceptions of the good name of 75 South African companies among some of the country's most influential analysts, fund managers and media editors, as selected by Campbell-Belman's major clients.

Campbell-Belman is a 15-year-old Johannesburg-based consultancy which presents the findings of its 400-page "Company Confidence Predictor" to clients' senior executives.

Alec Hogg, an independent consultant to Campbell-Belman, said on Friday that for the past six years the results of the survey had shown a direct correlation with the market capitalisation of the companies studied.

"If you extrapolate the trends shown (in the perceptions of a company) and if something is not done about it, then you can forecast which way a market capitalisation is headed relative to the rest of the market."

Market capitalisation is a measure of the overall value of a company, showing roughly how much it would cost to buy all its shares.

Stephen Campbell, one of the company's directors, said the year to June was the worst since the advent of the survey in terms of lost confidence among influential people in financial markets.

"It looked as if the market had crashed there were so many downward shifts.... First National Bank was one of the companies I had to do a manual check on because I couldn't believe what I was seeing," Campbell said.

The survey revealed that of the country's four big commercial banks — Absa, FNB, Nedcor and Standard — FNB showed the greatest loss in standing in four of the five areas the respondents said were most important.

Respondents were asked to determine whether the banks under review had inherently strong products or services, whether they were financially sound and well managed, whether they were honest and trustworthy, and whether they had clearly defined objectives.

Overall, "Absa continued to go up gradually, Standard and Nedcor went up a little from a very high base, and FNB went the other way. The market knew something was wrong (before Swart's resignation)," Hogg said.

Star 20/9/96 (58)

Accident Fund proposals on collision course

How will society support the thousands seriously injured in road accidents each year? A controversial document that may soon become law has several organisations preparing for a bitter fight

By Adam Cooke

The growing concern over the Draft White Paper (DWP) on the Multilateral-Motor Vehicle Accidents Fund (MMF) is building to a crescendo as the public becomes aware of just how critical is this proposed piece of legislation.

So much so, that the Association of Law Societies is asking provincial law societies to contribute to a "war chest" to fight the recommendations many believe could be hurried through Parliament.

And judging by the submissions at the recent public hearings on the DWP in Cape Town, Transport Minister Mac Maharaj will have to get his team to rethink their framework.

Argument against the DWP, coming from among others the legal fraternity, the disabled victims of accidents, and the SA Taxi Drivers' Union, and the SA Council for Child and Family Welfare, centres on the proposed new limit on the compensation paid to victims; the no-fault system which will benefit guilty parties in accidents; and the right of the individual to sue that party for damages.

As it stands now, anyone injured in a car accident who is found to be an innocent party can turn to the State fund and claim in full the medical expenses and general damages for pain and suffering.

But this system has been running unchecked for many years and, amid allegations of gross mismanagement and fraudulent claims, the fund is said to be insolvent, carrying a hefty R5-billion deficit.

"At present, the system is a very expensive, clumsy operation ... and the White Paper aims to make it more efficient and user friendly," said Willem Swanepoel, MMF CEO.

But even this figure – the main reason that pushed Government to overhaul the system – is in dispute. President of the Association of Law Societies Michael Pinnock said the deficit was based on estimated figures of claims still to come in: "They (the MMF) refuse to make these figures public, which leads us to question whether they are insolvent."

Financing the MMF is driven by a petrol levy of 10,5c/litre. According to government calculations the average motorist pays in the region of R180 a year towards the fund.

Representing disabled organisations and Drive Alive, vocal advocate Malcolm Lyons argues the fund overplays its debt in an attempt to spark public concern and thus enable it to push the DWP through Parliament.

In order to cut the deficit, Government has chosen a very unpopular option – it has put a ceiling on the amount paid out to each victim. This is referred to as "capping" and limits future loss of earnings to R2 500 per month. Maharaj explained this figure by pointing out that 75% of South Africans earn in this bracket and the few who earn more would be able to insure themselves adequately.

Under the present system, however, a claimant needs simply to prove loss of earnings and the payout figure is then calculated with the necessary increases taken into account.

A 'no fault' system may also benefit guilty party

The man at the centre of the fight on behalf of accident victims, Neville Cohen, finds this figure unacceptable: "Living on the White Paper's salary a person will effectively become a prisoner in his own home," said Cohen, who has spent the past 45 years in a wheelchair.

He also points out that many accident victims are unskilled people who normally become economically inactive after becoming disabled.

But the DWP goes further to cap the total medical costs for treatment at R800 000 for the worst possible case. In the past claims in excess of R10-million have been submitted.

In its submission at the hearings, the Legal Resources Centre stated: "Experience of compensation for severely handicapped persons shows that the proposed caps would be completely inadequate and that, for instance, quadriplegics would be unlikely to survive for long under the proposed system."

Swanepoel counters this by saying victims cannot become over-zealous in their claims: "For some reason, an ordinary wheelchair won't do anymore – people want the best." He added that the new system aimed to "cut out the fancy frills".

Keenly debated at the hearings was the "no-fault" principle. Under the no-fault system the injured party in an accident will no longer have to prove innocence as in the present system. This allows even the guilty party in an accident to receive financial cover.

Swanepoel said many actuaries and lawyers had a vested interest in the continuation of the "fault system" because there was a lot of money to made from all the litigation. Hence their vocal opposition to the DWP.

He estimated that around R300-million to R400-million is paid each year for MMF settlement costs, taking up to 40% of the victims' compensation out of their hands.

But Lyons claims the no-fault system would effectively take funds from the severely injured innocent party and give it to the guilty party.

What follows from the no-fault system is the individuals' common law rights to recover damages, a contentious issue that is left open for debate.

If the R800 000 cap is not enough to cover the entire medical bill, the injured person could have the right to sue the other person for the balance, and, if not, many argue the rights of the innocent driver will be abolished and thus it could be unconstitutional.

The technicalities of the DWP aside, it is a document that has caused such a stir the opponents have gathered to air their views and the minister has promised to incorporate many of the issues raised at the hearings into a debate at a conference of stakeholders in October where the White Paper will be finalised.

VAT ON FINANCIAL SERVICES (58)

WIN SOME, LOSE SOME

FM 20/9/96

When Vat replaced general sales tax in 1991, financial services were largely excluded. Instead, banks paid a financial services levy as a surrogate

"The levy was derived from the amount of capital needed under the Banks Act," says Standard Bank group chief financial officer Henry Shaw "And as the amount of capital is a ratio of lending, the cost — of 0,25% — was passed on to borrowers in the form of an increased interest charge "

That adjustment will reverse with the levy's demise on October 1. But on the same date, clients will start paying Vat on the price of services they receive

Borrowers will benefit from the change The losers will be those who don't borrow and transact frequently on their current and credit card accounts.

With the home loan rate at 19%/year, someone with a R100 000 home loan will save about R21 a month in interest costs from October.

Assuming that person pays R40 a month in service charges, at 14% Vat, the cost will increase by about R6 — meaning the client is still R15 better off.

Best placed are businesses registered for Vat, running overdrafts and loans. They gain from lower interest charges and are unaffected by the 14% on services as it qualifies as input Vat and is claimed back from the Receiver.

How much Vat clients attract depends on how often they use fee-based services provided by a bank "Passive" banking is usually safe. For example, clients can't attract Vat by earning interest as that income remains exempt.

Clients aren't affected by employers' salary transfers into their accounts as these transactions are undertaken and paid for by the employers. The only Vat-paying credit transaction is a cash deposit by the account holder.

Shaw also argues that setting off input against output Vat will lower the effective rate paid by the consumer. The reasons are complex The new law means that banks are obliged to charge more Vat — but they will also be entitled to claim more back from the Receiver.

Banks pay Vat to suppliers on the price of inputs such as machinery, stationery or insurance. But they don't pay Vat on labour, for example.

But tax law specifies that a vendor can't reclaim input Vat if the product he offers is Vat-exempt. And about 60% of commercial banks' income is earned on interest, which is exempt.

This means that banks can now reclaim 40% of the input Vat they've paid — more than previously. "The unclaimable part, relating to the exempt interest income, remains a cost to the banks," says Absa tax adviser Etienne Louw.

Legally, clients must pay a full 14% on the cost of any service they use, so the benefit of the setoff will have to come through new pricing decisions by the banks. Exactly how they will do this remains to be seen. ■

Community Bank to be wound down

BD 3/10/96 (58)

Amanda Vermeulen

COMMUNITY Bank staff have been issued with retrenchment letters, and the beleaguered institution is expected to begin closing at the end of this month, bank sources say.

The bank, which went into curatorship in May, will be wound down, its assets sold and creditors repaid. It is understood that most of the funds used in the capitalisation of the bank — about R130m — will not be repaid to the original backers.

A company source said CE Archie Hurst told staff on Friday that the bank would have to close at the end of this month, and retrenchment notices were handed out on Monday.

In July curator Stewart Patterson recommended to Finance Minister Trevor Manuel and the Reserve Bank that Community Bank merge with the SA Housing Trust and one other government-backed institution.

It is understood, however, that lengthy delays in receiving a final decision from government on the bank's future subsequently rendered the merger unworkable as the trust was forced to continue with its own plans.

Bank sources said negotiations with interested parties had already started to sell the bank's housing book — valued at about R110m. Executive trustee Cas Coovadia declined to comment.

Registrar of banks Christo Wiese said that as far as he knew the bank was only being downsized, and certain branches shut to curtail its operating expenses. But sources said this was the first stage of an effective liquidation.

The bank's problems erupted earlier this year after its original backers refused to release further funds. The bank had been promised R200m by the funders — the Development Bank of Southern Africa, the Industrial Development Corporation (IDC) and the Independent Development Trust, as well as the banking industry — but the development bank froze R50m and the IDC R20m. At the time, the bank had also been negotiating for a R40m injection by the World Bank's private sector arm, the International Finance Corporation. But the finance corporation declined to commit the funds unless the orginal backers were involved.

The first signs of trouble emerged in July last year when the bank said in its annual report that its R20,1m loss for the eight months to March last year had been higher than expected.

Chairman Yunus Mahomed said at the time that delays in receiving its start-up capitalisation from its funders and higher-than-expected costs related to the installation of information systems were the main reasons for the losses. He was reported as saying that "the financial effect of incurring these costs prior to the receipt of capital, and therefore no income until late 1994, resulted in a drain on the bank's capital".

Despite attempts to implement a rescue package for the bank, it was finally placed under curatorship in May.

(58) BD 3/10/96

SA banking given good report

HONG KONG — The SA banking system was generally in good condition taking the current market context into account, Moody's Investors Service said yesterday.

But the banks faced potential credit risks arising from the larger economic and political transition.

Moody's maintains bank deposit ratings on five of SA's largest banks, all of them at Ba1/Not Prime, its highest speculative-grade rating category.

The rating agency stressed that SA banks' deposit ratings were constrained by the Ba1/Not Prime sovereign ceiling for bank deposits, noting that all had been assigned relatively high ratings for their inherent or "stand-alone" financial strength.

Three banks — FNB, Nedcor and Standard — had financial strength ratings of C, indicating good inherent financial strength.

Absa and NBS were rated a notch lower at D-Plus, the upper end of the adequate financial strength category.

Moody's said the financial status of the leading banks was bolstered by their substantial share of the banking sector. SA banks were well developed organisationally, technologically advanced and offered sophisticated services.

However, Moody's warned that the rapid increase in consumer instalment lending over the past two years, combined with interest rate increases, could lead to higher loan loss rates. — Reuter.

Crime thwarts conference industry

BD 4/10/96

David Capel

SA's status as a top international conference venue is in jeopardy because of the country's soaring crime rate, according to leading conference organisers.

One top conference planner, Brian McDonald of Global Conferences, has written to President Nelson Mandela, urging him to take steps to reassure potential conference delegates that government is bringing crime under control.

The international conference industry is worth a staggering R3bn a year to SA and provides employment to about 60 000 people. According to Satour, SA has more than 1 250 conference venues, able to accommodate 320 000 people a day.

Surveys show that the industry has the potential to outstrip economic growth and develop at a rate of 5% a year.

But some conference organisers are concerned that this potential will not be reached, as SA's reputation as the crime capital of the world takes hold in the minds of international associations and multinational companies looking for a suitable venue to stage their conventions.

McDonald, whose company is competing to bring 1 500 people to SA for a conference of international shoulder and elbow surgeons in 2001, said SA's chances of hosting the conference were in doubt because of the crime rate.

"We're blowing it. The perception of people overseas is that crime in this country is rife and government is doing little, if anything, to come to terms with it," McDonald said.

He said he knew of at least three other major international conferences planned for SA that were now likely to go elsewhere.

"We're asking the president to tell the international community we are doing something about the problem. In this country we're great at talking about things. The time has arrived for some real action," McDonald said.

Conference Co-ordinators MD Renee Stamper echoed McDonald's fears. "Serious concerns have been expressed by international conference delegates about SA's suitability as a host and in some cases companies have been sending people out here to have a look at the situation before deciding," she said.

International conferences that did come to SA had to be arranged in such a way that programmes were extremely tight and delegates could "hardly breathe".

"They're literally being taken from Johannesburg International Airport to the conference venues, or the places where they are staying, and then whisked off home again.

"The safety of these people is in our hands and that's a very daunting responsibility. If there's just one unpleasant incident during an international conference, the whole conference is a disaster."

Rural financial services receive attention

(58) BD 4/10/96

Louise Cook

THE Land Bank and Post Office are adjusting operations to overcome inadequate financial services in rural areas, the parastatals announced yesterday.

The move follows last week's Strauss Commission report on rural financial services, which said that the Land Bank should take on a new client base of emerging farmers, and finance the beneficiaries of land reform, in addition to financing commercial farmers. The Post Office was earmarked as the central pillar of finances to such regions.

The Land Bank said it had introduced major changes to accommodate a new client base of emerging farmers. The first new branch would open in the Eastern Cape next year.

Land Bank senior deputy GM Karl Ehrenberg said the financing of the new clients — black entrants into agriculture — would mainly take the form of wholesale financing through intermediaries.

He said: "The entire Land Bank Act has been redrafted to place the bank in a position to assume the wider responsibilities in line with the recommendations of the Strauss Commission."

Commercial interest rates would be applicable to the bank's financing, and an element of grant funding would be necessary to defray transaction costs in some areas.

The Post Office also said it was repositioning to take better care of clients in rural areas after the Strauss Commission report said it was "concerned" about the reduction of fully fledged post office outlets.

Postbank GM Billy Tihabanelo said more branches were needed to serve the entire population, especially in the outlying rural areas.

In rural areas, Retail Postal Agencies were being opened and preference given to agents also offering Postbank services.

"The commitment is to eventually offer more outlets, albeit not in the form of traditional post offices," Tihabanelo said.

He said the first Easypost branch was also opened recently.

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Depositors storm a branch of Community

(58) BD

Amanda Vermeulen

COMMUNITY Bank depositors stormed one of its branches yesterday after reports that the bank would close. Bank sources said it was not clear if there had been a general run on all branches.

One source said there had been "trouble" at one of the Cape branches, but other company employees said it seemed to be business as usual elsewhere, with new accounts opened and loans repaid.

Executive trustee Cas Coovadia said yesterday that depositors would not lose their funds. He said "no decision has been taken to liquidate the bank".

Coovadia stated in the same press release that the curator was "currently in discussions with various institutions to acquire the assets of the bank".

Banks Registrar Christo Wiese said the Reserve Bank and department of finance aimed "as far as possible" to ensure Community Bank's continued existence, and a number of different options were being considered.

"Due to public policy decisions and the time-consuming nature of the issues involved, no final decision has yet been taken," he said.

Of the bank's 17 branches, 12 would close by month-end, curator Stewart Patterson said yesterday. Sources said the remainder would be kept open "for the time being".

Coovadia said staff had been retrenched "to end the uncertainty under which (they) have had to work in the past few months".

It also emerged that the other institution that would have been part of the proposed Community Bank merger with the SA Housing Trust was the Independent Development Trust's AltFin division, which also focuses on the low end of the lending market.

However the proposed merger fell through after failing to secure approval from the Bank and the finance ministry.

Bank sources said that the loan book — valued at about R110m — was strong, but there was concern that any buyer would impose a hefty discount.

It is understood the bank owes creditors about R25m. This includes an information technology contract of R500 000 a month with more than two years to run.

Bank

4/10/96

BUSINESS DAY, Friday, October 4 1996

BANKING *Curator: It's a rationalisation*

'Community Bank is not in liquidation' (58)

CT(PTA) 4/10/96

NANCY MYBURGH
FINANCIAL SERVICES EDITOR

Johannesburg — The Reserve Bank denied reports yesterday that the Community Bank was set for liquidation.

Christo Wiese, the registrar of banks, also denied speculation that Trevor Manuel, the finance minister, had scuppered chances of a merger of the bank with the South African Housing Trust by waiting too long to make a decision on the bank's future.

"We were on the point of making a decision (about the proposed merger with the trust) when a new suitor came in. We had to do more research. We are doing our level best to bring it to an acceptable conclusion," Wiese said.

Manuel's spokesman said the finance department had been seeking further information about the bank when the minister left for the US.

But "it remains the main objective of the finance department and the Office for Banks, as far as possible, to ensure the continued existence of the Community Bank. No final decision with regard to the future of the Community Bank has yet been taken," the Office for Banks said.

The Community Bank, which was originally funded by several state development agencies and large banks, and which is aimed at the low-income market, was placed under curatorship in May.

The bank has reportedly made losses of more than R50 million since its inception two years ago, and two of the original funders have reportedly withheld R70 million of their originally proposed R200 million in funding.

Cas Coovadia, the bank's executive trustee, confirmed reports that staff members had been given retrenchment letters, but said this was part of a downsizing plan that would ultimately make the bank more marketable.

"With the decision to rationalise, I think Community Bank is a more attractive (prospect for a possible partnership)," Coovadia said.

"The bank is not in liquidation. We are rationalising. We are closing 12 branches and retaining five," said Stewart Patterson, the bank's appointed curator.

Patterson said he was having discussions with possible private sector partners for Community Bank. "Deposits made by ordinary depositors are not threatened and there is absolutely no possibility ordinary depositors will lose their deposits," Coovadia said.

☐ See Business Watch, Page 16

INSIDER TRADING

Edited by Amanda Vermeulen

Community Bank row set to spread

(58)

(BD 4/10/96

THE furore surrounding the collapse of Community Bank is unlikely to die down soon. Insider hears that those associated with the bank are prepared to take the matter further — even to the extent of canvassing President Nelson Mandela for explanations why the Reserve Bank and the finance ministry apparently ignored the proposal to merge the institution with the SA Housing Trust.

Another aspect of the unfortunate demise of this bank has been the reluctance of those involved to go public with what has been happening behind the scenes.

Hints of threats by certain government officials should Press releases or other official comments be issued have reached Insider's ears, which is no doubt the reason for the greater than normal absence of candour in official statements on the matter.

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ANYONE holding his breath for the long-awaited Adcock-Ingram merger with Premier Pharmaceuticals would probably be in dire need of resuscitation by now.

Last month it emerged that the transaction — first hinted at in March in a flurry of cautionary announcements to shareholders — would be delayed as the negotiating parties battled to resolve the licensing agreement issue with one of Prempharm's foreign principals, Mer-National.

Company sources said, in a familiar refrain at the beginning of September, that "the issue will almost definitely be resolved by the month-end and the deal announced".

But Insider is now told by the JSE that when the last cautionary was published at the end of August, the negotiating parties petitioned the exchange for an extended period as the deal was unlikely to be concluded within the standard three weeks before a further cautionary was required.

The JSE obliged and extended the limit by three weeks.

The Mer-National issue was apparently resolved some time ago, which begs the question of whether further obstacles have been raised.

Company sources now say an announcement is "a week to 10 days away". But don't hold your breath.

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A SCUFFLE may be looming between Transnet and the post and telecommunications ministry over the future of Transnet's telecommunications business, Transtel.

Transnet executives appear confident that telecommunications will play an important role in Transnet's future. But Insider hears post and telecommunications officials are not so sure.

Transtel played an important role in the National Telecommunications Forum and contributed to the Telecommunications Bill.

Transnet executives seem eager to hang on to Transtel despite its net loss of R68m for the year to March 31 — with its cellular activities in particular draining the company.

If post and telecommunications officials decide on a bid for control of Transtel, they will have to deal with Public Enterprises Minister Stella Sigcau, who oversees Transnet.

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THE Development Bank of Southern Africa's major management reshuffle has left former managers demoralised. Bank CE Ian Goldin said at the time of announcing the transformation that a dispute resolution system employed by the bank had worked well and employees were generally satisfied with the restructuring.

But a source close to the bank says the 50-odd managers whose positions were axed during the reshuffle are hardly thrilled. "I am not sure that top executives realise how demoralised people are, even though they broadly agree there had to be major changes, the source says.

The three unnamed top managers who have left the bank were particularly disenchanted, we hear. Goldin is not saying what sort of retrenchment packages they were offered, other than that they were market related.

Bank staff are understood to be unsure about the new management structure, with 70% of new management positions being filled by "affirmative action" candidates.

Some bank employees are tentatively looking for positions in the private sector, but there is unlikely to be a flood of resignations.

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REMEMBER the Salem fraud in 1980? Pirates stole a shipload of oil, secretly offloaded it in Durban, pumped the vessel full of water, and scuttled it in the Atlantic to claim insurance for the fake cargo.

The Central Energy Fund (CEF) bought the oil — it belonged to Shell — from the pirates for \$30m, but ended up having to pay a further \$56m to compensate the oil company. Shell and the CEF decline comment to this day.

Now we hear that Fred Soudan, the mastermind behind the crime, recently staged a classic escape from an American prison in which he was being held.

He complained he was ill, was taken to hospital by ambulance, and managed to elude the guards and escape in his wife's waiting car.

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EXECUTIVE privileges seem all the rage, and interesting tales are emerging about some of SA's corporate power brokers.

The latest executive subjected to what has been described as unfair hounding by the media is Sanlam chairman Marinus Daling, who recently bought a farm between Stellenbosch and Franschhoek.

We hear Daling has upset the local jogging fraternity by banning runners from a well-worn footpath at the bottom of his property, which is traditionally part of their route. They are apparently kept away by patrolling Sanlam security guards, paid for personally by Daling.

Daling would not comment yesterday, saying only "it is a private matter".

Whistle blowers sent into hiding

(58) CP 6/10/96

By SIFELANI MLAMBO

TWO DIRECTORS of the pyramid investment scheme Sun Multi-Serve – in which gullible rural people lost millions of rands – are hiding for fear of their lives after informing police that documents revealing huge unaccountable loans to directors had been destroyed to hide the transactions.

One of the two, David Mogashoa, saida shot had been fired at his car while he was driving from his office in Rustenburg last week.

The other director, Nick Neniels, said he had received threatening telephone calls.

The Reserve Bank stopped the scheme after discovering that R44 million out of the estimated R90 million invested by the public had gone missing. They called in the Office for Serious Economic Offences to investigate.

This week the two directors told City Press from their secret hiding place that the death threats had come after they had informed police that directors had granted themselves interest-free loans.

They said they too had taken interest-free loans.

"But we paid back our loans," said Mogashoa. "Others did not – and the documents recording the loans were destroyed when the Reserve Bank froze the assets of Sun Multi-Serve."

They gave City Press a copy of the audited accounts showing that millions of rands invested in Sun Multi-Serve could not be accounted for.

The audited report also reveals millions of rands of investors' money was spent on salaries, rental for private homes and luxury cars for directors.

They said another director and founding member of Sun Multi-Serve, Peter Tau, had resigned in disgust a week ago because of the missing millions.

Mogashoa said he had decided to spill the beans after the attempt on his life last week. "They want to kill me because I demanded that they repay the money," he said.

Mogashoa was Sun Multi-Serve's chief negotiator with the Reserve Bank during discussions to have R46 million released which the bank had frozen.

Thousands of investors were hoodwinked into the "get-rich-quick" scheme which promised them three times their investment within weeks.

The Registrar of Banks, Christo Wiese, said several weeks ago that investors would get back less than their initial investments as millions of rands had gone missing.

He said the Office for Serious Economic Offences was investigating Sun Multi-Serve and any information on the missing money should be forwarded to that office.

The Reserve Bank gave investors a choice of claiming some of their money back or allowing it to be invested in stokvel schemes that Sun Multi-Serve had to establish.

Buyers eye book of Community Bank

(58) BD 7/10/96

Amanda Vermeulen

SEVERAL financial institutions and other parties have shown an interest in buying Community Bank's R110m loan book, the price of which could be heavily discounted because the bank's loans were made out at the prime interest rate.

Bank sources said yesterday that the interested institutions, which normally offer loans to low-cost borrowers in the 22%-24% interest rate range, would buy Community Bank's book only if it was substantially discounted to compensate the new owner for the lower interest rate.

The names of the interested buyers for the bank, currently under curatorship, are not yet known.

It also emerged at the weekend that government wanted to maintain Community Bank's name because market research had shown that the bank had a high awareness level among low-cost borrowers.

Sources said funds raised from the dismantling of Community Bank could be used to continue lending into the low-income market, possibly via another institution.

They suggested that the bank's closure had been "encouraged" by one of its funders which allegedly rejected the proposal that the bank merge with the SA Housing Trust and the Independent Development Trust's (IDT) AltFin division.

The original funders, who promised the bank R200m two years ago but advanced only R130m, included the Development Bank of SA, the Industrial Development Corporation, the IDT and the major banks.

The Development Bank earlier this year froze R50m of the funds it had allocated to Community Bank in its start-up capitalisation, while the IDC withheld R20m. The subsequent liquidity crunch was one of the factors which precipitated the bank's curatorship in May.

Position held	Salar[illegible] annum [illegible] last wor[illegible]	Value of Retirement Package								
		Pro-rata Service Bonus	Medical Aid Contribution	Home Owners Allowance	Leave Gratuity	Severance Pay	Subsidised Transport	Motor Financing Scheme	Pension Fund Gratuity	Total
Senior Personnel Practitioner	R 68 [illegible]	R5 506.76	R 3 480	R3 930	R 5 645.46	R 8 198.65			R547 168.97	R573 929 84
Tradesman Aid	R 2[illegible]	R 652.29		R2 340	R 5 776.05	R 11 970 17			R 91 819 40	R112 557 91
Principal Aviation Inspector	R11[illegible]	R3 749.34			R 31 620.00	R 46 609 09			R376 487.66	R458 466.09
Chief Inspector	R139 [illegible]	R7 231.28	R 3 480	R4 686	R 44 740 80	R 69 788 99			R724 823.66	R854 750.73
Administrative Officer	R 50 [illegible]	R3 942 27			R 8 082.88	R 7 825.84			R 34 526.95	R 54 377.94
Senior Personnel Officer	R 27 [illegible]	R 361.12	R 3 048		R 2 716.03	R 3 217 15			R 14 325.19	R 23 667 49
Senior Administration Clerk	R 30 [illegible]	R2 004.39			R 6 020.09	R 3 571 26			R 17 067.76	R 28 663.50
Senior Registry Clerk	R 27 [illegible]	R1 805.64	R 5 352		R 1 833.12	R 2 680 96			R 11 704.09	R 23 375.81
Senior Secretary	R 35 [illegible]	R1 156.64			R 4 096.68	R 2 738 76			R 12 530.99	R 20 523.07
Senior Administration Clerk	R 27 [illegible]	R 722.25	R 3 048		R 2 291.67	R 1 608.57			R 6 301.67	R 13 972.16
General Worker	R 17 [illegible]	R 225.11	R13 291.20		R 2 342.00	R 4 603.84			R 25 119.51	R 45 581.66
Security Guard	R 20 0[illegible]	R1 300.32			R 7 866.43	R 5 019.74			R 26 308.84	R 40 495.33
Senior Traffic Safety Officer	R 53 48[illegible]	R1 266.08	R19 368		R 24 235.90	R 13 158.92			R145 846 71	R203 875.61
Senior Administrative Officer	R 63 9[illegible]	R1 670.48			R 3 504.80	R 6 150.28			R 41 880.00	R 53 205.56
Senior Administration Clerk	R 27 882	R1 083.38	R 5 016		R 1 260.27	R 1 608 57			R 5 577.17	R 14 545.39
Transport Inspector	R 39 528	R 260.18	R18 432		R 10 395.84	R 8 361.69	R 7 820.64		R 63 586.58	R108 856.93
Senior Typist	R 27 882	R 787.66			R 2 789.64	R 6 061.49			R 39 387.32	R 49 026.11
Specialised Aux. Services Officer	R 20 079	R 652.29			R 4 620.84	R 5 405.88			R 29 857.68	R 40 536.69
Principal Specialised Auxillary Services Officer	R 34 296	R 601.56		R3 594	R 3 326.31	R 8 980.96			R 79 704.38	R 96 207.21
Administrative Officer	R 53 487	R3 463.83	R6 168	R4 350	R 5 348.34	R 9 257.36			R 66 762.26	R 95 349.79
Senior Traffic Safety Officer	R 53 487	R1 737.59	R2 000.60	R1 896	R 30 478.24	R 14 400.34			R124 734.16	R175 246.93
Total		R190 266.70	R325 963	R155 583	R2 371 623.60	R1 820 014.20	R64 819.32	R30 645.06	R17 915 607.27	R22 874 522.15
Grand Total										R22 874 522.15

MMF: percentage return on investments

304. Sen J SELFE asked the Minister of Transport: (58)

(a) What was the percentage return on investments of the Multilateral Motor Vehicle Accidents Fund in each year from 1989 up to and including 1995, (b) what proportion of these funds was invested in (i) government bonds, (ii) equities, (iii) property and (iv) other specified assets in each of these years and (c) by whom are the decisions made on the allocation of investment funds?

S506E

The MINISTER OF TRANSPORT.

(a) The yields on MMF investments were as follows:

Financial Year	*Yield % p a.*
1989/90	16,04
1990/91	17,34
1991/92	14,03
1992/93	14,24
1993/94	27,11
1994/95	3,96
1995/96	24,35

(As at 30.4.96 the market value of assets exceeded book values by R123 million)

The figures for the first three years reflect running yields on book values, since market values are not available for those years The change in unrealised capital gains losses are therefore not taken into account, but only investment income and realised capital gains/losses. Since May 1992 market values are available, and the next four figures reflect the proper performance of the portfolio investments in those years. Apart from the portfolio investments, the MMF itself maintains a liquid reserve of R100m-R200m in the money market, which has been earning 11%-15% p.a. over the last four years, in line with going interest rates in that sector.

(b) Over the years the percentages of the portfolio investments which were invested in the various categories of asset varied as follows:

Financial Year-end	*Gilts and semi-gilts*	*Money Market*	*Equities*	*Policies*
1990	4	96		
1991		40		60
1992		48		52
1993	71	13	16	
1994	44	22	34	
1995	15	26	59	
1996	20	12	68	

No direct investments in property have been made. As mentioned above, the MMF maintains a further R100m-R200m in the money market

(c) The decisions on the allocation of investment funds to the various categories are made by the MMF's five external portfolio investment managers, viz. Old Mutual, Southern, Sanlam, Standard Bank, and Norwich—subject to the policy constraints laid down by the Board of Directors of the MMF. These investment managers allocate or shift funds to the various sectors depending upon the views they take from time to time and the opportunities which present themselves.

SA Communications Service: details of staff

323. Sen A E VAN NIEKERK asked the Executive Deputy President:†

(a) How many staff members of the South African Communication Service (i) [illegible] and (ii) accepted packages during the [illegible] specified period of six months for which information is available, (b) (i) which Ministries have their own public relations section, (ii) how many staff members does each comprise and (iii) at what cost is each operated and (c) what are the prospects of the SACS parliamentary bureau during the period before the finalisation of the task group's report?

S537E

The EXECUTIVE DEPUTY PRESIDENT:

(a) (i) 20

(ii) 144

PERSONAL VIEW

Community Bank's bold initiative has been betrayed

(58) CT(BR) 8/10/96

DUGAN FRASER

The golden rule of banking is that there are no bad borrowers, only bad lenders. Community Bank was established on a loan from our new government, which has a public commitment to paying for development. Since Community Bank was set up, the government, has reneged on that deal: the Development Bank of South Africa, notorious for its failure to reorient itself to people-centred development, refused to release the second half of its promised loan, and scared off other potential investors, leading to the liquidity crisis strangling Community Bank now.

This decision has not been challenged by anyone in the finance ministry, despite support from the South African Reserve Bank which championed the idea of a community-owned and -managed financial institution, commercial banks which offered bridging finance if longer-terms funds were secured, and multilateral financial institutions such as the World Bank, which came close to investing through its private sector arm, the IFC.

The result is that South Africa's most innovative retail financial institution has been closed by its principal shareholder which still does not seem part of a new South Africa. Last week, the staff of Community Bank were unceremoniously given a month's notice. Technically there has been no decision about liquidation, but there are few alternatives.

Community Bank, South Africa's pioneering mutual bank, dedicated to the low-income housing and enterprise market, was floated in early 1994 using a R130 million loan from a number of sources, including the development bank, the IDC and a consortium of private banks.

What has happened since then is a matter of public record: the Development Bank, concerned by the expenses incurred by the Community Bank, refused to release the second part of its loan (R50 million), leading to a domino effect of investor withdrawal. The Community Bank unwisely continued lending, until its cupboard was bare. Since the beginning of this year it has had an acute liquidity crisis, but has maintained a solid loan book with a respectable repayment rate and a steady increase in new clients.

The failure of the government to take any stance on the future of the institution is what has forced the retrenchment of staff. Although senior government officials have been aware of the situation since April, they have not acted apart from murmuring concern. The finance department has not accepted any responsibility for the decision to retrench staff, and has cynically distanced itself from the latest actions. However, it also rejected the proposed merger between the Community Bank and the South African Housing Trust, taking over nine weeks to do so, by which time the opportunity had been missed anyway.

In practice, the finance department, which has final responsibility for the future of the Community Bank, has killed this bold initiative for political reasons: too scared of free market criticism to support it, and too scared of the political fallout from communities not to, our finance minister declined to do anything at all.

Now that it comes to closing the institution, and accepting the bad press that this will generate, the department refuses to be associated with any decision. How ironic that struggling commercial banks (does African Bank ring a bell?) receive high-level support, but a visionary structure which offers ownership of a bank to ordinary people does not.

This is simply the latest in a long list of crimes of omission: the much-vaunted Reconstruction and Development Programme was hastily shuffled into the finance department, the Office of the Deputy President and various other homes. What chances are there for sustainable development when many development professionals working for the state have been rendered ineffective?

For example, Khula Enterprise Finance and the National Housing Finance Corporation should be providing wholesale funds for small enterprise and housing respectively. Both are paralysed by red tape, and are remarkable only for their inaction.

Every time one of us is woken by an armed intruder, or is pulled from our cars by a masked gunman, or raped in our homes, we are experiencing the failure of the state to ensure that development takes place in South Africa. Jobs are not created, houses are not built, and violence is not addressed unless we make sure it happens. Doing so requires dedicated institutions, which may be expensive, but they are worth it.

That is surely the one lesson our struggle taught us: without institutions, we are powerless individuals, and we cannot change anything.

Why is it that our allegedly progressive government cannot build institutions which promote development? I fear it is because we have become a society driven by neo-liberal fantasies in which the market does everything and the state attends conferences with bankers in New York.

This is not enough: the Community Bank will only have to be started again in two years' time when wholesale funds are desperate for retail outlets, and when political pressure reminds our politicians of their commitment to development.

The Community Bank was a bold and imaginative step which radiated potential. It attracted skilled staff from the private sector who have been shabbily treated. It attracted support from commercial banks, who were only scared off once the Development Bank mismanaged the loan so badly. Most importantly, it attracted over 20 000 low-income clients, who bought shares and saved with it, and who received financial services and shares in a formal institution for the first time.

It also attracted the confidence of international development aid donors, who provided over R8 million in support over two years to the Community Banking Foundation, the capacity-building arm of the initiative. The confidence of these stakeholders has been betrayed.

The Community Bank made mistakes: it was breaking new ground, it was treading the minefield of our post-apartheid economy, and it was caught up in political manoeuvrings. Of course, there were also managerial and technical mistakes, relating to strategic and operational blunders. But it made these mistakes using borrowed money, mainly from the Development Bank.

Why is the Development Bank not being held accountable for its poor management? When will our state be able to inject funds into development activities? And when will we be able to sleep peacefully in our beds at night, knowing that houses are being built, and jobs created, because that is the only way we will address the crime scourge which afflicts us.

☐ *Dugan Fraser is operations manager of the Community Banking Foundation and writes in his personal capacity.*

Banks shun Community Bank book

BD 10/10/96 (58)

Amanda Vermeulen

SA's five largest retail banks have shunned attempts to sell them Community Bank's R110m loan book, despite Reserve Bank appeals to the financial community to throw a lifeline.

Bank sources said the central bank had approached the retail banks with proposals to sell the loan book, but there had been no takers despite a generally held perception that a hefty discount would be offered on the deal.

The retail banks were among the original funders of Community Bank, injecting R20m into the start-up capital of R200m promised when the bank was launched in early 1994.

Absa, First National Bank, Nedcor and Standard Bank all said yesterday that they were not interested in buying the loan book.

NBS CE Tony Norton said although the bank had not made an offer, it might consider doing so provided the price was right.

The four main banks all have operations in the same market as Community Bank, which is to close soon.

Absa has NuBank, FNB has a minority stake in Future Bank, while Standard Bank operates E-Bank and Nedcor both People's Bank and Permanent Bank.

NBS also has an exposure to the low-cost housing market through its joint holding with New Africa Investments in African Bank.

The banks said they were not interested in the Community Bank loan book because of their existing operations in the low-cost housing market. Other sources said they were also concerned about the bank's poor image as a result of being placed under curatorship, as well as its losses of more than R50m in two years of existence.

They were reluctant to take on the book because they would be required to maintain the Community Bank name. In view of their own investments, they were unwilling to consider this.

Registrar of banks Christo Wiese could not be reached yesterday but it is understood that he may offer the banks an inducement to buy the loan book.

Govt to bolster funds of African Development Bank loan facility

(58) BD 11/10/96

John Dludlu

GOVERNMENT had agreed to contribute funds to replenish the African development fund, the African Development Bank's soft loan facility, the finance ministry said yesterday.

The ministry could not say how much the contribution would be, but it was likely to be made in the next financial year.

Earlier this year, Finance Minister Trevor Manuel said at the bank's annual meeting that SA intended to become the first regional member to contribute to the fund. Government had now approved this matter.

The fund, which had once lent more than $1bn a year to some of Africa's poorest nations, has not been stocked up for a while.

Since his appointment as the bank's president, Omar Kabbaj has been involved in discussions to resuscitate the fund.

Recently, Kabbaj disclosed that $3bn in concessional funds would be available to finance projects involving low-income regional members during the period up to 1998.

SA's plans to lead the way in reviving the fund were "well received" in Abidjan and were seen as signalling national commitment to developing the continent.

SA has also expressed interest in raising its 1% shareholding in the bank, for which it is paying an annual R8,7m over 10 years, but government has been studying the effect of reforms in the bank.

Bongi Kunene, finance department director in charge of the finance and investment unit of the Southern African Development Community, said government had been impressed by the restructuring programme.

Several meetings had been held with Kabbaj at which Pretoria was informed of developments.

Reforms included downsizing, reducing supervisory posts at the bank as well as adopting measures aimed to enhance financial management, in particular efficient loan management.

The decision to increase SA's stake would also depend on the amount of unallocated shares — which changed regularly.

COMMUNITY BANK (68)

NATURAL SELECTION?

FM 11/10/96

As Community Bank faces dismantling, a Darwinian question arises. Does the bank show the right survival characteristics? If so, perhaps it deserves a breathing space. If not, resources should be reallocated to more efficient lenders.

"There are two interpretations," says Deloitte & Touche development finance expert Gabriël Davel. "One is that the Industrial Development Corporation and the Development Bank of Southern Africa have pulled the rug out from under the Community Bank without giving it a chance to succeed.

"And it's true that any kind of micro or community lending takes years to break even — three years at least; more probably between five and seven.

"The opposing view is that, in terms of the initial feasibility studies, the bank might be so far off its targets that there may be no way to get back on track, and the situation is actually deteriorating. If that is the case, a further capital injection would only increase the potential loss."

And this seems to be close to the truth. According to one school of thought, the rationale behind public sector funding is to kick-start the process, then step back and let the private sector take over.

So when Community Bank posted a R20m loss after its first year and another R30m projected after the second year, the private banks got cold feet.

Davel suggests one reason for the bank's distress was the decision to have a substantial formal branch infrastructure. "Effective lenders in other countries tend to have a low cost infrastructure. A heavy infrastructure has to be supported by sufficient business volume."

The bank has 17 branches, sophisticated computer systems, marketing costs which have turned out to be greater than expected and high staff costs.

Gabriël Davel

A major reason for failure was that not enough business materialised to support the overheads.

Though — in retrospect — Community Bank did not apply new lending techniques optimally, other banks are showing better survival skills. The newly established Cash Bank, also a mutual, posted a profit in its first annual report. Not surprisingly, it has a much leaner overhead structure.

"We realised we didn't have the resources to afford a branch infrastructure," says MD Christine Glover. "So we limited it as far as possible by offering on-site service. We also didn't try to target individual borrowers — we mainly lend to employer schemes."

Mutual banks are deposit-taking institutions with assets of over R10m and fall under the Mutual Banks Act, which is almost identical to the Banks Act.

"The main difference," says Davel, "is that mutual banks have an open-ended capital structure — meaning the bank can buy back members' shares. This reinforces the link between institution and borrower, as in the old Mutual Building Society relationship. The Companies Act doesn't apply.

"The other difference is that formalities required by the Mutual Banks Act are supposedly less stringent. But in terms of supervisory requirements, standards are not much less rigorous." ■

MALAYSIAN BANK OPENS IN SA (58)

TARGETING BLACK BUSINESS

FM 11/10/96

TA Enterprise, a Malaysian listed securities firm whose assets exceed R8bn, regards the first world component of the SA economy as overbanked.

So its new banking operation, TA Bank SA, will operate a niche commercial

FINANCIAL MAIL · OCTOBER 11 · 1996

SAFEX/ACTSA RISK MANAGEMENT COMPETITION

PUNISHING PACE

THE FIFTH LAP

Pos	Portfolio Name	W. Average Deviation %
1.	Absa Risk Team	0,86
2.	BBB	2,20
3.	Gecko	3,30
4.	Dr Zuma	4,03
5.	Neutral ground	4,99

Pos	Portfolio Name	Return %
1	Currie Cup Kings	7,5
2	Teddy Bears	4,4
3	SCMB Fuzzyducks	2,2
4	BOS	1,7
5	The Gambols	1,2

banking division aimed largely at the black population. The group "is committed to black economic empowerment and is engaged in firm negotiations with black business organisations in seeking to acquire a minority partner," says TA Bank director Kevin Kilroe.

Kilroe is also CE of TA Securities, formerly the local stockbroking firm Kilroe Whitehead which was acquired by TA Enterprise earlier this year.

"The bank aims to become "a major player in SA-Malaysian trade finance. We plan to grow the operation substantially and rapidly, providing capital in excess of the Reserve Bank's R100m minimum requirement as the market demands it," says Kilroe.

The merchant banking division is scheduled to open in Gauteng in the new year, followed by commercial operations in about a year's time. The chairman is Datuk Tony Tiah who is executive chairman and MD of parent TA Enterprise.

"TA Enterprise helped mobilise savings when the Malaysian economy began developing in the late Seventies," says Kilroe. "It would like to repeat that success in mobilising savings in SA and southern Africa."

A small Malaysian contingent will soon be joining the 40-odd SA TA Bank and TA Securities staff in Gauteng and Cape Town. Kilroe says Malaysian investment in SA has topped R4,5bn in the past three years. ■

New black bank boasts over R1bn in assets

(58)

EMPOWERMENT

By THABO KOBOKOANE

A NEW black banking group with potential assets in excess of R1-billion was founded on Friday, following the recent merger of Citizen Bank, Future Bank, Bophuthatswana Building Society and Msele Corporate and Merchant Bank. ST(BT) 13/10/96

Thebe Investment subsidiary Msele says it will have a controlling interest and First National Bank a 25% stake in the new bank, which will start with a capital base in excess of R200-million. It is to be headed by Inus Prinsloo, a former general manager at merchant bank BoE NatWest.

Thebe said in a statement that the merger would bring together Citizen Bank and Bophuthatswana Building Society's experience in the home mortgage market, Future Bank's track record in the provision of business loans and investment services and Msele's merchant banking and financial advisory services expertise.

Thebe stated previously that the merger would create the biggest black-controlled banking group in South Africa with an asset base of R1,2-billion.

Analysts say African Bank, which is owned jointly by NBS Bank and New Africa Investments Limited, has estimated assets of just over R1-billion.

Fund manager blames SA for sacking

Neil Behrmann

LONDON — A senior fund manager has claimed that he was sacked by UK investment bank Kleinwort Benson because he questioned SA ministers in a critical manner.

Mark Horn, the fund manager who intends suing the investment bank for breach of contract and unfair dismissal, alleges that Reserve Bank governor Chris Stals insisted that Kleinwort fire him. Horn alleges that if Kleinwort, a unit of Dresdner Bank in Frankfurt, had failed to do so, it would have lost SA business.

Worries about loss of business with SA and concerns about comments about French privatisation led to his sacking, he claims.

Horn's problems with his seniors first arose when he publicly questioned SA Public Enterprises Minister Stella Sigcau during President Nelson Mandela's visit a few months ago.

"I made a statement and asked a

Continued on Page 2

Fund manager (58)

Continued from Page 1

BD 14/10/96

question challenging the view of Sigcau that privatisation should not be an ideological commitment," Horn said in papers issued to IMRO, the UK body that regulates fund managers. "My honest and harsh view was that international investors were not interested in SA's social baggage."

A complaint was made to the Dresdner Kleinwort Benson Group, resulting in a decision to issue disciplinary proceedings against him. Although Kleinwort refused to talk on record about the matter, it appeared Horn was told to become less aggressive in his questioning manner and to avoid making statements at public meetings.

A few weeks ago at a London roadshow of SA's latest Deutschmark bond issue, Horn questioned Finance Minister Trevor Manuel.

"I sought to highlight the discrepancy between the representations made by the SA officials of good fiscal and monetary management of ... state finances and the considerable body of evidence which suggested the reverse," Horn said in his statement.

The weakness of the rand "was not due to financial speculators as asserted by the minister, but to problems of government policy", Horn said at the meeting. "It was in the interests of my clients that these senior representatives of the SA authorities recognised the problem and took the action required to adjust to international norms. The question had the effect of setting the tone for a number of subsequent critical questions."

Dresdner Bank was one of the lead underwriters of the Deutschmark issue. Horn alleges that an SA government representative complained to the Johannesburg offices of Kleinwort Dresdner and the complaint went to the top of the hierarchy.

Senior Kleinwort officials have vigorously denied Horn's allegations. "No external pressure was brought upon senior managers to take action against Mr Horn," a top official said. "He was dismissed because he did not accept instructions from management."

Kleinwort insists that the allegations are unfounded and is putting its own case to IMRO.

Horn, an expatriate South African, worked for Kleinwort for 10 years. He managed funds and share portfolios within the $23bn Kleinwort fund management arm which focused on European "special situations". He also managed individual portfolios and invested in markets such as SA.

Horn also alleges in his statement to IMRO that Kleinwort has allowed breaches in the so-called Chinese walls, where decisions and actions of fund managers in an investment banking group should be independent from its securities business. Kleinwort counters that Horn's allegations have "no substance" and the bank and the regulators are investigating them.

Cosatu teams up to make bid for Protea

BD 14/10/96 (58)

Reneé Grawitzky and Amanda Vermeulen

COSATU's investment trust, Kopano Ke Matla, has put together a consortium with other black groups to submit a bid for a controlling stake in Protea Assurance, currently owned by UK group Royal Sun Alliance.

Union sources said at the weekend that Cosatu's investment trust had formed a consortium with certain Cosatu affiliates and other black groups to bid for the composite insurance group. They said Cosatu's financial backing was coming from French institution Banque Indosuez and a bid price of R100 a share had been submitted to Deutsche Morgan Grenfell (DMG), the merchant bank advising Protea.

Protea shares closed at R91,50 on the JSE on Friday. Six parties had tendered for Protea, including SA Eagle, Guardian National, Board of Executors, Mutual & Federal and Commercial Union. The final outcome of the bidding is expected to be announced by the end of the month.

Sources said Protea's short- and long-term operations would be sold separately but it was unclear if the Cosatu bid would affect these plans. Protea management declined to comment, saying: "We do not want to interfere with the transaction."

Sources close to the negotiations said the field of contenders had already been narrowed to two parties, including the Cosatu consortium, and meetings would be held with regulatory authorities this week to clear the deal.

Kopano Ke Matla, chaired by Alexander Forbes executive Max Maisela, was established a few months ago to look into investment opportunities, understood to include telecommunications and a financial institution.

The trust was mandated to establish a company which could administer pension and provident funds and provide short-term insurance.

Sources said Cosatu's view of a

Continued on Page 2

Cosatu

(58) BD 14/10/96

Continued from Page 1

strategic investment in Protea was not only to benefit the union and its affiliates but to speed up black control of the financial industry.

Cosatu's decision to form an investment trust comes in the wake of the establishment of a number of union investment companies, such as the Mineworkers Investment Company and Sactwu Investments. Such investment arms have been active in buying up chunks of shares in a range of companies. They have also joined forces with other business interests to bid for assets being sold off by government

Sun Multi Serve has lost 'millions' through theft

(58) BD 14/10/96

Lukanyo Mnyanda

THE investigation by the Office for Serious Economic Offences into pyramid scheme Sun Multi Serve's operations had uncovered theft amounting to "millions of rands", a spokesman for the office said on Friday.

Senior state advocate Frank Naidoo said it appeared that some of the scheme's managers had "privately appropriated" large amounts of investors' money.

The office was also investigating charges relating to the scheme's "blatant contravention" of the Banks Act and other laws, he said.

Naidoo said the office had established that about 120 accounts had contained "elements of theft".

"We have established that offences have been committed and the matter will be referred to the attorney-general and the minister of justice."

Registrar of banks Christo Wiese closed the scheme — which promised returns of up to 3 000% on investments — for contravening the Banks Act last December and appointed Deloitte & Touche chartered accountant Tim Store to return investors' money.

At the time Sun Multi Serve denounced the action as racist and an attack on black economic empowerment.

It later emerged that Sun Multi Serve MD Peter Tau's personal account — which contained a still undisclosed amount of the scheme's money — had been frozen along with the fund's other accounts.

At the time, Tau said that the funds had been in his account for "safe keeping" after Wiese froze the scheme's accounts.

Naidoo said charges being investigated against Sun Multi Serve's directors included the contravention of the Gambling Act and harmful business practices, with the "theft of funds being one of the biggest charges".

The Reserve Bank — which recently entered a deal paving the way for Sun Multi Serve to open legal stokvels — said it had no plans to close the scheme again. Bank supervision spokesman Johann de Jager said Sun Multi Serve did not exist as a legal entity and only individuals could be prosecuted.

Investors lost about R28m when Sun Multi Serve's funds proved insufficient to meet the R88m in claims.

Spokesmen for Sun Multi Serve could not be reached for comment at the weekend.

US group offers a reprieve for Community Bank

(58)

BD 16/10/96

Amanda Vermeulen

COMMUNITY Bank has been given a stay of execution following a $25m offer from a US group to buy the institution.

Bank curator Stewart Patterson said yesterday that a US group with links to a local low-cost housing company had offered to buy the bank.

The offer was one of six inquiries he had received following news last week that the bank would close after failing to secure a suitable rescue package.

Patterson said NBS Bank had also indicated that if talks with the US group fell through, it would consider buying Community Bank's R110m loan book. Bank sources said a local bank, understood to be one of the smaller institutions, would submit an offer for Community Bank today.

Last week, the major banks — First National, Absa, Nedcor and Standard — all rejected the Reserve Bank's appeal for buyers because they believed there would be conflicts of interest with their existing branded operations in the low-cost housing market.

One of the preconditions for Community Bank's sale as a going concern was that its name should be retained because it was well known in the low-income market.

Sources said the local unnamed bank would keep the Community Bank name, and there was a possibility that the planned closure of 12 of the bank's 17 branches would be suspended until a final decision was made by the Reserve Bank.

Three other parties had also expressed an interest in Community Bank, including a consortium of black investors, but no further information was available at this stage.

The curator is expected to forward his recommendations to the Reserve Bank after he has assessed the bid proposal submitted by the local bank.

The latest developments follow the collapse of plans to merge Community Bank with the SA Housing Trust and the Independent Development Trust's AltFin division.

PLIGHT OF COMMUNITY BANK CATCHES INTEREST OF US BUILDER

(58)

Johannesburg — A US partner who is involved in low-cost housing has shown interest in taking over the Community Bank, the bank's curator, Stewart Patterson, said yesterday.

"They're still doing a due diligence study," Patterson said. He said the study was to check the accuracy of information received about an organisation. "The possible partner is not a bank or a non-governmental organisation. It's someone who is in low-cost housing already," Patterson said.

The bank, launched in 1994 for the low-income housing market and funded by several commercial banks and government development agencies, has been under curatorship since May.

NBS clarified earlier reports that it had shown interest in possibly buying the Community Bank's loan book, reportedly worth about R110 million. "We did that on behalf of African Bank (NBS has a 38 percent stake in African Bank). We asked for information. They said the loan book on its own was not for sale," said Paul Leaf-Wright, the executive director of NBS. — Nancy Myburgh

CT(BR) 16/10/96

IN BRIEF

Nedcor buys into Lesotho and Swaziland banks

58

NEDCOR Bank has bought Standard Chartered's wholly owned subsidiary Standard Charter Bank (Lesotho) and its 55% stake in Standard Chartered Bank (Swaziland) for an undisclosed amount.

Nedbank GM Willem Frost said the transaction would not have any immediate effect on Nedcor's earnings a share.

He said the acquisitions were in line with the group's strategy of expanding its operations in Southern Africa. It complemented, also, the strategic alliances that Nedbank had already formed with Société Financiére pour les pays d'Outre-Mer and Equator Bank.

The deal will be effective from December 31, subject to regulatory approval. BD 18/10/96

Sowetan 18/10/96 (68)

Nedcor buys Standard's two branches

NEDCOR Bank announced yesterday that it would purchase Standard Chartered Bank's interests in Lesotho and Swaziland.

The group said in a statement that Nedbank would purchase Standard Chartered's wholly-owned subsidiary, Standard Chartered Bank Lesotho, and Standard's 55 percent interest in Standard Chartered Bank Swaziland.

Applications would be made to the authorities to change the names of the banks to Nedbank (Lesotho) Limited and Nedbank (Swaziland) Limited.

"The purchase of these two banks are in line with our strategy of expanding our operations in Southern Africa," Nedbank international division general manager Willem Frost said.

The transactions were expected to be completed by December 31, and would not have any immediate effect on Nedcor's earnings per share, the statement said. – *Sapa*.

Net closing on Sun men

(58) CP 20/10/96

By SIFELANI MLAMBO

THE ARREST of several Sun Multi Serve directors and managers is imminent for the theft of millions of rands from the scheme's coffers, Senior State Advocate Frank Naidoo revealed to City Press this week.

Naidoo, who headed the investigation, said several managers and directors of the fund had spent huge sums of investors' money for their personal use.

He said evidence collected by the Office for Serious Economic Offences was being examined by the Transvaal Attorney General and the Minister of Justice – after which arrests would be made.

The investigation had found that more than 100 Sun Multi Serve branch accounts showed gross irregularities indicating fraud.

☐ City Press reported two weeks ago that two of the directors had gone into hiding after revealing that millions of rands of investors' money had been spent on salaries, private home rentals and luxury cars for managers and directors.

A mystery caller tried to cast doubt on the report by pretending to be one of City Press's informants and telephoning a tiny newspaper in Rustenburg. The newspaper printed his denial of the report without checking the facts.

Naidoo said the investigation had also probed Sun Multi Serve's "total disregard" of the Banks Act – which prohibits stokvels from having assets of more than R9,9 million.

Sun Multi Serve had claimed to be a stokvel and had amassed assets worth more than R90 million.

The Reserve Bank declared the scheme illegal and froze about R50 million in the scheme's bank accounts.

The R50 million was later unblocked after an agreement was made to release the money to 28 independent stokvels in various parts of the country.

However, Naidoo said Sun Multi Serve was still operating in defiance of the agreement. They were committing a serious offence by continuing to contravene the Banks Act, he warned.

☐ Meanwhile, City Press has learnt that none of the thousands of investors has yet received any of their money back.

Some investors have been given cheques – but were later told that the cheques were worthless.

A spokesman for Sun MultiServe said his organisation had decided to cancel the cheques and pay investors through bank transmission accounts.

"We found it difficult to pay investors through cheques so we have decided to deposit the money into investors' personal accounts," he said.

He could not explain how investors who did not have bank accounts would receive their money.

☐ A spokesman for the Reserve Bank, Advocate Johann de Jager, said Sun Multi Serve no longer existed as it had been disbanded before the frozen funds were unblocked.

He said if Sun Multi Serve was still operating as a pyramid scheme, further drastic steps would be taken against its directors.

He would not comment on the impending arrests, saying the matter was sub judice.

Ailing bank to get new controllers

(58) Sowetan 22/10/96

Unibank is considering retaining some of the 12 Community Bank branches

By Isaac Moledi

UNIBANK has offered to take over the ailing Community Bank to the tune of more than R60 million.

The embattled Community Bank, formed more than two years ago to provide housing, business and personal loans to low-income earners who have been overlooked by the large commercial banks, was placed under curatorship in May this year following a liquidity problem.

Because the bank's funds and subsidies were frozen, it has since been surviving on money raised. Another R4 million deposits from Gauteng and Western Cape Housing Boards have also been used to finance the bank's R2,5 million monthly operating costs.

The Community Bank curator, Stewart Patterson, said yesterday that Unibank had indicated on Friday that it was prepared to take over the bank to the tune of between R60 million to R70 million.

The proposal, which has been approved by Patterson and registrar of banks Christo Wiese, has already been sent to the Ministry of Finance for approval.

This was confirmed by the ministry's spokesperson Jennifer Wilson yesterday.

Wilson said she was aware of "some proposal" which has been forwarded to the ministry and a statement would be issued "as soon as possible".

The problems of the Community Bank began when some of the original funders apparently refused to release R70 million from the original start-up capital of R200 million promised when the bank was established.

This is believed to be one of the reasons the R40 million which the bank had been negotiating from the World Bank's private sector arm, the International Finance Corporation (IFC), was declined by the finance corporation, saying it would commit the funds only if the original backers are involved.

Apart from the bank having loaned about R90 million in the last two years to low-income communities, it is understood that it has also incurred a loss of about R21 million during the first 15 months of operation. A further loss of R23,3 million was also incurred in the nine months to last December.

Patterson said Unibank was considering retaining some of the 12 Community Bank branches which were under consideration of being closed down completely. Workers in these branches have already been given retrenchment letters.

Patterson added that the fate of the overall management and staff of the bank would be decided by Unibank. The bank has 17 branches throughout the country.

Wiese, who referred to Unibank as not the only bank making an offer, said the announcement of the new buyer would be made "in a few days' time" because other shareholders would need to be consulted.

He said although the bank was not bankrupt, it would be impossible to continue carrying the overheads.

"Whoever takes the bank over will have to downsize it to make it work profitably," said Wiese.

CT (BR) 23/10/96

COMMUNITY BANK DEAL (58) APPROVED IN PRINCIPLE

Johannesburg — A deal between Unibank and Community Bank, the beleaguered bank targeting the low-cost housing market that has been under curatorship since May, has been approved in principle by the finance ministry, subject to the conclusion of a due diligence study, Stewart Patterson, the bank's curator, said yesterday. Gerrit van der Merwe, Unibank's managing director, said last week that the deal was also subject to the approval of Community Bank's original funders, who are state agencies and commercial banks, and Unibank's board of directors.

Cas Coovadia (pictured), Community Bank's executive trustee, said yesterday: "Without knowing the details of the offer, if Unibank intends to take over some of our branches, perhaps some of our staff would be considered for employment. . . . From that point of view, it is positive. I can't comment on whether Unibank would continue with the community banking concept. I think the community banking concept is going to die." — Nancy Myburgh Banking, Page 21

COMPANY NEWS

BANKING *Market talk of national expansion downplayed*

Cape institution to keep regional focus

ET (BR) 23/10/96 (58)

MARC HASENFUSS
CAPE EDITOR

Cape Town — Cape of Good Hope Bank, the niche financier in the Nedcor stable, looks set to continue its intense Western Cape focus, discounting market talk that it could be hatching plans to expand nationally.

Mike Thompson, the managing director of Cape of Good Hope Bank, said this week the bank's management was confident that the bank, which holds total assets of R2,5 billion, could continue growing in the Western Cape market.

He said in the short term the bank's management would shy away from attempting to branch Cape of Good Hope Bank outside the Western Cape.

"This may well be the way to go further down the line, but we first need to establish if our growth pattern from our current base can be sustained.

"Our niched Western Cape focus will remain the priority," he said.

Thompson admitted to not liking the idea of embarking on a national branching strategy.

"We risk then becoming like all other banks. Our personal angle could disappear and also our structure, which has been critical in achieving very favourable cost ratios, could be lost."

He said the prospect of Cape Town hosting the 2004 Olympic Games would give the bank, particularly its property division, plenty to concentrate on in the Western Cape.

Thompson said the bank's total commercial and industrial book exceeded R1 billion this year.

"We are in a very strong position in the local property market to benefit from spin-offs from the Olympics.

"Arguably, we know more about the Western Cape property market than most other players."

Thompson was also adamant about retaining the expense-to-income ratio, which sits at 43 percent.

"We have refined the organisation extensively and driven down costs to ensure we can grow and grow, although some will say we are at risk cranking out more of the same and that there might be a limit to what can be achieved locally.

"Our solid client base needs to be serviced effectively. In the prevailing trading environment we won't risk narrowing our margins by chasing business.

"Rather, we will continue upgrading our computerisation programme and bolster our cross-servicing strategy within the organisation and Nedcor in the year ahead."

He said that the bank intended to increase its number of services and had set clear targets to increase the present "two services per client" ratio.

Cape of Good Hope Bank's year-end profit figures will be released with Nedcor results next month.

Cape bank takes to local lending

MARC HASENFUSS

Cape Town — The Cape of Good Hope Bank is making inroads into the the municipal lending arena, Mike Thompson, the managing director, said this week.

He said the bank had secured arrangements with two Western Cape municipalities and was looking at several other possible deals.

"This type of lending is very efficient from a capital point of view, providing scope for further infrastructural growth and development and also balancing the maturity profile of our loan book."

Thompson said the bank was following a well-researched approach with input from various tiers of government, including the auditor-general.

"The Western Cape is blessed with a spectrum of well-run local governments with plentiful opportunity for providing infrastructural finance," he said.

"Confidence shown by the local governments in the bank's ability to manage their funds is evidenced by the substantial increase in deposits now managed by the bank's treasury division."

He said the bank's targeted lending would be less than 2 percent of the bank's total book, thereby eliminating any perceived risk to its depositor's base. The bank is providing funds for basic services.

Manuel approves Unibank's bid for Community Bank

(58) BD 23/10/96

Amanda Vermeulen

FINANCE Minister Trevor Manuel and the Reserve Bank have approved Unibank's bid of about R65m for Community Bank, says bank curator Stewart Patterson.

The offer — submitted by Unibank last week — would be based on the bank's net asset value, adjusted by the results of a due diligence exercise and subject to Patterson resolving the bank's contractual commitments.

Patterson said yesterday Unibank, which had in the past rescued Prima Bank and Pretoria Bank from liquidation, would acquire the entire business of Community Bank and would continue its business of lending in the low-income market.

Community Bank would operate as a wholly owned subsidiary under the Community Bank name.

The scheduled closure of 12 of Community Bank's 17 branches would be halted and retrenchments had been postponed for a month to allow Unibank to decide which branches it wished to retain.

Patterson said Manuel had given his approval for the Unibank takeover on Monday after receiving the proposal on Thursday.

The long delay in a decision on the curator's original proposal that Community Bank merge with the SA Housing Trust and the Independent Development Trust's Alt Fin division was thought earlier to be one of the reasons behind the move to close the bank.

Bank sources said last week that a US-based company had made a $25m offer for the bank, but Patterson said it had failed to submit a detailed proposal by the deadline.

A number of other parties had expressed interest in the bank, but none had submitted a formal offer.

Unibank is a niche bank providing deposit-taking and asset-based finance activities and offering co-branded general purpose credit cards. It has a home loan book of about R120m, with total assets of R1,4bn.

Attributable earnings for the 18 months to March were R14,3m.

Bank's income boosted by 'highly successful' SMK investment

Boland's attributable profit is hoisted 51%

(58) CT(BR) 24/10/96

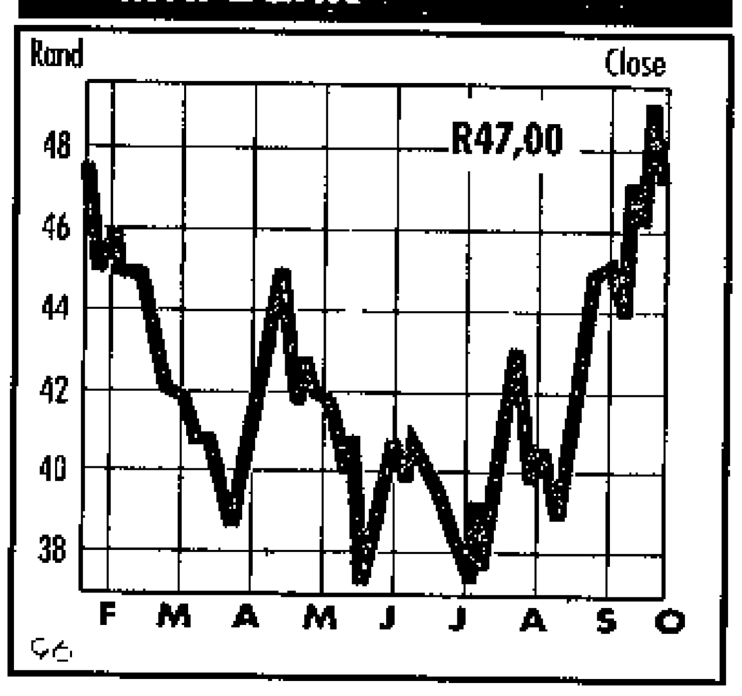
JOHN SPIRA
DEPUTY EDITOR

Johannesburg — Boland Bank Group lifted fully diluted earnings by 27 percent to 117,9c a share in the six months to September 30 in the face of a virtual doubling of the bad debt provision as part of a more conservative approach to the loan book.

The Cape-based banking group boosted its net interest earned by 31,5 percent to R135,3 million.

A 92,7 percent increase in risk provisions to R46,2 million reduced the gain in pretax operating profit to 14,7 percent, but a much-reduced tax charge of R5,7 million, compared with last year's R10,2 million, and a 210 percent improvement in income from associates to R5,3 million, hoisted attributable profit by 51,1 percent to R38,5 million.

Boland Bank



The interim dividend of 39c a share was 18 percent up on last year's figure.

Michiel le Roux, the managing director, said yesterday that the results were "the first fruit of a far-reaching improvement and expansion programme".

He said attributable profit rose strongly because of higher fee income and trading profit in the treasury, and the group's highly successful investment in SMK Securities, the stockbrokers.

The SMK interest helped income from associates rise 210 percent.

The tax rate was reduced from 30 percent to 15 percent largely because of enhanced dividend income.

Le Roux said he had warned of the need for higher risk provisions in last year's annual report.

Higher funding costs narrowed the net interest margin from 4,26 percent to 4,13 percent.

Group assets increased 23 percent to R6,8 billion, but the directors said growth in recent months had levelled off in line with economic activity. They were nevertheless confident the pace of earnings growth could be maintained for the full year.

Samgro Investment Holdings, Boland's pyramid company, reported fully diluted headline earnings of 8,22c a share for the six months to September 30, compared with 7,92c a share in the seven months to September 30 last year.

The interim dividend was raised from 5,49c a share to 6,29c a share. An interest payment of 31,35c a linked unit has also been declared.

Samgro has an effective 65,53 percent interest in Boland Bank and derives virtually all its income from its stake in Boland.

WS

Lawyers blamed for motor fund's deficit

(58) CT(BR.)24/10/96

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — Willem Swanepoel, the chief executive of the Multilateral Motor Vehicle Accident Fund, said yesterday that the legal profession was "partly responsible" for the financial problems of the fund.

Swanepoel said that attorneys "often overcharge their clients" and "inflated their accounts".

He said the R2 billion jump in the actuarial deficit of the fund in the last financial year, which pushed the cumulative total to more than R7 billion, was shocking.

Swanepoel told the parliamentary portfolio committee of public accounts that the deficit's rise to more than R7 billion would make it impossible to balance the fund's books by 2007, as was envisaged in the recent draft White Paper on the fund's restructuring.

However, Patricia de Lille, the chairman of the transport portfolio committee and a PAC member of parliament, defended the legal profession, saying it was not true that attorneys were responsible for the fund's financial problems.

The draft paper released by the transport department for comment earlier this year proposed "drastic cuts" in the benefits paid to the victims of motor accidents "and the virtual avoidance of legal costs".

It suggested that certain benefits be capped to put a lid on the growth in claims and that the fuel levy rise from 12c a litre to 28c a litre over the next 10 years to eliminate the actuarial deficit by 2006.

After the draft was severely criticised during public hearings in August, Ketso Gordhan, the director-general of transport, agreed to several independent actuarial assessment of the fund's financial position. These assessments revealed the deficit was higher than the R5 billion at just more than R7 billion in the past financial year.

Talks point to Unibank link with Citizen Bank

BD 24/10/96 (68)

Shareen Singh

DISCUSSIONS were taking place between Citizen Bank and Unibank and a merger could be in the pipeline, market sources said yesterday.

Msele Financial Holdings, a subsidiary of Thebe Investment Corporation, has a 38,6% stake in Citizen Bank Holdings. If a successful merger with Unibank was to take place, Citizen Bank Holdings' assets would increase to about R2,5bn, with total capital exceeding R400m.

This would transform Citizen Bank from a small home loans vehicle into a medium-sized national banking institution providing full financial services.

Citizen Bank Holdings CEO Inus Prinsloo and Msele executive director Litha Nyhonyha refused to comment on the issue.

Unibank, which has just acquired Community Bank for R65m subject to certain conditions, would bring in three main shareholders — Fedlife and First National Bank, which are already attached to Msele, and Yabeng, controlled by the Northwest Development Corporation.

Market sources said the parties had agreed in principle to the merger but there might be a delay due to the tendering process involving the sale of North West Development Corporation's shares in Yabeng.

Unibank has more than 400 000 clients with charge-card facilities, a service Citizen Bank lacks.

The enlarged Citizen Bank would benefit from this as well as an expanded product base, which would include motor finance, home loans, asset financing and a merchant bank division.

was also cause for concern.

New role for post offices mooted

Post Bank could assist rural poor – commission

ARG 24/10/96

(58)

ALIDE DASNOIS
BUSINESS EDITOR

The 2 365 post offices around the country could be set to play a much bigger role in the provision of financial services, if the recommendations of a commission of inquiry are accepted.

The report of the Strauss Commission of inquiry into the provision of rural financial services released this week, found that the Post Office's Post Bank was well placed to respond to the needs of the rural poor.

Post Bank has 2,4 million accounts, 55 percent of them savings books. Many savings account holders are low-income black savers in the rural areas and more than 80 percent have a balance of less than R500.

The Post Office had a presence in rural areas where commercial banks were absent, and its services could be expanded, either through branches or through agency outlets, the commission said. New products could be designed to help mobilise savings for burials, school fees or *lobola*, for instance.

The commission also recommended that the Post Office diversify into funeral insurance. And, it said, the promotion of endowment policies with death benefits, disability payments and retirement benefits, designed for low-income earners such as domestic workers and farm workers through a tax write-off for employers, should be examined.

Tax breaks for middle-class employers might be unpalatable, the commission said, but the plan would benefit the poor. And if the the tax break applied to only small premiums, such as R100 a month, the cost to the tax collector would be small.

At a briefing yesterday to present the proposals, commissioner Helena Dolny said the Post Office would not be looking for a "large budget slice" for expansion. Some of the new products could be money-making, she said, and the expansion of the post office network could be done through joint ventures with the private sector.

"This can be done through agency agreements. It's not necessarily a matter of opening more post offices".

The commission, which was appointed in January last year and has already submitted an interim report, found that the priorities for rural financial services were:

- Better access to appropriate savings products and opportunities;
- Better transmission services, especially for pensions and for the payment of rates, water, electricity, telephones and for the transfer of money between rural areas or between rural areas and the towns; and
- Easier access to short-term loans and to farm finance.

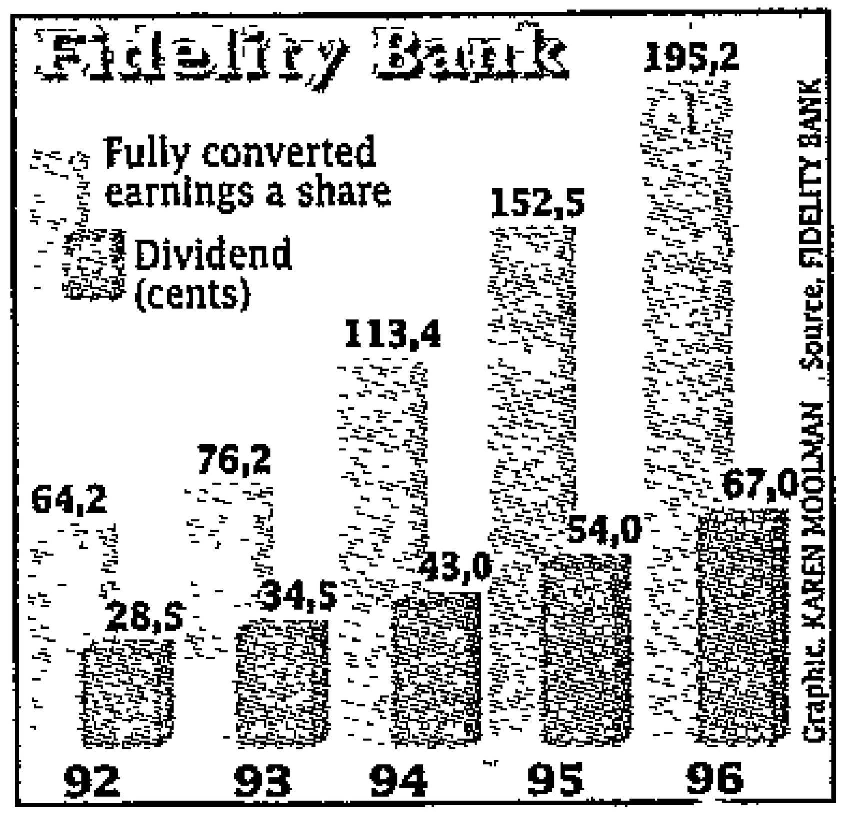
It recommended the payment of pensions through savings accounts, so that pensioners can withdraw money throughout the month.

The recommendations will now be considered by a Cabinet committee.

Fidelity Bank cashes in on tight credit

(58)

BD 24/10/96



Adrienne Giliomee

EASTERN Cape-based Fidelity Bank lifted net income 32,5% to R41m for the year to September, helped by tight credit and cost controls and a low bad debt provision.

Fully converted earnings rose 28% to 195,2c a share, while a final dividend of 46c was declared, bringing the total dividend to 67c (54c).

The dividend was covered 3,8 times.

Executive chairman Jules Langenberg said that the results were particularly pleasing after a period of consolidation following the merger with EP Building Society in 1994.

The sound performance had come about through high productivity, strict credit norms, effective bad-debt management and expenditure control, said Langenberg.

Net interest income rose 13,6% to R99,7m, which he said was a result of narrow interest margins in the first six months of the financial year.

"The depreciation of the rand contributed largely to increased deposit rates and consequently narrower interest margins during the first half of the financial year. However, the second half saw improved margins."

Bad and doubtful debt provisions remained constant at R16,7m (R16,8m), even though advances had jumped 20,7% to R2,1bn, he said.

Dividends received of R10,2m (R7,5m) and other income of R17,7m (R14,4m) brought net income before expenses to R110,9m (R92,8m). Operating expenses rose a modest 7,6% to R48,1m, bringing net income before tax to R62,8m (R48,1m).

The tax charge of R21,7m was up 26,7% from the previous year. Langenberg said negotiations regarding the disallowance by the SA Revenue Services of significant recurring deductions were still in progress.

These deductions were not incorporated in the current financial statements.

The capital adequacy ratio of 10,51% was somewhat lower than the previous year's 12,52%.

Langenberg said plans were in place to increase the ratio to 14%.

Looking ahead, Langenberg said that the expected slowdown in economic growth next year was likely to curb credit extension.

Management had developed strategic and operational plans to effect satisfactory growth and would continue to focus on its target market.

management

Vehicle fund liabilities now at R7,35bn

(58)

BD 24/10/96

Linda Ensor

CAPE TOWN — There had been a 47% increase in the liabilities of the Multilateral Motor Vehicle Insurance Fund in the year to end-April 1995/96 with total liabilities rising to R7,35bn (R5bn), fund CE Willem Swanepoel told the joint standing committee on public accounts yesterday.

There had also been a large increase in the number of accidents and the amount claimed under third-party insurance. He said the increase in the liability for outstanding claims would probably make solvency of the fund unattainable by 2007.

The figures have not yet been formally released as they await the signature of auditor-general Henri Kluever, who told the committee that the fund was "technically insolvent".

Swanepoel said since April there had been a further deterioration with R1,5bn in claims — equivalent to the fund's total annual income — flowing in. He blamed the situation on exorbitant legal fees plus the rise in the number and size of accident claims.

Of the R7,35bn, R5,88bn were long-term liabilities and R1,47bn were short-term liabilities due for payment over the next year. After deducting R1bn in assets the fund had an accumulated deficit of R6bn by the 1995/1996 year-end compared with R4,2bn in 1994/95 and R3,8bn in 1993/94. While the number and size of claims had grown 20%, revenue from the fuel levy had grown by a much smaller amount. The 17% rise in fuel levy rates in August was inadequate.

Between 1993 and this year there had been no increase in the levy which meant income growth depended on the sale of greater volumes of fuel which rose by an average of 5%-6% annually.

"The gap between expenditure and income has been increasing. We cannot even meet the claims for one year let alone work out the accumulated deficit," he said.

"Almost the entire income for the next few years will be used for paying past claims, let alone new claims that arose from May 1996."

He emphasised that the underfunding was no "phantom liability" but a real one arising from actual claims needing to be met. He criticised attorneys who earned what he called exorbitant fees for settling third party claims, accusing them of being at the forefront of opposition to the proposed capping of fund benefits. He also accused attorneys of using bodies such as Victims of Road Accidents and the Road Accident Victim Association to further their own interests.

The recommendation to cap benefits was made in the draft white paper on motor vehicle insurance released in May and subsequently withdrawn by Transport Minister Mac Maharaj.

"These are not committees pleading the interests of victims. They are bodies pleading for the interests of attorneys," Swanepoel claimed.

He estimated that lawyers earned between R300m and R400m annually from the system of compensation for motor accidents. They received between 15%-40% of the compensation paid to victims on an attorney-client

Continued on Page 2

Fund

(58)
BD 24/10/96

Continued from Page 1

basis in addition to the party-to-party payments they received from the fund.

A total of 3 218 bills amounting to R19,4m had been reduced after examination to R14,8m, Swanepoel said. Attorneys' accounts had been reduced on average by 25% and the fund had saved R500 000 a year by cutting inflated attorney accounts. He also said there had been few constructive proposals from the portfolio committee on transport which held two public hearings on the draft white paper. Delays in getting it adopted meant that a new system of motor vehicle insurance could not be introduced from May 1 1997 as hoped. A conference was planned for November to discuss the draft white paper.

His comments drew a storm of protest from transport committee chairman Patricia de Lille (PAC) and from committee members associated with the legal profession who argued that attorneys could not be blamed for the fund's financial malaise.

De Lille lashed out at Swanepoel for showing contempt for public hearings. She accused a self-interested "cabal" within the fund, including Swanepoel, of drawing up the draft white paper without consulting anyone.

Swanepoel said the fund's worsening financial condition had nullified the assumptions made in the draft white paper. The draft had assumed that a capping of benefits, a 12c rise in the fuel levy this year and an 8,8% rise each year for the next 10 years would wipe out the fund's total liability.

Benefits needed to be capped by 60% and not the 41,5% recommended in the draft white paper, he said.

Auditor-general Henri Kluever said he was satisfied with the way the fund was being managed.

Boland Bank in black despite bad-debt provisions

(58)

Nicola Jenvey BD 24/10/96

DURBAN — Banking group Boland Bank lifted attributable profit 51% to R38,5m for the six months to September, despite the sharp increase in bad-debt provisions as part of a more conservative approach to the loan book.

Fully diluted share earnings rose 27% to 117,9c and a 39c (33c) interim dividend was declared. MD Michiel le Roux said he was confident the pace of earnings growth could be maintained for the full year to March.

He said the higher fee income and trading profits in the treasury and the investment in stockbroker SMK Securities had been behind the rise in attributable profit.

Net interest income rose 31% to R135m, benefiting from strong increases in advances and the proceeds of last year's rights issue. However, Boland experienced higher funding costs and the net interest margin narrowed to 4,13% (4,26%). Operating income rose 35% to R85m.

Effective taxation decreased to 15% (30%), resulting in a tax bill of R5,7m (R10,2m). Income from associates improved 210% to R5m after growth in SMK Securities.

Total group assets grew 23% to R6,8bn, but le Roux said recent growth had levelled off in line with economic activity.

Thursday October 24 1996

(58)

Govt needs R7,3-m for MMF

By Waghied Misbach
Political Reporter

THE Government has to find a staggering R7,3 million to pay victims of accidents from its bankrupt Multilateral Motor Vehicle Accident Fund (MMF).

The MMF's chief executive officer, Mr Willem Swanepoel, told the joint standing committee on public accounts in Parliament yesterday that the MMF was "technically insolvent".

It was only getting an income of about R1 000 million a year.

This meant that the MMF was running in the red at about R6 000 million by the end of April this year.

Galloping deficit

Swanepoel told the committee that the reasons for the "galloping deficit" was that claims had increased by a massive 20 percent this year, while the MMF's income was static.

The MMF's income largely comes from a fuel levy on petrol and diesel, but this income has not increased since April 1993 – it now stands at nine cents a litre on petrol and 5,8 cents a litre on diesel.

Swanepoel said the deficit was not a "phantom liability", as suggested by a number of critics of the fund, but was calculated by four independent actuaries as the amount the fund has to pay for current and future claims that still have to be processed.

Swanepoel said that increasing the fuel levy by 15 percent a year, over three years, would only be able to pay off the deficit of R6 000 million, but this could not cover any new claims.

He said a major summit to find a solution to the issue would be held next month.

This would probably mean that the Transport Ministry's draft White Paper on the MMF would have to be rewritten.

Swanepoel also slammed some lawyers for costing the fund a great deal of money by inflating their bills.

Settlement costs

About R200 million a year is paid out in settlement costs, the bulk of which goes to attorneys.

In addition to this, some attorneys claim from the victims' payout amount, in the region of between 15 percent and 25 percent, and sometimes up to 40 percent, Swanepoel said.

He said that therefore attorneys have a "large vested interest" in not allowing the proposals in the Draft White Paper to be promulgated into law.

Cape Times 24/10/96

M&F and CU will take over Prosure

(58)

MARC HASENFUSS

CT (BR) 25/10/96 CAPE EDITOR

Cape Town — Mutual & Federal (M&F) and Commercial Union (CU), the insurance companies, have emerged as the successful bidders for Protea Assurance (Prosure) in a deal worth about R1 billion.

This follows a decision by Royal Sun Alliance, the recently merged British insurance group, to dispose of its 77,8 percent stake in the composite insurer. Prosure's share price nearly doubled to R100 following speculation dating back to May.

M&F will acquire all Prosure's shares, essentially retaining the general (short-term) insurance business. In a related R252 million cash deal, CU will buy Protea Life and Protea Assurance Investment Management from M&F.

M&F has offered 510 M&F shares for every 100 Prosure shares, valuing Prosure at more than R1 billion, or R127 a share. A cash offer of R114,50 a share has also been made, valuing the company at just over R900 million. The cash offer has been conditionally accepted by Royal Sun Alliance, which also holds a 38,5 percent stake in M&F.

An analyst said the offer was made at a "fair premium" considering the gains in market share for M&F.

A Prosure spokesman said the bidding for Royal Sun's stake had been fair and that due consideration was given to all interested parties. Other bidders may have included the Board of Executors and Cosatu's investment trust.

"The merging will increase market penetration, providing the enlarged M&F with considerable benefits," said Ken Saggers, the managing director of M&F.

Roger Wanless, the managing director of CU, said Protea Life would allow the company to expand its product range, gain access to new distribution channels and benefit from rationalisation.

Protea Assurance sold at hefty premium

Adrienne Giliomee

(58)
BD 25/10/96

COMPOSITE insurer Protea Assurance (Prosure) has sold off its life and short-term businesses in separate transactions to Commercial Union and Mutual & Federal in a deal worth more than R1bn.

Mutual & Federal will buy the entire share capital of Prosure, as well as its general insurance business, while Commercial Union will buy Protea Life and investment arm Protea Assurance Investment Management.

Prosure chairman Clive Hirschsohn said yesterday it was too early to say whether there would be any job losses at the group.

Mutual & Federal will exchange 510 M&F shares for every 100 Prosure shares held. The deal was based on an M&F share price of R24,90 and puts a value of R1,024bn on Prosure, or R127 per ordinary share. Prosure closed unchanged at R100 yesterday, giving a R27 premium per share on the deal.

Shareholders could elect to take up the share offer or a cash offering of R114,50 per Prosure ordinary share.

Prosure parent Royal & Sun Alliance Insurance Group has agreed to accept the cash offer for its 77,8% stake in Prosure. The offer is conditional on M&F receiving acceptances of more than 90% of Prosure's shareholders.

Commercial Union has paid R252m for Protea Life and Protea Assurance Investment Management.

The sale of Prosure was prompted by the merger between Sun Alliance and Royal Insurance in July, which resulted in the group having two competing interests in SA — a 77,8% shareholding in Prosure and a 38,5% stake in Mutual & Federal.

M&F MD Ken Saggers said the merging of Prosure into its business made commercial sense. "The businesses of both companies are comparable in terms of portfolio spread, market segmentation and products."

The combined expense ratio was expected to improve as a result of enhanced economies of scale, especially in computer technology, claims servicing and underwriting capacities.

Commercial Union MD Roger Wanless said the deal would allow Commercial Union to expand its product range, gain access to new distribution channels and benefit from rationalisation.

The deal was pending written approval from the registrar of insurance.

The Prosure board said the bidding for Royal Sun Alliance's shareholding had been fair. This followed reports that Cosatu's investment trust, Kopano Ke Matla, which also made a bid, was unhappy about the tender process.

DEVELOPMENT BANK (58)

NEW CHALLENGES

FM 25/10/96

The uncertainty which has bedevilled the Development Bank of Southern Africa during the past four years is finally over.

CE Ian Goldin has completed a transformation process that will enable the bank to design products and services more closely aligned to client needs

The bank's main task was to support development in the former TBVC states. With their absorption into SA, its future role became a central issue.

The decision is that it will mainly finance infrastructure. But it will also continue to operate in areas where other development finance institutions are not yet active enough, such as small and medium business and rural finance.

Supporting development in the SADC countries is also becoming more important. Though the bank is not regional, it can operate across borders and has been asked to do so by the governments of Lesotho, Mozambique and Swaziland.

To pursue these tasks, though, it must be suitably financed. Until 1994, its annual funding of R400m was met by a national budgetary transfer. Government also guaranteed all its loans, eliminating the risk of defaulting clients.

Both these arrangements have fallen

away. Instead, the bank will raise and lend money like any other. To compete successfully, it has introduced a new, more flexible interest-rate policy involving a much wider spectrum of interest rates ranging from concessional to market-related, fixed and floating.

Since most of the bank's finance is raised in the local capital market, interest rates will generally increase. The softest interest rates will be 350 to 400 basis points below market — that works out at about 12%.

The ability to offer concessional rates depends on securing local and international concessionary funding as well as using the "old" government finance. Interest rates will be determined per project according to a formula that takes account of the cost or source of funding, the risk attached to the borrower and the developmental impact of the project.

But the bank will never be purely self-financing because of the risk it has to take backing those turned down by other lenders.

Fortunately, it has had fruitful discussions with government on future capitalisation and State grant funding to ensure it maintains its AAA credit rating.

Meanwhile, the bank's operating structure has been transformed to better serve its mandate and financial policies. Its 17 new business units are fully accountable cost and revenue centres. Some will deal with provincial needs, others with the SADC and private sector.

The number of managers has also been slashed — from 75 to 20 — with conflict, says Goldin, "amicably resolved through internal dispute-resolution processes." Given its new financial policies, though, the bank will recruit more accounting and financial experts.

If the bank looks much stronger, its clients do not. Local authorities and provinces are high-risk borrowers that lack ability to manage projects. The bank could find itself stretched trying to provide them with nonfinancial support.

Moreover, it has exported some of its expertise in development to the private sector. Commercial and merchant banks are launching their own development finance departments.

The danger for the Development Bank is that they could "cherrypick" among borrowers, leaving the bank with poor risks. The transformation of the bank, says Goldin, aims to address this. ■

Go-ahead for small business Bill

BD 29/10/96

Tim Cohen

CAPE TOWN — A slightly amended National Small Business Bill was given the go-ahead by all political parties at the parliamentary trade and industry committee yesterday and is likely to be passed by Parliament later this week.

The Bill, intended to support small, medium- and micro-sized enterprises envisages the establishment of two statutory agencies, the National Small Business Council and the Ntsika Enterprise Promotions Agency.

Committee chairman Rob Davies said while the Ntsika agency would not itself provide finance to small enterprises, it would operate as a wholesale support agency for small businesses.

The legislation also authorises the trade and industry department to issue guidelines to create the conditions for government support for small business.

The committee yesterday heard evidence from the Micro Business Chamber which argued that the Ntsika agency was unnecessary.

According to Lawrence Mavundla, head of African Hawkers and Informal Businesses, a Micro Business Chamber member, the agency did not satisfy the needs of chamber members, mainly the need for capital.

Mavundla said that from its inception — it is currently a non-statutory body — the agency had simply provided referrals and advice, without helping individual entrepreneurs with their real needs.

The body should provide actual assistance to emerging entrepreneurs such as business loans, training, counselling and mentorship rather than being a referral point, he said.

He complained that submissions of micro-business representatives had been ignored at "endless workshops" which were "feeding schemes" for those attending.

The committee went some way to incorporating the points made by the chamber, giving priority to the delivery functions of the council in the legislation and making it clear that research would be a secondary function.

Cosatu argued at the hearings that guidelines issued by the minister should not be interpreted as mandatory directives. The guidelines should not be capable of overriding other legislation on, for example, working conditions and health standards.

Cosatu said in deciding on the guidelines, provision should be made for trade unions to be consulted.

The committee accommodated some of Cosatu's submissions, proposing the inclusion of procedures for consultation with "small business organisations, trade unions and other organisations".

Davies said the short hearings on the Bill were not ideal. However, as transformation legislation, it was of a high priority.

Attorneys hit out at motor fund

Linda Ensor

BD 29/10/96

CAPE TOWN — Attorneys were just one voice in opposition to the Multilateral Motor Vehicle Fund's (MMF) proposals for a new form of vehicle insurance, Johannesburg Attorneys' Association chairman Ronald Bobroff said yesterday.

Commenting on critical statements made against attorneys by MMF CE Willem Swanepoel Bobroff said almost the entire spectrum of SA business had condemned the draft white paper by the MMF.

Swanepoel said attorneys contributed to the fund's R7,35bn liabilities by charging exorbitant fees. Bobroff said attorneys could not simply charge what they wished but were bound by set fees.

Province jubilant over finances

BD 29/10/96

BISHO — Nearly 80% of Eastern Cape municipalities are in financial difficulties and a national government investigative team is looking at corruption and incompetence in the province, but yesterday the provincial finance department patted itself on the back.

Finance MEC Shepherd Mayatula told the Eastern Cape legislature that: "It is good to stand at this podium when we are in charge of finances and give a clean bill of health, especially if you look at where we are coming from."

Members of the provincial finance and expenditure standing committee also congratulated the department on its work.

Mayatula told the legislature that perceptions of the province as "the worst" should be dispelled by "the statistics". He admitted that R31m in cheques had been stolen, but said because of security measures only R326 000 of this was cashed.

He said it was difficult for cheque theft to occur in Gauteng where direct bank transfers were the usual method of payment. Finance standing committee chairman Siphiwo Mazosiwe said 80% of Bisho's creditors had now provided banking details so electronic transfers could take place.

Meanwhile, staff from provincial director-general Thozamile Botha's office said they were compiling a report emanating from a visit by national public servants and British and Swedish experts. The team was sent to the Eastern Cape by the Cabinet to prevent the province spinning out of financial control.

Deputy President Thabo Mbeki, Finance Minister Trevor Manuel, Public Services Minister Zola Skweyiya and others have also visited the province this year and expressed concern at its image of corruption and incompetence. — Ecna.

■ STOP PRESS

Investors make

Insurance industry corruption aids vehicle theft and fraud syndicates

Star 29/10/96 (58)

By Derek Rodney

Collusion and corruption in the insurance industry are cultivating a fertile breeding ground for vehicle theft and fraud syndicates while wreaking havoc in the used-car market in South Africa.

Police and motor manufacturer sources have lifted the lid on criminal practices of rogue insurance assessors and insurance companies who, by their actions, are spawning a market geared towards aiding criminal syndicates and impacting severely on unsuspecting vehicle buyers who lose millions of rands per annum.

One motor manufacturer source said the secrecy and petty rivalry in the motoring and insurance industry remains a major stumbling block in the fight against car theft and hijacking.

"More than 800 000 vehicle transactions take place in the dark per year and there's no current way to scrutinise those transactions as every manufacturer, insurer and dealer is too busy protecting their own databases," the manufacturer source said.

At the core of the problem, according to a specialist police investigator, is the corruptibility of insurance assessors who for a fee submit inflated quotes for wrecks which are then not changed on the vehicle registration system. All vehicles are registered on the national registration system under specific codes which identify a vehicle as new, used or built-up.

When a new or used car is written off in an accident, its status is supposed to be changed by an insurance assessor from new or used to built-up. "We have come across instances where assessors charge scrapyard owners R5 000 not to change the vehicle codes," the investigator said.

Colluding scrapyard owners then contact vehicle syndicates, which steal identical vehicles, remove the original Vehicle Identity Numbers (VIN) and replace them with the wreck's "used" VIN.

The car is then bought by a motor dealer and sold to the unsuspecting public for a profit.

A used car is worth more than a built-up car.

"The difference in value between a built-up and used car varies between R15 000 to R25 000 and it's obvious that insurance companies jump at the opportunity not to change the codes on wrecked vehicles," one investigator said.

"The entire process is geared towards generating illicit cash each step of the way with vehicle finance houses, which only finance new and used vehicles, also being duped as they inadvertently finance built-up cars," he said.

Finance houses are duped further by syndicates which finance the same vehicle with several finance houses in a process called "double-discounting". The vehicle is then reported stolen and the owner can claim from all the financiers.

Reserve Bank closes new pyramid scheme

BD 30/10/96 (58)

Amanda Vermeulen

THE Reserve Bank shut down another pyramid scheme yesterday after about R12m in deposits had been taken from investors who were promised returns of up to 3 000% over 10 weeks.

The SAPS's commercial branch disclosed that it was investigating at least 45 similar companies in Northwest alone.

On Monday the Transvaal Provincial Division of the Supreme Court granted the Bank an interdict against Pretoria-based Quick-Co 7, a pyramid scheme which owed about R28m to depositors, based on promised returns.

Quick-Co's 19 offices around the country were closed yesterday following the Supreme Court's ruling that it had contravened Section 11(1) of the Banks Act of 1990 and Act 94 of 1990.

Quick-Co has until November 12 to respond to the Bank action.

The forensic division of international accounting firm KPMG was appointed to investigate Quick-Co by the Reserve Bank, which brought the court action against the scheme on the basis of its findings.

About R2m is missing from Quick-Co's bank account and investment vehicles, and is believed to have been taken out of SA.

According to a Quick-Co brochure, which claimed the scheme was "working towards one goal of creating a better future and secure life", the company would pay out R15 000 eight weeks after an initial deposit of R5 500.

Banks registrar Christo Wiese said the Bank had received a number of complaints about pyramid schemes around SA.

The Bank closed Rustenberg-based pyramid scheme Sun Multi Serve in December. Certain directors are under investigation for theft of investors' funds, and depositors are believed to have lost as much as R28m.

State accident policy slammed

M+G 1-7/11/96 (58)

Mungo Soggot

THE shortcomings of state-sponsored accident insurance were highlighted this week in a case in which a paraplegic told a tragic tale of her struggle against avaricious relatives while her lawyer slammed the state's controversial pay-out practices.

Judge Neil MacArthur implored Renia Motloung, 30, who was turned into a paraplegic in a collision in 1991, to set up a trust for her damages payout. The judge heard evidence she had spent five months in hospital after the accident and had then returned to rural KwaZulu-Natal to live in appalling conditions with her impoverished family.

"You were abandoned by your husband and your parents take no interest in you. All they are concerned about is your disability grant from government," he said.

Judge MacArthur, who has yet to make an award of damages, told Motloung through an interpreter: "I am aware of the problems you have had to try to educate yourself. I am going to award you a considerable sum ... I'm sure you'll agree you are the last person to be able to administer this money."

When Motloung replied that she wanted to discuss the matter with her parents and with her uncle, Judge MacArthur said they "might not be the proper people to assist you".

Judge MacArthur's impassioned plea came after her counsel, Jurie Wessels, had, in summing up her predicament, focused on the state accident insurance fund's controversial practice of giving some victims an undertaking to pay their medical expenses instead of a lump cash sum. In Motloung's case, SA Eagle, representing the Multilateral Motor Vehicle Fund (MMF), has undertaken to reimburse her for 75% of her medical expenses. This means she has to find money to pay for them.

"All paraplegic cases are tragic, this one particularly so, not only as a result of the very unfortunate personal circumstances of the plaintiff, but also as a result of the position adopted by the defendant," Wessels said.

Wessels took the unusual step of asking Judge MacArthur to compensate his client for the MMF's approach by awarding her an unusually high award for pain and suffering. He is asking R3,7-million for medical expenses and R300 000 for pain and suffering — far more than the high-water mark of R175 000.

Lawyers and victims argue that "undertakings" hit poor people — they do not have the money in the first place to pay their stiff medical expenses. And Judge Richard Goldstone, now a Constitutional Court judge, took a similar view in a 1987 case involving an accident in which a man was turned into a paraplegic after hitting an armoured vehicle. He said there would presumably be many instances where an undertaking would be "rendered worthless" to a victim.

Victim of a car accident and the state accident fund: Renia Motloung was also advised by a judge not to trust money-grabbing relatives

PHOTOGRAPH: DANNY HOFFMAN

Willie Seriti, a practising attorney and convenor of the Black Lawyers' Association's committee on road accident insurance, said this week there were no policy guidelines on how the MMF chose to give an "undertaking". He said the fund's "undertakings" inevitably hit poor people, leading him to the conclusion that the policy was "administered racially".

He also lashed out at the MMF's practice of offering poor victims a small cash amount instead of the "undertaking", knowing that they had no option but to take the discount lump sum.

MMF head Willem Swanepoel shrugged off the accusations. He said only a very small percentage of accident victims were given "undertakings" and that most of these were white. He said "undertakings" were given when a victim's medical prognosis was uncertain. Swanepoel said lawyers who demanded a lump sum clearly forced the MMF "to take a view".

Malcolm Lyons, an attorney specialising in the field, who has frequently crossed swords with Swanepoel, told a different story. He said the vast majority of victims were given "undertakings", and that most of these were black. As to whether "undertakings" were only given in cases where the victim's prognosis was unclear: "What is unclear about the state and needs of a paraplegic?" he asked.

Lyons said a crucial problem with "undertakings" was that the fund was usually "obstructive and recalcitrant" over reimbursing victims, who often had to take the MMF to court. A client of his, Derek Gray, paralysed 14 years ago in a collision, fought the fund for his money in three separate cases. Lyons said that in the latest case this week, which concerned R50 000 of Gray's expenses, the fund had spent about R250 000 in legal costs unsuccessfully challenging Gray.

● The Fund has recently been in the spotlight in a fierce battle between lawyers, accident victim lobby groups and Transport Minister Mac Maharaj over the future of state-sponsored accident insurance. Maharaj says the current system is too costly.

In a draft White Paper, Maharaj suggested that the fund a give damages to all accident victims. This would leapfrog the courts, dispensing with the need to prove negligence. The scheme hinged, though, on severely "capped" damages. The idea was spiked, but lawyers suspect Maharaj remains committed in principle to such a revamp.

PROTEA ASSURANCE

SPLIT SALE IS THE BEST BET

(58) FM 1/11/96

The UK's Royal & Sun Alliance, holder of 77,8% of Protea Assurance (Prosure), and minorities must be delighted with the Prosure sale terms. Because Prosure conducted life and general assurance, buyers had to be found for both divisions.

The deal involves Commercial Union (CU) and Mutual & Federal (M&F).

CU has bought Prosure's life assurance subsidiary Protea Life and the asset management company from Prosure for R252m cash.

M&F then bought Royal & Sun Alliance's share of Prosure on the basis of 510 M&F shares for 100 Prosure. At M&F's R24,90, this values Prosure at R1,02bn or about R127 a share — well above Prosure's June 30 net asset value of R75,77, when its share price was R80, or the pre-deal R97.

Prosure chairman Clive Hirschsohn says that price and looking after the rights of Prosure staff and other stakeholders were important criteria. These led to a decision to call for tenders.

Documents were initially sent to 18 interested parties, who were asked about their attitudes to the rights of Protea's staff in relation to future employment, retrenchment packages and pension benefits, among other things.

After scrutinising the replies, Prosure was left with six contenders, one of whom withdrew. The remaining five received detailed offer documents and were given four days exposure to infor-

mation housed in Prosure's data room.

Examination of the five offers received showed the interests of shareholders would be best served if the life and short-term businesses were sold separately.

Minorities may accept either M&F shares or cash of R114,50 a Prosure share. Royal & Sun Alliance has accepted M&F's cash offer.

CU MD Roger Wanless says Protea Life was "a vibrant, profitable company" with features that will complement CU's product range and exposure. He believes the price was reasonable and good value.

M&F MD Ken Saggers believes that merging Prosure's general business, with premiums of R613m — equivalent to 29% of M&F's gross premiums as at last December — into its own makes sound commercial sense. Saggers says it will "leverage M&F's capital base, enhancing shareholder returns." *Gerald Hirshon*

'Huge pressure' on insurance industry

Firms know they must change to survive

ARG 2/11/96 (58)

RUPERT STEINER
Foreign Service

London – More than 250 executives from the leading insurance companies gathered recently in Venice for the 1996 insurance directors' conference.

The pressure on their industry is enormous. Markets have been deregulated; new technology is reducing entry barriers; and divisions between different financial services are becoming blurred.

A specially commissioned report from IBM's Insurance Research Centre has predicted massive rationalisation, and executives were told to expect fewer than 30 significant providers of life assurance by 2000. The industry is in the throes of a huge transition and firms are scrambling to find how they must change to survive the next 10 years.

Tony Baker, deputy director-general of the Association of British Insurers, says a number of companies are already gearing up to become all-embracing personal-finance providers. Others believe the future lies in being focused, in becoming a niche player.

"The industry has resigned itself to a large reduction in numbers as institutions vie to provide a complete financial package for their customers," Mr Baker says.

"Everyone is hoping to be a winner but there is room for only a small number of all-singing, all-dancing firms. They cannot all hope to retain the business. There aren't enough customers to go around."

The recent problems have been brought on by a combination of factors. Insurance companies can now sell their products anywhere in the European Union. What was a regulated market is breaking down.

There is also growing competition from the banking industry which is reflected in the high level of mergers and acquisitions in recent years. Banks have detailed knowledge of their customers and, in seeking to expand into all forms of financial services, are targeting life insurance in particular.

> ***'Casualties likely, initially among traditional firms with high cost structures'***

Casualties are thought likely, initially among the traditional insurers that have high cost structures and outdated market approaches. Competition will come from new entrants, such as firms that sell over the telephone and have extensive information on potential customers. Any organisation with good customer-oriented information technology is a threat. Virgin and Marks & Spencer, cashing in on their brand names, are already moving rapidly into financial services.

As for consumers, they are becoming more demanding, expecting products to be customised to their needs.

The Venice conference, organised by IBM, was told that research based on interviews with insurance executives had identified four scenarios for the shape of the market in 2005.

Ginni Rometty, vice-president of IBM Worldwide Insurance Consulting, says the first scenario, called Wired Wired World, involves consumers shopping around much more by using new technology and new media. "They will piece together the necessary product or service components from information provided on various pieces of hardware such as screen phones, interactive television and the Internet," she says.

In the second scenario, Virtual Village, consumers will be anxious for insurance but will pay little attention to organising it themselves, preferring co-operatives, affinity groups or manufacturers to prepackage insurance with their goods. Kevin Pallett, corporate manager of Independent Insurance, believes this to be the most likely outcome. "It is only a matter of time before you purchase a car with an insurance package built into the price as a matter of course," he says. "You will be able to rent a house with building insurance and buy goods in shops with insurance protection."

Scenario three is called Big Brother. In it, governments will be forced to control and run insurance services, Ms Rometty says: "We are fast getting to the stage where insurance companies will be able to refuse to insure customers who they regard as high risk. The customer will have a limited choice.

"Governments will need to provide blanket cover. Some of the wilder worries are developments in genetics, whereby companies could refuse cover to individuals who were born, say, with a gene associated with cancer.'

Insurance companies could also gather information by roundabout means. "It is feasible that companies could collect data from chemists' till receipts to match credit-card details with customers purchasing AIDS tests, for example. They would then be able to refuse cover."

The last scenario, Back to the Future, involves parts of the industry remaining similar to today.

Not everyone shares IBM's vision. Alan Oddie, managing director of Guardian Financial Services, says: "Prepacked insurance is limited and technology will not progress as fast as expected.

"It is important to plan for the future, but the trick is to break away from the others and find the solution that will attract and retain customers."
– London Sunday Times

FINANCE *Tokyo-Mitsubishi back after 10 years*

World's largest bank to reopen office in SA

CT(BR) 4/11/96 (58)

Nancy Myburgh
FINANCIAL SERVICES EDITOR

Takefumi Murata

Johannesburg — The Bank of Tokyo-Mitsubishi, the world's largest bank, will reopen a representative office in South Africa after a 10-year absence, the bank said on Friday.

Takefumi Murata, the bank's chief representative in South Africa, said he agreed with the Reserve Bank's approach to phasing out exchange controls. "The most important thing for (South Africa) is to keep the stability of the economy. To do that, South Africa cannot do everything quickly, at one time. For the current market to stabilise, this county has to show the world that exchange controls will be gradually terminated."

He said he expected controls to be fully abolished in the next 12 to 18 months, spurring more foreign investment in South Africa.

He also said the rand was undervalued at the level of R4,68 to R4,70 to the dollar. However, "judging from the current situation, it is reasonable. In the future, if there is some gradual improvement in the country, I believe the exchange rate will gradually change positively."

The bank's local office will provide information to Japanese companies on South Africa and the southern African region. "Several Japanese companies have already approached us to find out how to invest their money here and to open branch offices here," Murata said. "Many companies are waiting (to hear) our response and experience.

"You can't believe how many companies are waiting to invest here," said another bank spokesman. The bank, which is privately owned, has assets of $757 billion.

Attorneys defend fees

(58) Sowetan 6/11/96

Lawyers association denies MMF claims of overcharging clients

By Russel Molefe

THE Association of Law Societies of South Africa has reacted angrily to being blamed for the near-collapse of the Multilateral Motor Vehicle Fund which is facing a R7 billion deficit.

MMF chief executive Mr Willem Swanepoel earlier accused attorneys for contributing to the MMF's present financial predicament by overcharging their clients.

He said lawyers often inflate their accounts when they claim a percentage of the amount recovered.

Swanepoel also attacked the legal profession for instigating a campaign against the White Paper which proposes restrictions on all claims resulting from vehicle accidents.

But ALS president Mr Michael Pinnock said the MMF's financial predicament was due to the the huge increase in the number of accidents stemming from the culture of lawlessness on South African roads.

"The fact is that the charge which an attorney levies against his client is totally irrelevant to the MMF's annual commitments," said Pinnock. "Attorneys' profession is one of the most highly regulated profession, serving society and its fees are jealously governed and controlled.

"A charge may be levied only for work actually performed and this charge is subject to taxation," Pinnock said. He dismissed Swanepoel's allegation that attorneys instigated a public campaign against the White Paper as "outrageous".

	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Transport						74 400	
Staging equipment				294 873,5	1 500		273
Props				460			
Costumes				200 000	15 947	2 636	11 415
Advertising & promotion	5 800		52 867,4	228 276	24 120	122 622	
Sound equipment			638,99	646 006,1			3 450
Heavy duty vehicle—truck				917 733,1			
Music equipment				45 521,25	46 033	31 763,2	31 763
Lighting design				20 850			
Laundry machines				40 492			
Costumes & set design					30 425		
V.W. Microbus					82 258		
Musical expenses						3 594,03	710
Musical arrangement						4 000	
Flight cases						37 850,3	
Ammunition						15 185	
Marketing & publicity services						31 552	
Mercedes-Benz—bus	1 183 537			1 183 537			
Total	1 392 265	30 632	153 336	4 875 311	322 872	408 379	92 445

Academic hospitals: posts

359. Mr M J ELLIS asked the Minister of Health:

How many (a) doctors', (b) nursing, (c) support staff and (d) administrative posts had been (i) authorised and (ii) filled at each of the academic hospitals in South Africa as at 31 December 1995?

N612E

The MINISTER OF HEALTH:

	(a) (i) (ii)		(b) (i) (ii)		(c) (i) (ii)		(d) (i) (ii)	
Academic hospitals	Doctors		Nursing		Support staff		Admin.	
Baragwanath	563	500	4064	3692	1789	1557	610	525
Coronation	81	65	762	174	414	20	124	100
GaRankuwa	496	428	1614	1542	1062	952	289	266
Groote Schuur	710	586	2562	2168	1977	1594	799	700
HF Verwoerd	446	376	1592	1221	1943	1827	603	578
Hillbrow	207	176	943	812	1158	931	336	311
JG Strijdom	152	134	887	619	631	561	201	191
Johannesburg	501	479	1917	1588	2270	1538	729	566
Kalafong	257	223	1014	939	701	618	250	107
King Edward VIII	266	266	2103	2061	1308	1179	323	310
Pelonomi	3	1	1462	1334	1240	1184	1325	254
Red Cross	105	82	736	695	402	355	174	161
Tygerberg	587	521	2641	2444	2019	1678	685	641
Umtata	110	110	1332	1260	133	120	762	685
Universitas/ Nasionaal	488	488	1666	1666	318	318	1646	1646
Wentworth	36	29	494	488	400	362	45	43

Provinces: "stokvels" (58)

664. Mr J W LE ROUX asked the Minister of Trade and Industry:†

(a) How many "stokvels" were there in each province in (i) 1994 and (ii) 1995 and (b) what was the industry's estimated total income in each of these years?

N1175E

The MINISTER OF TRADE AND INDUSTRY:

(a) No data is available on the number of stokvels in each province in (i) 1994 and (ii) 1995 and (b) on the industry's estimated total income in each of these years.

The only organised body that the Department could consult with is the National Stokvel Association of South Africa (NASASA). NASASA only represents a percentage of the industry and hence information in terms of the number of stokvels and the estimated total annual income is not available. However, the Department could secure information on NASASA membership. Between 1994 and 1996, the following number of stokvels have registered with NASASA by province:

Province	Number	Percentage of total
Gauteng	8 032	55,4
Free State	749	5,1
KwaZulu-Natal	729	5,0

Stokvel members to protest against interdict

PRETORIA CORRESPONDENT

A stokvel-type operation with 18 branches across the country has been closed by a Supreme Court interdict.

Christo Wiese of the SA Reserve Bank confirmed on Tuesday that a Supreme Court interdict had been brought against Quick-Co 7, freezing its assets and closing down the business for contraventions of the Bank Act.

But it appears scenes reminiscent of last year, when the Sun Multiserv operation was closed for similar offences, are set to be re-enacted in Pretoria tomorrow.

On Tuesday, about 100 members of Quick-Co 7 gathered to hear company spokesmen urge them to meet tomorrow and march on the Reserve Bank building in an effort to have the interdict overturned.

A spokesman for Quick-Co 7 said the march would be a show of strength and an indication that, if necessary, "the act must be changed to allow us to do business".

Willie van der Merwe, a representative of Quick-Co 7, said in addition to their own members, the march would be supported by Sun Multiserv members.

"We expect about 25 000 – a quarter of our members – to march on Friday," said another Quick-Co 7 spokesman.

Van der Merwe said an urgent interdict had been brought against Quick-Co 7 on October 25.

"We went to court the next Monday (October 28) to have it overturned, but another interdict was issued against us the same day," he said.

A flier issued by the company and brought to the attention of the Pretoria News last month, claimed a R550 investment would pay out R1 500 and R5 500 would pay out R15 000 in a 14-week period.

58 Star 7/11/96

Bank reconsiders loan-granting method

(58) Sowetan 7/11/96

By Shadrack Mashalaba

PROSPECTIVE loan applicants who were perceived to be credit risks in the past because of poor payment records will be granted grace by Standard Bank.

A statement released by the bank yesterday says loan applications who can demonstrate that their payment records had been adversely affected by political circumstances that prevailed before April 1994 will be given a sympathetic consideration.

It says it has instructed its loan officers not to summarily decline applications on the basis of isolated negative information from credit bureaus.

Standard Bank assistant general manager credit division Harry Greene says the move is part of an ongoing review exercise, to look at the company's policy which he says will no longer be guided by information from the credit bureaus.

'Move is part of an ongoing review exercise'

He says bureaus are one of the many sources of information used to consider applicants' credit worthiness.

There has been an incorrect perception that banks only check through credit bureau records before granting loans.

The bank says the applicant's financial position and ability to repay forms the crux of the criteria in granting loans.

Citizen Bank posts 39% earnings slump to R2,5m

(58) BD 7/11/96

Samantha Sharpe

CAPE TOWN — Eastern Cape-based Citizen Bank posted a 39% slump in attributable income to R2,5m in the six months to September after the cost of establishing Msele Corporate and Merchant Bank (MCMB) took its toll on the group's bottom line.

The income loss was reflected in a fall in earnings to 19,9c a share, compared with 32,6c at the same time last year, and a reduced dividend declaration of 6,6c from a previous 10,6c.

However, group CE Edgar van Deventer said the reduction in net income and earnings a share attributable to the R6m merchant bank investment should improve in the next six months, with MCMB expected to make a positive contribution to group results.

He said the bank had expanded its mortgage-lending activities into previously unserviced areas, with net growth in mortgages of R29m in the period almost equalling growth for the full previous financial year.

However, a squeeze on margins resulting from increased market competitiveness had meant a virtually unchanged net interest income figure of R6,57m, which was accompanied by a 21% increase in operating income to R6,8m. A higher operating expenditure bill brought pre-tax income to R2,8m, compared with R4,1m in the same period last year, with a R308 000 tax charge — there was no tax bill in September last year — reflected in the R2,5m earnings figure.

On the balance-sheet side, the group's cash and short-term funds fell to R29,52m compared with R104,4m, the result of increased lending activity.

While the robust advances growth was accompanied by a virtually unchanged provision for doubtful debts of R9,1m, Van Deventer said the bank had cut its traditional 100% provision for properties in possession to 50%. General provisions stood at 2,67% of the total book, which was well ahead of the industry average.

He said the establishment of MCMB had positioned the group to offer the public and private sector a niche range of merchant banking services, especially in the field of privatisation.

Surge in business lifts Nedcor income

BD 8/11/96

(58) ~~BD 8/11/96~~

Adrienne Giliomee

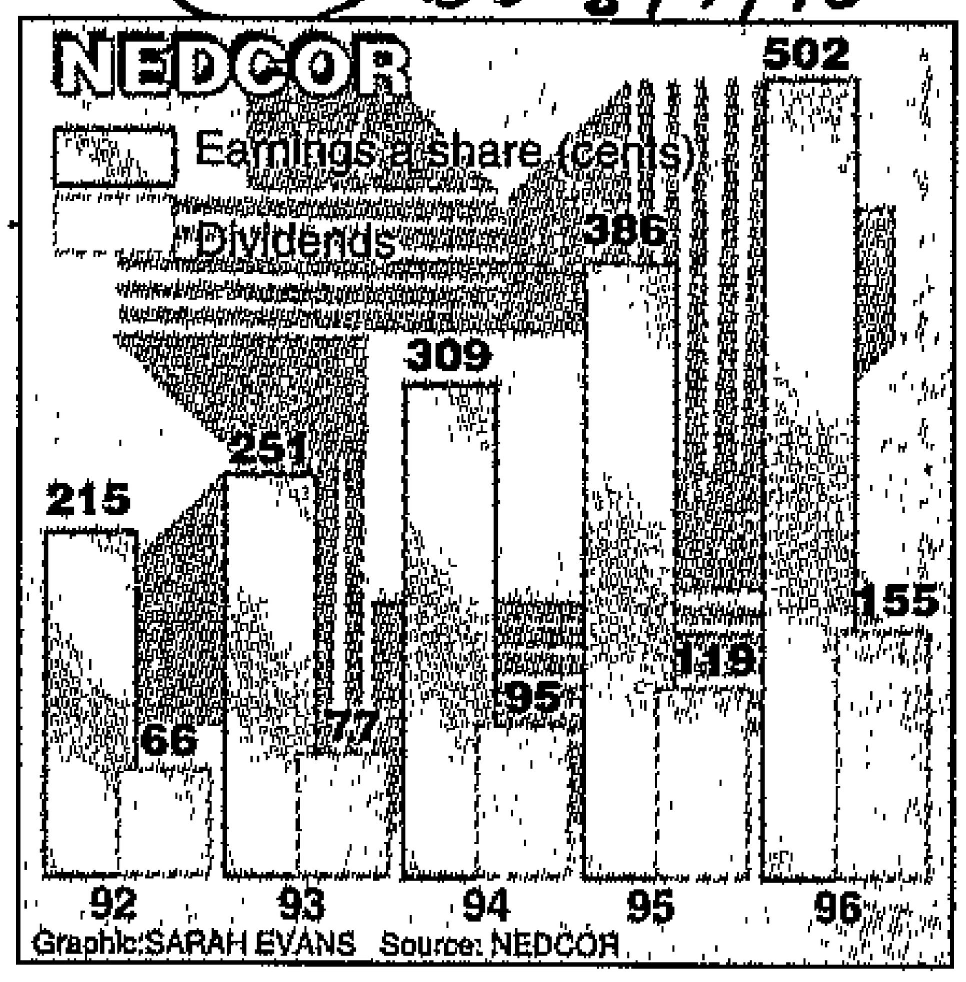
BANKING group Nedcor boosted attributable earnings 38% to R1,08bn for the year to September, following a good all-round performance by its divisions as well as cost containment and some relief on interest margins.

Earnings a share rose 30% to 502c, while the total dividend for the year came to 155c (119c).

CE Richard Laubscher said yesterday that he was "particularly pleased" with the performance in the light of tough and volatile trading conditions. He said the group experienced a strong second half after a surge in general banking business.

The difference between earnings per share growth and the increase in net income was due to the increased number of shares in issue following the placing of $125m in global depository receipts in June last year and the recent capitalisation issue. Interest income rose 26% to R11,4bn with interest expenses increasing 27% to R8,4bn.

Laubscher said margins had widen-



ed to 4,09% from 4,06%, and those from instalment credit and credit card lending were also healthy. "The book was structured to take advantage of rate increases in the second half of the year."

Nedcor would move towards neutralising its asset book in anticipation

Continued on Page 2

Nedcor

(58) BD 8/11/96

Continued from Page 1

of slower economic growth and possible interest rate cuts next year.

Net interest income, which rose 23% to R3bn, together with non-interest income of R2bn (1995: R1,6bn), brought total income to R5bn (R4bn).

"The increase of net income was achieved largely ... by an increased market share in both lending and transaction activities, focus on getting previously non-performing assets to perform and good expense management," Laubscher said.

The specific and general risk provision rose 43% to R333m, which Laubscher said would have been reduced to a 30% rise had it not been for three specific cases, including two fraud cases and a corporate bad debt.

Expenses rose 17% to R3bn, resulting in the cost-to-income ratio improving to 61,4% from 64%. "The containment of costs follows on large amounts spent on re-engineering and systems enhancement and the improvement of electronic product delivery."

He said the group was well on track to reduce the ratio to 60% during the next two years.

Net income before tax of R1,6bn (R1,2bn) was brought down by a 21% increase in the tax charge to R510m.

A divisional breakdown saw Nedcor Bank and group operations lift net income 43% to R596m. Syfrets increased its contribution 32% to R77m, UAL's share rose 12% to R81m and Cape of Good Hope Bank lifted profits 30% to R28m.

Laubscher said the disappointing performance by UAL was due to the costs associated with closing down its securities business in London, internal restructuring and a bad performance from its fund management activities.

Nedcor's return on equity increased to 21,9% (20,8%) and return on assets to 1,44% (1,27%). Its capital adequacy ratio stood at 9,9%, which Laubscher said was a comfortable level, as it was obtained through first-tier capital.

Nedcor income reaches R1bn

(58) CT(BR) 8/11/96

NANCY MYBURGH
FINANCIAL SERVICES EDITOR

Johannesburg — Nedcor, the country's fourth-largest bank, enjoyed a rise in net income of 38 percent to more than R1 billion in the year to September 30, a first in the company's history, the bank reported yesterday.

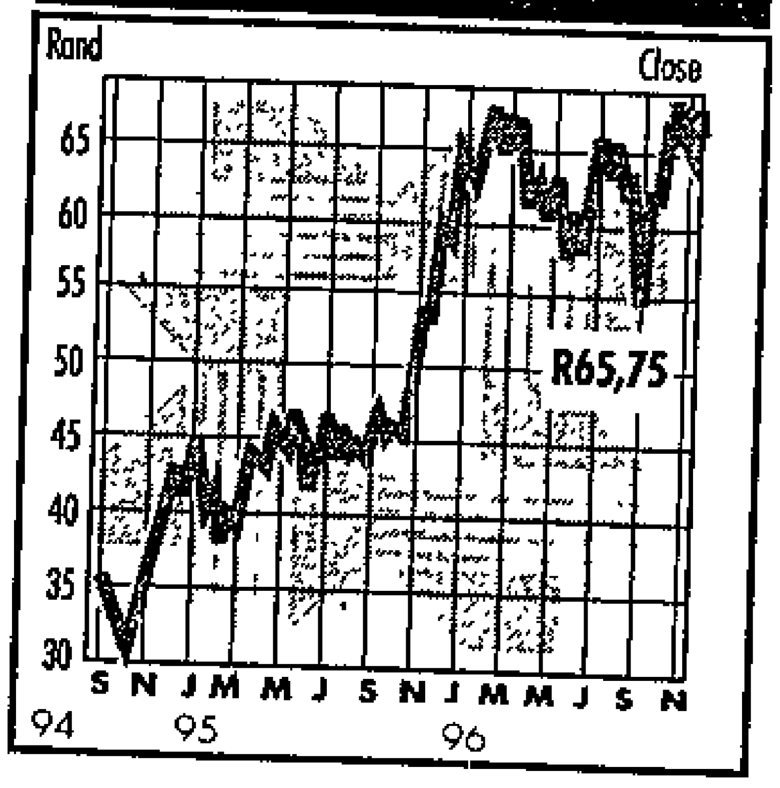
Its net income was helped up to R1,082 billion by cost cuts, better net interest margins and profit growth topping 30 percent in all but one of its operating companies.

Richard Laubscher, the bank's chief executive, said earnings a share rose 30 percent to 502c, a slower rise than net income because there were more shares in issue this year than last.

Analysts had forecast earnings growth of just 24 percent to about 490c a share.

Nedcor's one underperforming operating area was UAL Merchant Bank, with profit growth of just 12 percent to R91 million. "Maybe UAL needs a little tuning," said Laubscher, particularly to deal with fierce foreign competition, but he said Nedcor expected a UAL resurgence in the year ahead.

Nedbank



Provisions for bad debt rose 43 percent to R333 million, but Laubscher qualified that figure. It would have been just 30 percent were it not for charges relating to two fraud cases and a swap of debt for equity for a large corporate client, he said.

Nedcor also reported the lowest ratio of expenses to income of the four largest commercial banks, at 61,4 percent. That was down from 64,4 percent a year ago and ahead of the pace required for the targeted 60 percent in three years, Laubscher said.

The bank reported a rise in interest income of 26 percent to R11,42 billion, and a rise in interest expenses of 27 percent to R8,44 billion. Net interest income rose 23 percent to R2,98 billion and non-interest income rose 24 percent to R2,0 billion. Dividends a share rose 30 percent to 155c.

☐ **Business Watch, Page 17**

Nedcor the pick of banking results

(58)

ST 10/11/96

FINANCIAL SERVICES

By ZILLA EFRAT

TWO of South Africa's major banks released very different sets of annual results this week. Despite volatile interest and exchange rates, Nedcor sparkled while First National was well below market expectations.

Both groups showed sharp rises in bad debt provisions which, in part, highlight just how much pressure consumers are facing under high interest rates.

In the year to September, Nedcor's net income after tax jumped 38%, breaking through the R1-billion "psychological hurdle" for the first time on the back of a strong performance from all its major operations.

It benefited from a gain in market share, good expense management and a focus on getting previously non-performing assets to "sweat".

The 30% rise in earnings per share to 502c on a higher number of shares in issue was well above analysts' forecasts of growth of about 24%. A dividend of 155c was declared.

In comparison, FNB's attributable earnings for the same period were up 8,8%, also to R1-billion, after the previous year's figures were adjusted for a R57,4-million goodwill write-off. Without this adjustment, earnings would have been 15,6% higher.

Headline earnings rose 8,4% to 228c per share, well below analysts' expectations of a 17% rise. The market responded by sending FNB's share price to a new annual low of R23,65 on Thursday. A dividend of 76c (66c) was declared.

While commercial banking in both its retail and wholesale sectors continued to perform well, FNB's bottom line was hard hit by a 69% surge in bad debt charges to R665,2-million. Its vehicle financing division, Wesbank, the furniture division, FirstPref, and its managed private label credit card operations were responsible. Alec Grant, general manager of public affairs, says without these, the core banking operations would have shown a net income rise of 21% to 22%.

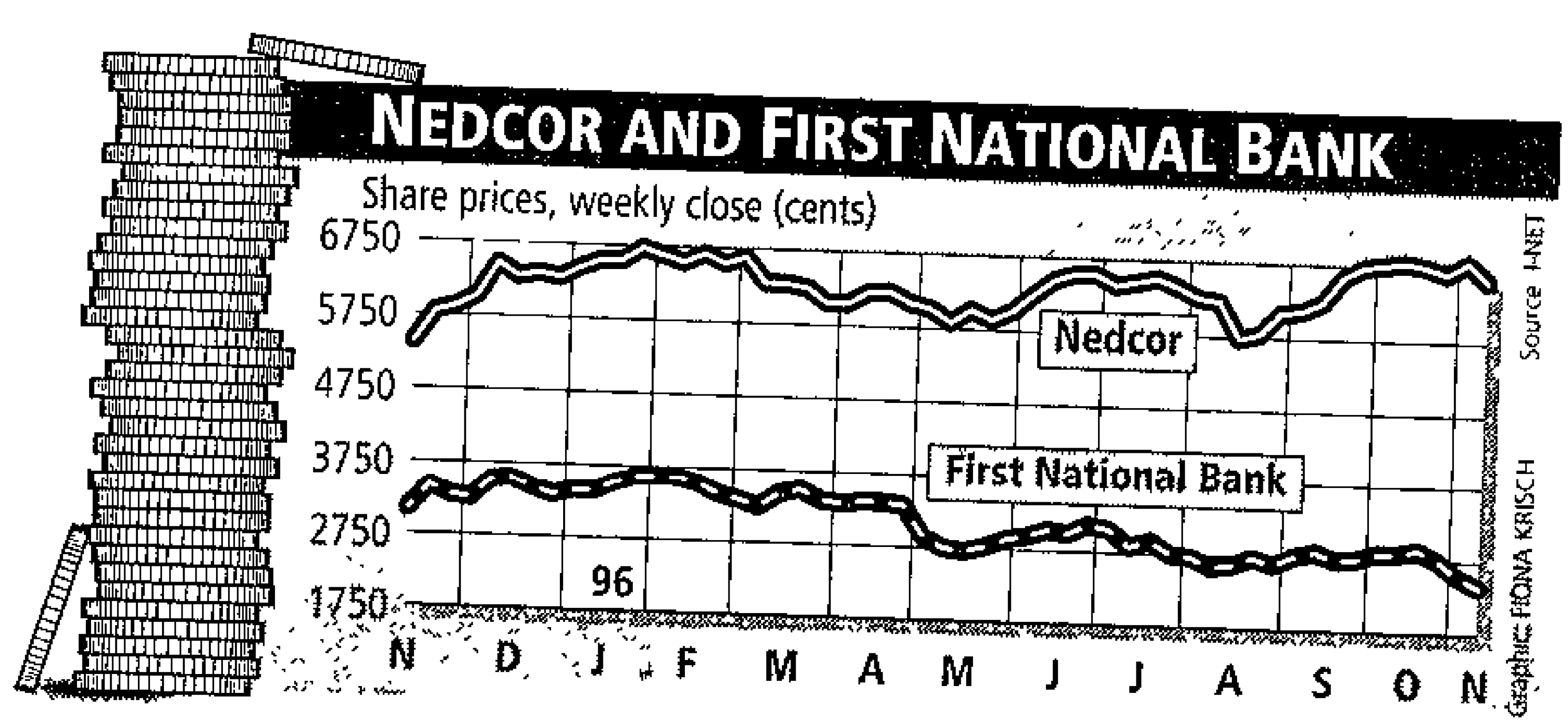
Wesbank's business was hit as higher interest rates hurt customers while used car sales suffered.

Grant denies that FNB's overall market share was dented during the year but says it did lose about 1% to 2% of its stake of the total instalment credit market.

Nedcor no doubt picked up some of this. Nedcor chief executive Richard Laubscher says instalment sales gained 1,4% in market share over the year, home loans 0,4%, leases 1,4%, credit cards 8,7% and overdrafts 0,7%.

These gains helped operating company Nedcor Bank grow its profits by 43%. Cape of Good Hope Bank earnings grew by 30%, Syfrets' were up 32% while UAL's improved by a slower 12%.

Laubscher says Nedcor's 43% rise in specific and general risk provisions were higher than expected and mainly relate to Nedcor Bank. This rise, however, would have been just 30% if it were not for two frauds, one worth R9-million and the other R17-million, and the swap of a loan for equity in a listed company (Laubscher will not disclose which).



Call to act against practitioners harming reputation of microlending industry

(58) BD 12/11/96

Lukanyo Mnyanda

SA's microlending industry, which has developed into a strong economic force with an annual turnover of around R5bn, is said to be harmed by "shady practices" among some practitioners.

Stellenbosch University enterprise management department's Piet du Plessis told the Association of Microlenders' first general meeting at the weekend that shady practises among lenders not registered with the association had led to genuine players being viewed as "loan sharks".

He called on the association, the controlling body for the microlending industry, to do everything in its power to stamp out the "mafia factor".

"The truth is that the industry is providing a service that cannot be rendered in any other way and is not available at any other institution. It runs large risks but still functions within the law."

Du Plessis said the microlending industry, which specialises in small loans not normally dealt with by traditional financial institutions, was 15 times as large as the total liabilities of the Post Office Savings Bank.

The industry had made a valuable contribution to the development of specific sectors of the SA economy and its existence could be attributed to supply and demand.

Du Plessis praised the association for its code of conduct and said high morals, good service and the economic upliftment of clients were prerequisites for the industry's continued existence.

Association chairman Johan Jonck said about 600 microlenders had joined the organisation since its formation 10 months ago.

BANKS *Due-dilgence findings and proposals due later this week*

Community Bank sale a step closer

CT(BR) 13/11/96 (58)

NANCY MYBURGH
FINANCIAL SERVICES EDITOR

Unibank managing director Gerrit van der Merwe

Johannesburg — Unibank's due-diligence analysis of the beleaguered Community Bank, which follows the finance ministry's approval of the proposed sale of the bank, should be completed by Friday, Gerrit van der Merwe, the managing director of Unibank, said yesterday.

Unibank will also decide by then which areas of Community Bank are to be rationalised.

"Unibank will finally decide what part of the infrastructure they require," said Van der Merwe.

"The curator will rationalise the unrequired parts."

Community Bank was founded in 1994 with funding from several commercial banks and state development agencies to target the low-cost housing market. But in the face of reported losses of more than R50 million and the withholding of R70 million by some backers, the bank was placed under curatorship in May.

A possible merger with the South African Housing Trust failed to get off the ground in July amid allegations, later officially denied, that the finance ministry had taken too long to make a decision on the bank's future.

But in September the bank's staff were given retrenchment letters, saying that some staff might be reconsidered for employment pending the outcome of what Stewart Patterson, the curator, called a rationalisation effort.

Unibank's offer emerged last month and the retrenchment notices were extended to the end of this month pending the due-diligence analysis and further negotiations.

Unibank, which has assets of R1,4 billion and a capitalisation of R250 million, is owned by, among others, First National Bank, Fedsure and Yabenga, an investment company.

Van der Merwe said Unibank representatives and officials from some of Community Bank's original funders, including the Development Bank of Southern Africa, would meet today.

Cape bank's assets rise 23,3%

(58)

45 District Six families benefit from home loans

ARG 13/11/96

ESANN DE KOCK
BUSINESS REPORTER

Cape of Good Hope Bank has broadened its community strategy by enabling 45 families who escaped eviction from District Six to buy their homes through a specially structured financing scheme.

This, together with the launch of a revolutionary new National Housing Board finance scheme in support of Nedcor's growth and development strategy, has been a contributing factor to the bank's expanded lending product range.

Announcing the bank's results for the year to September in Cape Town yesterday, managing director Mike Thompson said home loans and instalment finance grew by 20,1 percent to R556,2 million and by 22,4 percent to R587,3 million respectively, while total assets rose by 23,3 percent to R2,5 billion.

The commercial and industrial property book passed the R1-billion mark, of which R705 million constituted the long-term component. Growth in the short-term development book was 47 percent, totalling R331,3 million.

Mr Thompson said the bank had also introduced fixed rate lending on home loans and commercial property bonds.

Lending initiated to local authorities had followed a well researched approach and Mortgage Indemnity Fund lending had been successfully implemented.

Cape of Good Hope Bank, South Africa's oldest bank, improved its net income after tax by 30,1 percent to R36,2 million.

It recorded returns on equity and assets of 24,2 percent and 1,6 percent respectively – well above the norm for the banking industry.

Shareholders' funds increased by 27,5 percent.

Mr Thompson said the bank's strong growth, and in particular its Return on Assets (ROA) and Return on Equity (ROE) ratios, had helped boost parent Nedcor's results to over R1 billion.

"The bank continued to fund itself from a local and long-established client base, serving the Western Cape through a network of 12 branches and a treasury division.

"In spite of severe competition, particularly in the retail market, total depositors' funds increased by 22,9 percent to R2,3 billion with the support of discerning individual and corporate investors."

Mr Thompson said confidence in the bank's ability to manage funds had been evidenced by the substantial increase in deposits by local authorities and managed by Cape of Good Hope Bank's treasury.

The bank would continue its intense Western Cape focus, confident that it could achieve further growth in the region and gain greater market share.

This, he added, meant the bank would look at increased emphasis on providing banking services to the broader Western Cape community through partnerships.

The bank's joint economic and business development initiative with Wesgro – the association for the promotion of economic growth in the Western Cape – had enjoyed wider interest and involvement in strengthening the local economy, Mr Thompson said.

INSURANCE *Group assets increased R3,8bn to R32,7bn*

Southern Life lifts earnings

58 CT (ME) 14/11/96

JOHN SPIRA
DEPUTY EDITOR

Johannesburg — Southern Life has increased its interim dividend 24 percent to 72c a share for the six months to September 30.

Jan Calitz, the chief executive, said yesterday that disclosed interim earnings grew 28 percent to R200 million as the company continued its policy of calculating interim earnings and dividends at 50 percent of the previous year's figures.

New business premium income increased 23 percent to R1,19 billion. Single premiums grew 27 percent to R874 million, while new recurring business was 13 percent up at R314 million.

Group total income was 18 percent higher at R3 billion, comprising premium income which rose 14 percent to R2,1 billion and net investment income which increased 30 percent to R881 million.

Southern Life's total assets under management, including those held off balance sheet, are R37,1 billion.

ASSURED *Southern Life's chairman, Neil Chapman (left) and Jan Calitz, the chief executive, are pleased with interim growth* PHOTO JOHN WOODROOF

Group assets increased R3,8 billion to R32,7 billion.

Calitz said Southern's strategy was to grow faster by offering competitive products to meet customer needs in selected niche markets.

He said the globalisation of investment markets and the progressive relaxation of exchange controls had led to the formation of Southern International, the group's asset management subsidiary in Luxembourg, where a range of funds had been listed and some of the world's leading fund managers appointed as fund advisers.

"This venture offers Southern Life policyholders and pension fund and unit trust clients access to global investment markets through products linked to international portfolios. Our first international product for individual investors has now been launched and links policies to a portfolio managed by Southern International."

Calitz pointed to the success of Futuregrowth, Southern's RDP-aligned investment portfolio, where assets under management had more than doubled in the past year.

Southern HealthCare JV, the alliance between Southern, Anglo American and United HealthCare of the US, had begun marketing its managed health-care products and services in South Africa.

Calitz said Southern's excess of assets over actuarial liabilities had risen over the past two years to top R4,6 billion on March 31, in excess of the company's capital adequacy requirements at the time.

"This excess is affected by the market values of assets and, during the six months to September 30, was adversely impacted by the poor performance of investment markets and share prices on the JSE in particular. Unless those markets show significant recovery by the end of the financial year, the excess is not expected to increase over the previous year."

Calitz said Southern continued to be well capitalised and was strategically positioned to take advantage of developments in the financial services industry for the benefit of shareholders, customers and staff.

TRANSPORT *Guilty party in accidents will also benefit*

Proposal to cap MMF claims

(58) CT 18/11/96

Christo Volschenk
Economics Editor

Pretoria — The transport department will propose that all medical costs of a road accident victim incurred in the 18 months after the accident be paid by the multilateral motor vehicle accident fund (MMF) regardless of whose fault the accident was.

This proposal will be made at a conference where the restructuring of MMF will be discussed. The conference takes place today and tomorrow.

The department will also propose that victims be partially compensated for their loss of earnings in the 18 months after the accident.

These proposals will be submitted as part of a comprehensive new claims system aimed at restoring financial health to the MMF. The fund had an actuarial deficit of R7,4 billion on April 30 and was slipping deeper into the red.

The new proposal suggests that the pay-out to the spouse and children of a breadwinner who died in a car accident be capped at R200 000.

A cap of R4 000 a month for a maximum of 18 months will also be put on pay-outs to victims for loss of earnings while they are unable to work.

The department proposes that a victim who was unemployed at the time of the accident be paid a maximum of R1 000 a month. Victims who were employed but who cannot give proof of income are to receive R2 000 a month while victims who were employed and can give proof of income may receive up to R4 000 a month.

In the case of reckless driving the convicted offender will only be paid the cost of acute medical treatment. Unlicensed drivers, motor thieves, drivers under the influence of drugs and drivers of unlicensed vehicles will also only be paid the cost of acute medical treatment.

Victims or their dependants will lose their common law right to sue the person who caused the accident for their loss in excess of the fund's capped pay-outs.

The department suggests passengers of taxis involved in accidents be paid the same compensation as other victims.

The department says the actuarial deficit will grow from R7,4 billion to R71 billion in 2007 if the claims system and the fuel levy are left unchanged.

"But if the claims are capped to save 60 percent on the expected pay-out and the fuel levy is increased by 9 percent annually, the financial condition of the MMF will not get any worse in the next 10 years than it is now."

Accident fund to finance traffic strategy

Christo Volschenk

The multilateral motor vehicle accident fund (MMF) will spend at least R160 million in the next four years to reduce South Africa's sky-high road accident and fatality rate, according to a discussion paper of the transport department.

"The board of directors of the MMF has decided to finance the implementation of elements of the so-called road traffic management strategy which was agreed upon at a road traffic safety symposium in Pretoria in July this year," according to the paper which will be the basis for a two-day conference starting in Pretoria today where the MMF's restructuring will be debated by stakeholders.

The road traffic management strategy's main aim is to reduce road fatalities by 10 percent by the year 2000. "About 10 000 people die annually on South Africa's roads and another 36 500 are seriously injured. Road accidents cost the taxpayer about R10 billion per year."

The strategy also wants to improve professionalism in traffic control, launch an SOS Highway patrol to monitor traffic flow on major freeways, combat reckless and negligent driving on freeways and introduce "on-the-road" or "roving traffic courts".

The MMF board decided to allocate 2,5 percent of the MMF's annual levy, about R1,3 billion this financial year to the implementation of elements of the road traffic management strategy. The MMF is technically insolvent with unfunded claims of motor accident victims of about R7,4 billion.

Attorneys 'not to be excluded'

(58)

Linda Ensor

BD 19/11/96

CAPE TOWN — The Multilateral Motor Vehicle Insurance Fund had no intention of excluding attorneys from the system of third-party compensation, chairman Piet Botbijl said in the latest issue of the legal magazine De Rebus.

He repudiated the comments made against attorneys by fund CEO Willem Swanepoel at a hearing of the parliamentary joint standing committee on public accounts.

Stakeholders in the third-party system meet in Centurion today and tomorrow to discuss new proposals for redrafting the motor-vehicle assurance legislation. The conference will be co-chaired by Botbijl and parliamentary portfolio committee on transport chairman Patricia de Lille.

Botbijl hoped the conference would "find a way forward" for the fund.

Regarding Swanepoel's accusations that attorneys contributed to the fund's financial crisis, Botbijl said: "I consider it irresponsible and offensive to suggest that attorneys 'often overcharge their clients and inflate their accounts' and naive to conclude that they are partly to blame for the fund's actuarial deficit of R7,3bn.

"Whether attorneys overcharge their clients or not has no bearing on the deficit with which the fund is burdened. If a client is overcharged this affects his pocket, not that of the fund. Furthermore, the client has a remedy."

He also dismissed Swanepoel's suggestion that attorneys had orchestrated the opposition to proposals in the draft white paper.

Innovative credit will tap rural creativity

Using livestock as collateral for loans is among the concepts suggested in a new report on financial services in rural areas. **Wyndham Hartley** reports from Cape Town

(58) BD 19/11/96

ON ENTERING the job market, young people have always been puzzled by the rules of the financial world, which insist that you cannot get credit until you have a credit record but you cannot build a credit record without first being granted credit.

Parents and sureties helped most urban white children in the past gain access to credit and to learn about financial services.

The process has been far more difficult for the rural poor, dumped in the old homelands with no financial services, no credit facilities, no way of accessing bank accounts, and no option but to wait for money to be sent home by men working as migrant labourers in urban areas. It is even worse for rural women married under traditional union — they do not even exist unless their husbands vouch for that fact.

It is worse still if you are a pensioner and have to queue in heat or pouring rain on a particular day to receive payment.

Many rural people now have the right to land and housing subsidies, but the lack of banking, commercial and state facilities is precluding them from taking advantage of what is on offer. There are also credit rules, which insist on records or immovable assets as collateral, to be overcome before loans can be granted.

The Strauss commission investigating rural financial services noted in its report to President Nelson Mandela that "one of the most disturbing characteristics of SA's economy is the presence of untapped human resources and underused natural and physical resources in the face of abject poverty. This condition is most visible in SA's rural areas.

"In part they are overcrowded and unproductive; in part capable of producing agricultural surpluses. The rural areas represent an opportunity for releasing South African creativity.

"The provision of appropriate financial services in these areas should be one of the important mechanisms in a rural development strategy for unlocking this potential."

The commission noted that it was the responsibility of government to facilitate and co-ordinate the provision of financial services in these rural areas.

It recommended that the range of services in these areas should include appropriate savings products; improved transmission services, particularly for pension payments and money sent from urban areas; help for people paying for services; short-term consumption loans; and finance for business activities.

Livestock could win recognition as a legitimate measure of a small farmer's wealth.

The problem is that the commercial banking sector finds operating in rural areas unprofitable and has limited rural operations to the smaller towns which service agricultural areas.

The report suggests that the Post Office, with its Post Bank, has a critical role to play in providing financial services, but notes with concern that the Post Office is reducing the number of its outlets. Even if some outlets in rural areas are not economic as a result of transaction volume, they should be established in the interests of rural development, the commission says.

New savings packages with real interest rates should be created by the Post Office to mobilise rural savings, accrding to the report. The Post Office and other financial institutions involved in rural finance, such as the Development Bank of SA, the Industrial Development Corporation, Khula Enterprises Finance, the Land and Agricultural Bank of SA and the National Housing Finance Corporation should be represented on a statutory development council, which should be established.

Dramatic moves away from both traditional and first world practices have been suggested. For example, the report says the proprietal incapacity of black women under indigenous law, which prevents them from entering contracts of any sort, has to change. This is particularly pertinent in terms of rural women currently being unable to take advantage of housing and land subsidy schemes under the reconstruction and development programme. Legislation must make it impossible for husbands to take control of such moneys as a result of indigenous law.

The first world principle of immovable assets should also be changed, the report says. It suggests a "pledge registration office" where cattle and other moveable assets can be used as collateral to raise small loans. Administration of the pledges should be simple and cheap.

With land and access to land playing a pivotal role in rural development, the Strauss commission has also recommended extensive changes to the Subdivision of Agricultural Land Act — and its eventual repeal.

This Act is an impediment to land reform and the delivery of rural housing because it prohibits the subdivision of land, so those who live or farm land are unable to achieve title or to establish communal associations which can receive government assistance. The Act also prevents land being leased or rented for longer than 10 years.

"The commission regards statutory measures that inhibit the growth of a vibrant market in rural land to be dysfunctional and recommends their modification. Leasing is an important form of land tenure which could serve as security for moneys borrowed by farmers and other rural residents," the report says.

State departments should, through the recommended development council, ensure that autonomous parastatals such as the land and development banks are well capitalised and able to act as financial intermediaries in rural areas. The reports also suggests a "sunrise" package as a means of providing loan finance to rural dwellers who need it to become established as "new farmers". This should be provided by the Land Bank or through agency agreements with nongovernmental organisations or commercial banks operating in particular areas.

"This report does not attempt to provide a blueprint for the future. It seeks to spell out the principles by which rural people can gain effective and equitable access to financial services. It paves the way for a radical restructuring of the institutions and instruments required to accomplish this. Successful transformation is dependent on speedy action by the authorities concerned."

The report is currently being discussed in the relevant government departments.

Accident fund needs additional revenue sources

(58)

Stephané Bothma

BD 20/11/96

PRETORIA — Additional revenue sources to bolster the technically insolvent multilateral motor vehicle accident fund (MMF) would have to be investigated, a conference on the restructuring of the fund proposed yesterday.

The fund's cash flow, which had liabilities exceeding R7,4bn, was expected to become negative in 1999 and reserves were expected to be depleted by 2001 unless fuel levy rates were increased and caps introduced.

A transport department document for discussion by interest groups attending the conference states that a capping savings of 60% and a regular increase of 9% a year in the fuel levy are needed in the next 10 years to stop the fund's financial condition from worsening.

Working groups submitted a number of proposals to restructure the fund, including the payment of a special insurance by foreigners entering SA, the establishment of a special court to fast-track claims against the fund, and that lawyers not be excluded from the process of claiming from the fund.

Transport Minister Mac Maharaj said some members of the legal profession had participated in the conference thinking they could bring about a system beneficial to their interest group — not the general public.

MMF board chairman Piet Botbijl said third party compensation had become an industry in SA. Although the system should not be destroyed completely, it could not operate as it had over the past 50 years. He said 2,5% of the MMF's levy income would be spent to reduce the country's road accident rate.

Bringing banking to the shop floor

(58) MtG 22-28/11/1996

Credit unions are taking over where the banks have failed, reports **Kerry Nelson**

WHEN metal workers at John Thompson Africa formed a "social savings club" to help each other in time of need nine years ago, they had no idea that they would become a role model for the rapidly growing credit union movement.

At the time, the factory was becoming sticky about lending money to its employees. Regular bank loans were out of reach for the workers.

The "social club" model worked like this: members put on an event — such as a dance. The profits were placed in a common savings account, to be tapped during hard times. Says Victor Botha, current chair of the Cape Metal Employees Savings and Credit Co-operative (CME Sacco): "Lots of our workers lived in squatter areas so there were always houses that got burnt down, and death in the family."

The "social club" worked so well that members wanted a system to enable them to draw from their savings for non-emergencies. In July 1991, 50 "social club" members formally affiliated to the Savings and Credit Co-operative League (Saccol), to form CME Sacco.

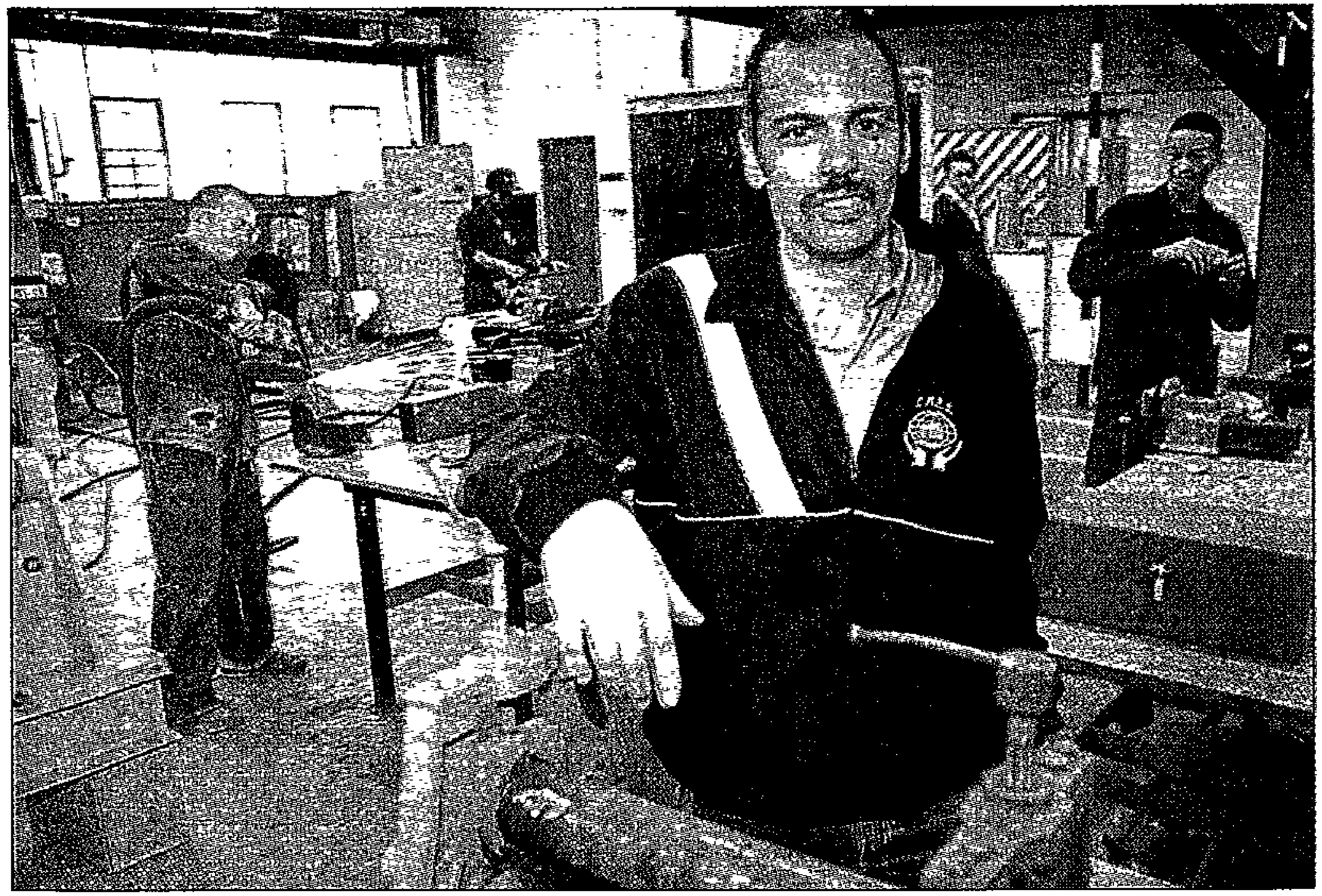
Saccol is at the epicentre of South Africa's small financial co-operative sector, representing and assisting over 3 000 members of 16 Saccos — known globally as "credit unions". Saccos countrywide have a total asset base of over R4-million, and have extended an estimated 2 600 loans.

"In South Africa I foresee a day when banks will compete with credit unions and I see a day when they will close and join the credit union movement," says Kwedi Mkalipi, general manager of Saccol.

Mkalipi first heard about the credit union movement while a political prisoner on Robben Island. "It interested me for several reasons. First, a lot of my people could not have access to commercial banks because of their poverty. They could not convince the banks that they could repay loans.

"Second, people could co-operate among themselves to collect enough money to be owners. Co-operating enabled people to buy what they couldn't buy as individuals."

"Ideologically I don't think there's anything more sound in the country at the moment [than credit unions]," says Saccol membership co-ordinator David de Jong.



Social savings club: CME Sacco chair Victor Botha and other metal workers at John Thompson Africa have access to loans up to R25 000

PHOTOGRAPH ERIC MILLER/I-AFRIKA

There are rules and guidelines Saccos must abide by in order to formally affiliate to Saccol. "We work under an exemption to the Banks Act," explains De Jong. "Our board is responsible for regulating the conduct and activities of our credit unions."

Every member votes for the board members who are responsible for managing their money. "In a credit union you are the owner of the bank," says Mkalipi.

Internationally, credit unions are thriving — especially in countries like Canada and the United States. The World Credit Co-operative Union claims a total membership of 900-million in over 50 countries. All these organisations started small. A fishing credit union, created in Canada in 1954, began with an asset base of $87. Botha notes: "But these people are talking about millions of dollars now."

Speeding up the growth of credit unions is Saccol's greatest challenge.

It took five years for the CME Sacco to grow from the original 50 members to its current membership of 420. Initially most workers were unwilling to entrust their savings to the co-operative.

But, according to Botha, after the credit unions started giving out loans, others said: "Hey, but this thing is working", so they joined.

The CME started out with a loan ceiling of R3 000. Today the ceiling is R25 000. The majority of workers at John Thompson are members. Metalworkers from other factories in the area have since joined in.

CME employs a full-time clerk, and is advertising for a business manager. Both positions will be paid for by the interest generated from savings.

Saccol is preparing to establish larger Saccos which can service entire unions, or workplaces of several thousand members. Taking a leaf from international experience, the umbrella body is also planning to form strategic alliances with banks to give Saccos access to ATMs and other services.

SOUTHERN LIFE (58)

NO CAUSE FOR WORRY — YET

FM 22/11/96

Investors and policyholders cannot be blamed for feeling uneasy after the release of Southern Life's interim results.

On the face of it, an advance of 13,6% in net premium income appears adequate. But if noncore, single-premium business is excluded, recurring premium income — a life assurer's bread and butter — rose by a meagre 5,4%, just about the lowest recurring premium income rise I can recall from any life company in the past seven years.

The 29,4% climb in net investment revenue saved the day. It came on the back of high interest rates that have ruled throughout the period and hauled the increase in total income up to an acceptable 17,9%. But no outgoings have been disclosed, so no comparison can be made between net income now and a year ago. Nor can the size of surplus increases declared in both years be weighed against each other.

A R200m taxed surplus, 28,2% higher, has been announced. But this is indicative of nothing because an actuarial valuation is made only once a year and it is policy to set interim earnings and dividends at 50% of the total of the previous year. The surplus is therefore no indicator of progress in the first half.

Then there is the unusual reduction in the value of life funds from R29bn to R28,7bn since March 31. To some extent, the marginal decline is explained by a loss of business and a reduction in market values, particularly on the JSE But, overall, it is a dismal performance that must be turned around if the company is to retain a solid and dependable image.

The appointment of Neil Cochrane as executive director: asset management in Southern Life is an important step in the right direction. For too long, Southern Life's investment performance has been below average. Cochrane's formidable task is to turn this around — fast. He recently returned from eight years in Australia, during which he masterminded the turnaround in Colonial Mutual in Melbourne and the transformation of Australian Mutual Provident Society. He has appointed international consulting group McKinsey to assist him, after working with them in Australia

At R45, Southern Life's share price has receded, along with the market, from its peak of R56 reached in June and is no higher now than it was in December.

The share price drop is not indicative of a downward rating. If net recurring premium income can show no more than a 5% gain for the year, though, investors are bound to take a hard look at prospects for this large assurer. *Gerald Hirshon*

MORE LIFE NEEDED

	Sep 30 1995	Mar 31 1996	Sep 30 1996
Net premium income (Rm)	1 832	2 265	2 082
New invest revenue (Rm)	681	934	881
Total income (Rm)	2 513	3 199	2 963
Attributable surplus (Rm)	156	235	200
Earnings (c)	87	129	108
Dividends (c)	58	58	72

NBS, Boland tie-up 'would be formidable'

AUG 26 1996

Wiese on expansion trail

58

LLEWELLYN JONES
Business Reporter

Banking and retail tycoon Christo Wiese may have found a new partner to help drive Boland Bank's expansion throughout South Africa.

Boland Bank and NBS announced yesterday that they were engaged in negotiations "concerning the possibility of a closer association and a resultant expansion of their retail distribution networks".

Boland needed to find a new partner after Dato' Samsudin Abu Hassan, the former chairman of the Malaysian company Landmarks, sold most his stake in Samgro, the holding company of Boland Bank, to Christo Wiese. This followed a potential conflict of interests arising out of Mr Samsudin's holding in Durban-based New Republic Bank.

The announcement yesterday caught analysts off guard and resulted in speculation as to what a "closer association" meant.

Chairman of NBS Cedric Savage would not comment, saying only that the Durban-based group was "considering a number of strategic alternatives".

Analysts said the association between Boland Bank and NBS presented a number of interesting options.

Most discounted the possibility of a total merger of the two banking operations, favouring rather some sort of joint venture.

"Wiese has given Boland both capital and direction, successfully moving the bank into the main stream from its regional rural roots," one analyst said.

"He wants to expand Boland into a national player, but needs a partner with financial muscle to help speed the process along and spread the risk."

NBS could be an ideal partner, complementing Boland's Western Cape-based operation with its strong presence in Gauteng and KwaZulu-Natal. NBS, for its part, would need to expand its limited (mainly home loan) product range.

"This is where Boland comes in – as one of the five clearing banks in the country, it can help NBS increase the range of services it can provide, like cheque accounts," an analyst said.

Boland has an excellent track record in providing banking services other than loans, with 62 percent of income coming from other banking products at the March year-end.

"NBS, on the other hand, has excellent systems to analyse the profitability of individual products on a stand-alone basis – the combination with Boland's expertise with non-interest products could be formidable," the analyst said.

Call for regulatory safeguards in microlending

(58) BD 27/11/96

Shareen Singh

MICROLENDING institutions planned to call on government to regulate the industry in order to safeguard clients against fraud and mismanagement of funds, Khula Enterprises finance head Sizwe Tati said yesterday.

Wholesale finance agencies Khula Enterprises and the National Housing Finance Corporation were nominated by 15 microlending institutions to formulate recommendations to regulate lending institutions falling outside the parameters of Reserve Bank regulations.

The proposals would include amendments to existing legislation, such as the Usury Act which excluded clients who borrowed less than R6 000 and the Mutual Banks Act, Tati said.

The Mutual Banks Act covered institutions with a minimum net reserve of R10m.

A regulatory framework for microlenders was necessary to protect customers against exploitation and to close the door on unscrupulous lenders, he said.

The 15 microlenders driving the campaign serviced 45 000 small entrepreneurs and 200 000 families. Between 10 000 and 12 000 new clients were flocking to microlenders every month, Tati said.

Khula Enterprises and the finance corporation serviced the same client base, Tati said.

Metlife surplus grows vigorously

(58) BD 28/11/96

Samantha Sharpe

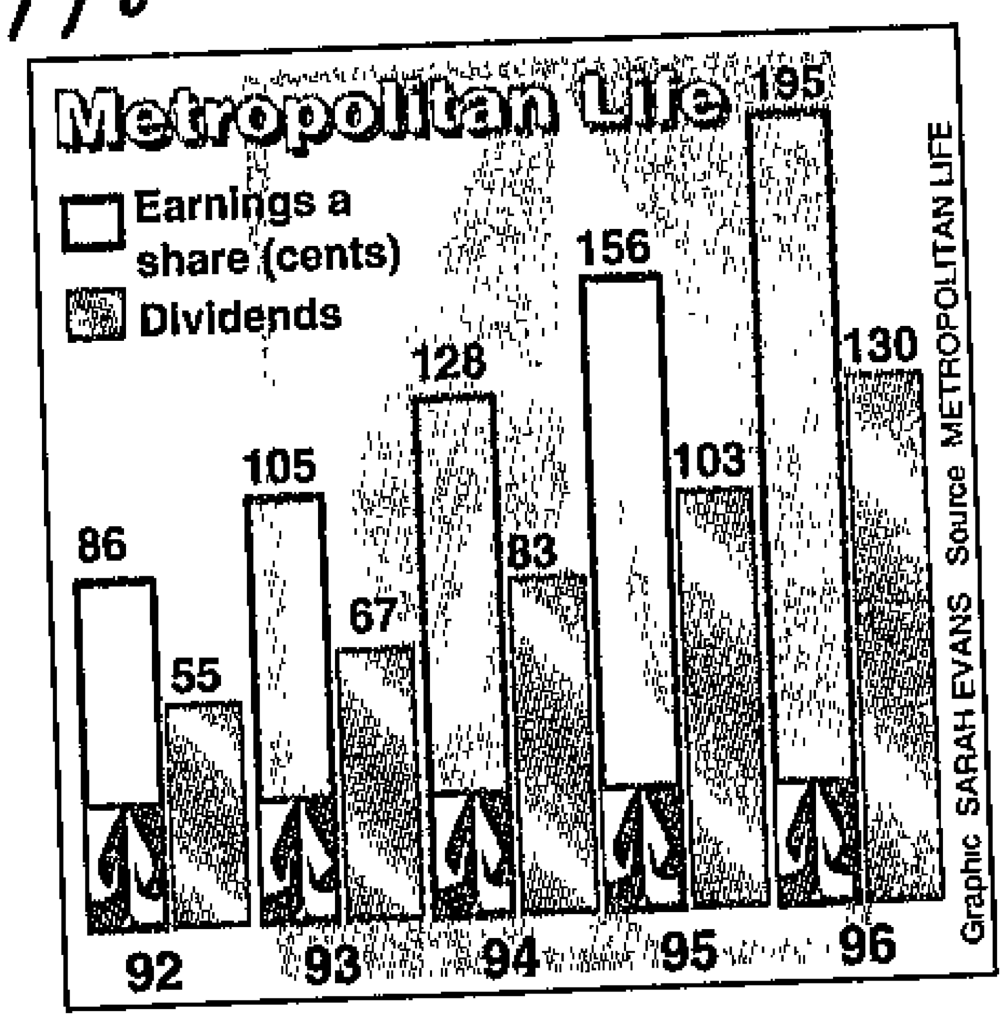
CAPE TOWN — Life group Metropolitan Life (Metlife) posted a 26% rise in attributable surplus to R134m in the year to September, buoyed by robust growth in premium and investment income.

The healthy surplus was accompanied by a 25% hike in earnings to 195c a share and a 26% improvement in dividends to 130c a share.

Following a proposed 10-for-one share split, a final dividend of 78,5c, which brought the total dividend to 130c, would amount to 7,85c.

Group MD Marius Smith said the group's premium income had exceeded the R2bn mark for the first time in Metlife's history, rising 24% to R2,1bn in the year under review. Recurring premiums grew 26% to R1,7bn, with single premiums up 15% at R321m.

"Strong support for voluntary group schemes made a significant impact on the growth in recurring premiums, (while) our solid relations with trade unions also opened up new opportunities for marketing our employee benefit schemes."



The continuing acquisition of new clients by the group's health care subsidiary MetHealth was expected to boost the employee benefits division in the future, he said.

Continued on Page 2

Metlife

Continued from Page 1 (58)

Smith said a larger asset base and an environment of high interest rates had resulted in a R695m contribution to group profits from investment income. The 30% increase was boosted also by Metlife's property investments, with strong growth in rentals from commercial and industrial properties.

The healthy premium and investment income growth was reflected in a 25% advance in total income to R2,8bn, which was accompanied by an 18% increase in marketing expenses to R369m and a 24% rise in operating expenses to R269m.

Smith said the rise in operating expenses reflected a decision to invest in new technology as part of a five-year plan to increase market share.

The increase in operating costs was on a par with the increase in premium income and the operating expense ratio was on a downward trend measured over a three-year period, he said.

On the group's actuarial statement, Smith said a R500m provision for increased bonuses to policyholders was the major contributor to a virtually unchanged actuarial surplus, including the capital adequacy requirement, of R2,2bn. As a percentage of liabilities to policyholders this slipped to 28% from 37% at the same time last year.

BD 28/11/96

Attachment 5

ABSA

58

Beating the forecasts

FM 29/11/96

A strong first half, with 38% growth in headline EPS beating most forecasts, ends the banking reporting season on a high note and places SA's largest banking group firmly among its peers.

These results, free of the funnies that distorted earlier financial statements, must indicate that problems associated with the merger are now in the past.

Even a R198m profit on the sale of half the interest in furniture retailer JD Group has been fully disclosed — and put to good use by increasing depreciation on computer systems by R120m and beefing up bad debt provisions, particularly prudent after last week's rise in Bank rate.

Danie Cronjé

Problem areas remain: the cost ratio, falling but still too high at 68,3% of operating income, must be tamed; and market share has been lost, seen in the relatively slow 13,5% increase in advances. But executive director Alwyn Noëth says that both areas are being addressed.

If the profit from JD is stripped out, other operating income gained a respectable 22,4%, similar to net interest.

Noëth says that this comes from a number of activities — including insurance, trading and fee income — all moving in the right direction rather than a single large factor. That suggests growth in non-interest income could be sustainable.

Last Friday's interest rate increase is positive for Absa in the short term. Its book is positively gapped, allowing the bank to do comparatively well in a rising interest rate cycle. "But the increase will further suppress demand for credit (which is what Reserve Bank Governor Chris Stals wants) and increase the incidence of bad debts," Noëth says.

Before the interest rate rise, Absa was expecting a rate cut in the second half of next year. Noëth believes that the next movement will be down — and could come sooner than previously expected.

Operating costs, which increased 21% to R2,97bn (or by 16,1% if the once-off accelerated depreciation is excluded), are being tackled on a number of fronts.

"We plan to get the percentage down to 65% of operating income by 2000 and then work it down further," Noeth says. Apart from improving efficiencies where possible, Absa plans to keep staff numbers flat while growing the business.

One area targeted is cutting administration positions out of the branches, replacing people with technology and converting administration jobs to sales jobs.

Noëth is not happy about losing market share — which fell across the board but most notably in mortgages, which make up more than 50% of the book.

"We have taken corrective action, concentrating on improved turnaround times and client service. But we won't chase assets at any cost — we don't want to jeopardise the quality of the book."

When results were published on Tuesday, Absa's share price gained nearly R1 to R24, significant in a weak market still shaky after the interest rate increase. Over the past year, the share has firmed about 33%.

CE Danie Cronjé cautions that full-year earnings growth will not be as strong as the interim. Still, Absa seems on course for an increase in EPS of at least 25% — which on current ratings puts it, together with Nedcor, as the large banking shares offering the most value. *Shaun Harris*

RETURN TO RESPECTABILITY

Six months to	Sep 30 1995	Mar 1 1996	Sep 30 1996
Net interest income (Rbn)	2,16	2,46	2,65
Operating income (Rbn)	1,22	1,29	1,69
Attributable (Rm)	515	615	595
Headline earnings (c)	73	105	101
Dividends (c)	21,5	37,5	27,0

CG SMITH

Making spending pay

Earnings showed strong real growth in financial 1996, though management emphasises that most of the businesses in the group saw little growth in sales volumes

Restructuring of the major subsidiaries, hefty capital spending, benefits from joint ventures, the rand's depreciation and recovery in the agricultural sector were among the more important factors that enabled CG Smith to lift its operating profit by 12% in the year to end-September

Chairman Derek Cooper says volumes in the food, pharmaceutical and packaging activities grew only by about 2%, down from roughly 5% in the first quarter. The financial year started well, but consumer spending fell sharply and remained depressed until a "modest" improvement was seen in the final quarter.

LITTLE VOLUME GROWTH

Year to September 30	1995	1996
Turnover (Rbn)	23,60	26,18
Operating profit (Rbn)	2,01	2,30
Net income (Rm)	597	800
Headline earnings (c)	132,9	156,5
Dividends	48	56

The overall operating margin nonetheless widened to 8,77% (1995: 8,67%). Given this group's huge turnover, R26,18bn after rising 11% in the latest year, even a small increase in margin can have a large impact on profit.

This provided a solid underpin to the bottom line — headline earnings grew 18% and the dividend 17% — though favourable movements in nontrading items also helped. Reflecting the rising liquidity despite investments exceeding R1,7bn, net investment income was a positive R20,8m after a R35,3m charge in 1995. And the effective tax rate dropped from a full 36% to 30,1%.

Consumer spending is expected to remain muted, and Cooper says management is not looking for any significant change in overall volume growth in the current year. The exception would be the pharmaceutical interests. Benefits are expected from the merger with effect from May this year of Tiger Oats subsidiary Adcock Ingram with Premphann.

Weak demand implies CG Smith will have to continue to rely heavily on its own efforts. This will mean further heavy spending, and more of what Cooper calls the "drive to become more competitive."

For a number of years, a systematic restructuring process through the group has been apparent. It has been most evi-

Banking groups jostle for position in giant deal

BT (BT) 1/12/96 (58)

The group would be just below Nedcor in size if a tie-up were to occur, writes HEATHER FORMBY

A DEAL involving three of South Africa's largest financial services groups — NBS Holdings, Rand Merchant Bank and Boland Bank — could be concluded by mid-December.

NBS Bank executive director Paul Leaf-Wright said a decision on a deal between NBS Holdings, Boland Bank and its holding company Samgro will be made over the next few weeks. Rand Merchant Bank's role will then become clear.

Discussions have been taking place on the possible structure of a closer relationship between NBS Holdings and Samgro/Boland, and on RMBH's involvement in the proposed new financial services group.

The variations are numerous and the result could be anything from a strategic alliance to a full-blown merger. Boland Bank chairman Christo Wiese flew to Durban on Friday to meet with NBS executives, presumably to discuss the deal.

Some say the broader deal has already been finalised and only the details have to be agreed upon.

On Monday, Samgro and Boland issued a cautionary following one issued previously by NBS Holdings. Then, on Thursday, RMBH issued a cautionary indicating its involvement in the deal.

The three groups have been discussing the best ways to align their various interests and it is this which has complicated the final structure. NBS Holdings has remained fiercely independent and, because of its profitability, has seen no need for a partner.

No shareholder has a significantly larger stake than the others — NBS's largest shareholders are RMBH with a 20% stake and Norwich Holdings with 21%. NBS Holdings, in turn, wholly owns NBS Bank, NBS Life and NBS Insurance, and has a 25% share of Norwich, 20% of RMBH and 38% in African Bank.

NBS Bank has a 47,5% stake in short-term insurer, Aegis. It is the cross-holding NBS Holdings has with RMBH and Norwich which could be the basis of a closer relationship between the three parties.

Samgro Holdings is controlled by Wiese (76,1%) with the rest in the hands of Board Of Executors "and minorities" which hold 23,9%. Samgro has 61,7% of Boland Bank Holdings which in turn wholly owns Boland Bank.

It is likely that Samgro, now just a holding company, will have a new, more significant role to play in the combined group.

CHRISTO WIESE

In terms of capital, NBS Bank is the country's sixth largest with capital and reserves of R1,2-billion at end-September and Boland seventh largest with R1-billion, according to the latest DI900s, banking industry statistics compiled by the Reserve Bank. The combination of these two would mean a banking group larger than Investec and one below Nedcor. If Rand Merchant Bank comes to the party, combined capital would increase by R517-million.

Each of the three banks has something the other doesn't have, so the overlap will be far less than that in the merger which resulted in Absa. Probably Boland Bank's most sought-after asset for NBS is its clearing licence, something which only the four majors have. Boland acquired its clearing licence when it bought Stellenbosch Distriks Bank in 1992. Using this, NBS Bank will be able to offer a cheque facility to its clients.

NBS Bank has stuck to niche banking. Since its listing in 1987, it has moved from its core home loan business (which made up about R11-billion of its R15-billion or so advances at March year-end) into corporate lending, wholesale funding and life assurance. Boland operates mostly in the Cape in the small- to medium-sized corporate market and the retail market. RMB has strong merchant and investment banking capabilities. RMB MD Paul Harris attended a board meeting on Wednesday where the tie-up was discussed. It's likely only the banking interests of RMBH, if any, would be involved in the new grouping.

BANKING *Colin Franks's mission to rebuild the shattered African Bank*

Keeping a 30-year-old African dream alive

(58) CT (BR) 3/12/96

DUMA GQUBULE

Colin Franks, the managing director of African Bank, is aware of the responsibility that rests on his shoulders six months after the bank emerged from curatorship. Franks's burden is to keep a 30-year-old African dream alive.

"It's quite scary," he says.

The dream was in tatters when he became managing director almost a year ago. African Bank was in curatorship. About a third of its R600 million loan book was not perfoming and a lot of fraud had been uncovered.

Franks's first task was to reverse the culture of hopeless management and lax financial controls. So far 30 managers have been dismissed.

To rebuild the bank, he had the help of a R120 million capital injection from an NBS Bank-Nail-Metlife consortium. The government, which had deposits of more than R260 million in the bank, used the money to underpin the non-performing loans which the bank is still trying to collect. In return, it received a 15 percent stake in the bank. Franks also recruited about 10 managers from NBS Bank, which has a five-year management contract.

***BROAD SHOULDERS** Colin Franks, managing director of African Bank*

PHOTO JOHN WOODROOF

The outcome was the orientation of the bank to focused savings and loans with a dominant presence in large rural towns.

African Bank's capital is about 30 percent of its R400 million total assets.

Franks appears confident of the bank's ability to attract retail deposits. "Our client base (of 100 000 retail savers) has remained intact. We even took new deposits during curatorship.

"We expect to double our retail deposits. This will be possible once it becomes clear we are not only trading on our goodwill, but on sound banking practices.

"There is no reason why we cannot attract savings. We are not focused at the very poor. Our clients are middle-income people with jobs."

On expanding loans and advances, Franks is cautious. He says bad debt on home loans — the bank's area of focus — is within banking industry norms.

"There is a huge misconception that we operate in risky areas. We do not have much of a presence in the metropolitan areas with a culture of non-payment. The non-performing loans were mostly in the area of working-capital business loans.

"They were advanced without the required training and aftercare. A lot of these bad loans were channelled into non-performing assets like cars."

In future, Franks says, growth in advances will be asset-based. The bank will also target bulk advances, for example, large housing schemes underwritten by companies or large corporate transactions with less risk.

"I could advance more loans (of about R400 million) and show a profit very soon. The problem is that we could pick up bad business. Growth in advances must be responsible and secure. We must not chase short-term profits at the expense of long-term sustainability."

It could be a while before the shareholders get a decent return on their investment.

The bank has budgeted for an operating loss of about R14 million for the financial year to March 31, but Franks says it could be much less than forecast.

New car accident plan could hit motorists hard

58

THABO LESHILO

Johannesburg — Changes to the multilateral motor vehicle accident fund (MMF) proposed by the government could lead to a dramatic increase in car insurance premiums, Ronald Bobroff, a lawyer specialising in personal injury, said yesterday.

Bobroff, a critic of the government's draft White Paper on the MMF and a member of the Motor Vehicle Accident Fund (MVA) of the Association of Law Societies of South Africa, said the proposed policy included placing a ceiling on the amounts paid to victims of vehicle accidents.

The transport department has said the present scale of benefits paid by the fund, which has an actuarial deficit of R7,4 billion, is unsustainable.

Bobroff said motorists would have to obtain special personal injury insurance to cover themselves against claims for damages from accident victims. They would also have to buy additional cover to ensure adequate cover for themselves for medical expenses and any loss of earnings.

He said there was no reason to change the fund, which was funded through a levy of 10,5c a litre on the fuel price. It would be more cost-effective to double the fuel levy, which costs the average motorist about R350 a year.

Johan Oudshoorn, the claims executive of the MMF, said it was too early to speculate about possible effects on insurance premiums

CT(BE) 4/12/96

Coovadia out, Unibank takes over

(58)

Sowetan 5/12/96

By Isaac Moledi

Struggling Community Bank concedes fight

CAS COOVADIA, the executive trustee of Community Bank, is among several staff members of the embattled bank who have been retrenched following the official takeover of the bank by Unibank.

The retrenchment of the former chief executive, who has been with the ailing bank since it was formed more than two years ago, foreshadows major restructuring at the cash-strapped bank.

Community Bank, placed under curatorship in May this year after it experienced a liquidity problem, was officially taken over by Unibank to the tune of R50 million.

Wholly-owned subsidiary

Curator Stewart Patterson, announced yesterday that Community Bank had become a wholly-owned subsidiary of Unibank Limited.

"The curator of the Community Bank is pleased to advise that an agreement has been reached with Unibank to acquire the total interest in Community Bank from December 1 1996," said a statement from Patterson's office yesterday.

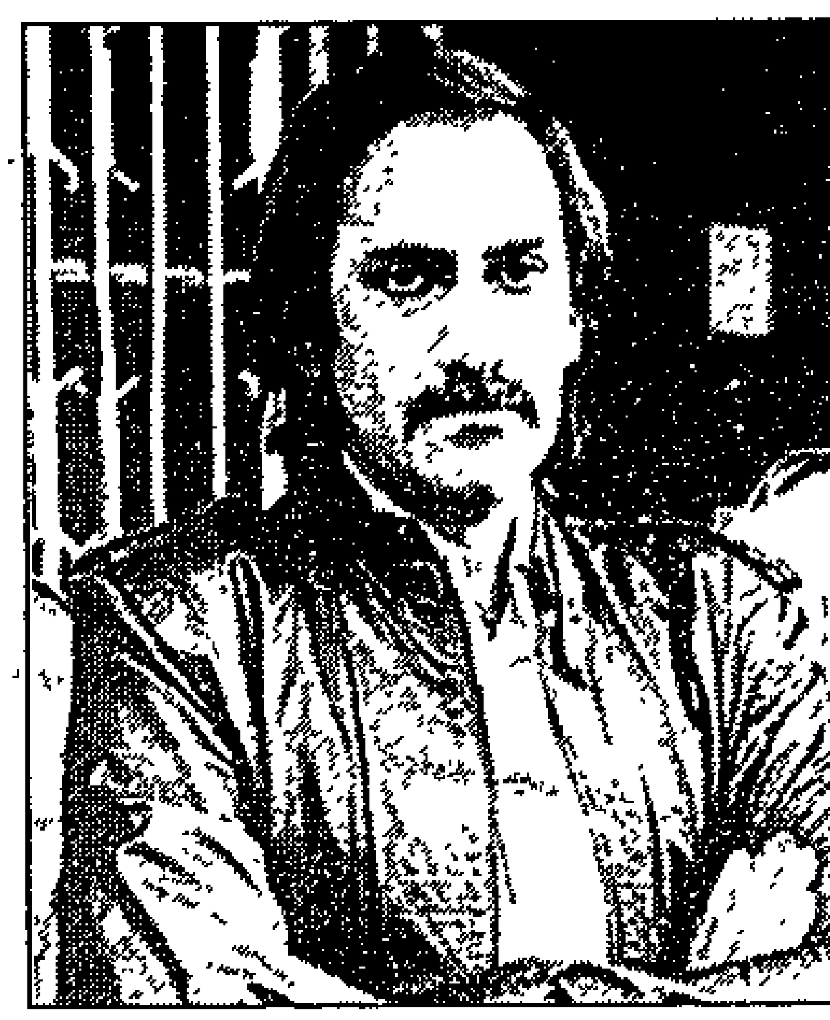
Sources within Community Bank said the takeover of the bank by Unibank, which operates as a niche bank providing deposit-taking and asset-based finance activities, put the concept of community banking in jeopardy and "signify major things to come".

Among those retrenched

Coovadia, who is the executive trustee of Community Bank, told *Sowetan Business* yesterday that he did not resign from the bank but was among those who had been retrenched.

Several attempts to solicit a response from Unibank and to find out how many people had been retrenched did not succeed as the bank said on several occasion that it was bound by a confidentiality clause.

Although Patterson said Unibank would still involve itself, among other things, in low-cost housing development, which has been the core function of Community Bank, there were some doubts within the Community Bank.



OUT ... Cas Coovadia

'Although Unibank would still involve itself in low-cost housing, there are some doubts at Community Bank'

In terms of the agreement, the R50 million purchase price which is based on net asset value, "is subject to an adjustment account to be determined by November 30 2001, which will deal with differences arising on the realisation of assets and settlement of contractual obligation".

Out of 17 Community Bank branches, only five of them; the Johannesburg, Benoni, Mitchells Plain, Athlone and Butterworth branches, will continue trading.

The Rustenburg and the East London branches will remain open, pending assessment of their viability.

Community Bank now a subsidiary of Unibank

(58) ARG 5/12/96

Johannesburg – Unibank has acquired the total interest in Community Bank with effect from December 1, the Curator of Community Bank, Stewart Patterson, said in a statement.

Community Bank will become a wholly owned subsidiary of Unibank and would continue to be involved in low-cost housing development.

The purchase price was based on net assets and was set at R50-million, subject to an adjustment account to be determined by November 30 2001, which would deal with differences arising on the realisation of assets and settlement of contractual obligations.

Investors holding Permanent Interest Bearing Shares, savings accounts and other depositors would be settled in full, the statement said. – Sapa

Unibank acquires Community

CT (BR) 5/12/96

NANCY MYBURGH
FINANCIAL SERVICES EDITOR

Johannesburg — Unibank has acquired Community Bank for R50 million, a price subject to an "adjustment account" to be determined in five years' time, Stewart Patterson, Community Bank's curator, said yesterday.

Community's depositors and members of the public who owned Permanent Interest Bearing Shares "will be settled in full in due course", Patterson said.

The announcement ends speculation on Community Bank's future and is likely to inflame critics of its sale to a commercial bank, such as Cas Coovadia, its former executive trustee.

Community was founded in 1994 with state and private funding to target the low-cost housing market, but was placed under curatorship in May in the face of losses reportedly worth R50 million, and the withdrawal of R70 million of funds from some of its original backers.

Coovadia said on Tuesday that he would not work for Community once it was taken over by Unibank, which is owned partly by First National Bank, Fedsure and Yabeng, an investment company.

Though Community Bank was dedicated to intensive methods of "building of capacity and development of communities, I can't see a commercial bank doing that. I hope I'm wrong," he said.

Coovadia has called for an injection of funds from the state and private sector to help the bank continue on its own after its restructuring.

Patterson said Unibank would retain five of Community's original 17 branches and offices, which would trade under Community Bank. The Rustenburg and East London branches would remain open pending further analysis.

☐ Business Watch, Page 16

Old Mutual goes north

(58) M+G (BM) 6-12/12/96

Lynda Loxton

SOUTH AFRICAN financial institutions are honing their investment skills in preparation for the lifting of the remaining exchange controls.

More and more are taking advantage of the provision allowing them to invest 10% of their assets offshore by launching innovative funds that enable investors to gain exposure to foreign assets via their normal insurance policies or unit-trust investments.

"Although asset swaps do not represent an ideal mechanism through which South Africans can diversify their savings internationally, they are nonetheless playing a role in enabling some diversification of investments," says Old Mutual chair Mike Levett.

New products included the Old Mutual's Worldwide Equity and Worldwide Balanced funds, which had, for the first time in 30 years, given South African investors the opportunity to gain exposure to foreign investments.

In the area of employee benefits, the new International Asset Portfolio has been launched. This is a unitised portfolio consisting of stocks from the Morgan Stanley Capital International World Index and by June this year it had a portfolio of R355-million.

Old Mutual had also launched a Global Equity Fund, which has taken "line honours among international unit trusts, providing a 33,4% return for the year ended June 30 1996".

But Old Mutual was not only concentrating on markets abroad, Levett said. It was firmly established in Namibia, Zimbabwe, Kenya and Malawi as well and was considering "selective expansion into other markets".

Digging deep: 'We recognise the need to reach people on the ground'

Shift at Land Bank

M+G(PM) 6-12/12/96 (68)

Government moves are giving impetus to changes in rural financing, reports **Madeleine Wackernagel**

THE transformation of the Land and Agricultural Bank gained momentum this week with the announcement by the Ministry of Agriculture and Land Affairs, Derek Hanekom, that it would in future fall under its jurisdiction, rather than that of the Ministry of Finance.

The move is in line with recommendations made by the Strauss Commission, tabled in September, which also envisaged a new board in place by the beginning of this month.

But, says Dr Helena Dolny, adviser to Hanekom, transformation of the Land Bank was not, understandably, a priority for the finance ministry. Now that the anomaly has been sorted out, the will is there to enforce significant changes at the bank.

Hanekom has accordingly extended the deadline for appointing a new board until the end of March next year.

Dolny points to the experience of the Development Bank of Southern Africa as a good example of how to enforce transformation. "Until the new chief executive, Dr Ian Goldin, took charge, little real change took place at the bank. It may not be as important to replace the entire management, but change has to come from the top."

The Land Bank has already shifted its emphasis to include emerging farmers while maintaining its existing operations to fund commercial farmers. But there is no question of subsidies, says the bank's Karl Ehrenberg.

"Unless the government steps in to provide a grant to get a certain sector off the ground, we will carry on lending money in the usual way, providing wholesale financing through intermediaries.

"We do, however, recognise the need to reach people on the ground, so we have some challenges ahead to come up with innovative solutions.

"One of the Strauss Commission's recommendations was risk-sharing. We have already relaxed certain loan criteria but we need to do more to help the emerging farmers."

Dolny believes a risk guarantee scheme, whereby the government would stand surety for a certain amount of debt if a borrower defaulted, would help to speed up the process of reaching deep into the rural areas. Overseas experience indicates this is the most efficient route.

In addition, the bank should encourage stronger ties with non-governmental organisations, traditionally well-represented in the poorest sectors of the community.

But there is no question that the bank has an important role to play, says Dolny. It has an extensive network of branches, albeit concentrated in the traditionally white farming areas, and makes a profit on its lending. "Agricultural co-operatives would no doubt jump at the opportunity to buy the bank if it were put up for sale, but it's doing its job properly, so why give it away to the private sector?"

It has until April Fool's Day to prove her right.

RURAL SAVINGS (58)

NOWHERE TO GO

FM 6/12/96

For the rural poor, access to credit is difficult, though nongovernmental microlending agencies are helping to meet the demand.

But access to savings facilities is equally difficult. "Saving has rightly been called the forgotten half of rural finance," writes development economist Marguerite Robinson.

"Saving is an important part of developing communities. People need access to facilities," says Small Enterprise Foundation director John de Wit.

And microlending is dependent on the formal banking sector, because all loan disbursements and repayments are routed through the banking system. And as part of many programmes, borrowers are required to start saving regularly.

But now microlenders say the commercial banks are excluding them and their clients by removing access to savings facilities.

For example, Peoples Bank has placed a minimum initial deposit requirement of R1 000 on its club accounts.

And many banks won't allow savers to open an account without proof of employment, which excludes anyone with their own informal sector business.

The club account is for group savings, and was originally designed for stokvels. It suits Grameen Bank style group lending, where, for example, five women club together to borrow and save.

Peoples Bank assistant GM Richard Dingle says: "We're testing the water with the R1 000 minimum. It's not an unrealistic requirement for a group. We've found accounts below that level are not economical. The highest volume of transactions takes place at the R1 000 level." But in areas like Tzaneen or Phalaborwa, where unemployment is about 50%, farm labourers earn as little as R200 monthly, and informal sector workers often earn about the same.

De Wit says: "It's big exercise to get people who haven't banked before to go to the banks, because they feel they aren't wanted as customers. And it's hard to get the first R50 together to start the account — R1 000 is impossible."

Says Deloitte & Touche development finance expert Gabriël Davel: "Commercial banks don't believe they are able to take these savings efficiently or profitably. They are following international trends in focusing on the high value customers and, as their cost structures are high, they are working hard to get costs down. That means moving away from unprofitable savings accounts."

In Tzaneen, a First National Bank employee says. "We've asked savers to produce a payslip for some time. Otherwise people open an account and they don't use it. After about two months we have to close it. That's what we're avoiding."

Gabriël Davel

Several microlenders say the banks were quite accommodating when approached on behalf of clients but, says De Wit, this doesn't help the people who have no-one to intercede for them.

"We're moving all our clients over to the post office," says De Wit. "Postbank has been criticised about the low rate of interest it pays on savings accounts, but that doesn't matter. If it had to pay a higher rate it might also impose a large minimum balance, and that avenue would also be closed to savers."

Then, says De Wit, microlenders would be forced to approach the Reserve Bank for permission to start taking deposits.

An Internet discussion group reports that in Mozambique, market based moneylenders actually charge interest to hold savings — indicating the strength of demand for the facility.

"The argument that people in developing countries don't have surpluses available for saving is generally untrue," says Davel. Robinson concurs: "During the Seventies and Eighties, substantial household savings were reported from rural areas of developing countries."

Davel says: "The demand for appropriately structured savings products and instruments is not being met. This is proved by the existence of entities like Sun Multiserve, and a number of illegal banks specialising in deposit mobilisation at the low end of the market." ■

Community Bank 'no longer for poor'

(58) Sowetan 10/12/96

By Isaac Moledi

Unibank has assets that have grown to more than R1 billion

COMMUNITY BANK WILL no longer be the bank for the poor, says Unibank managing director Gerrit van der Merwe.

Van der Merwe also says his bank welcomes all the Community Bank depositors who want to withdraw their money from the bank.

In places where the branches have been closed, he says, depositors and mortgage bond holders should refer their inquiries to the nearest open branch.

He says although the provision of money for low-cost housing will be part of the bank's operations, the seven Community Bank branches they have acquired will be an extension of Unibank's activities and will be run on the same lines as any other commercial bank.

These developments come a few days after Unibank had acquired Community Bank for R50 million, ending speculation about the bank's future.

But the purchase of Community Bank by Unibank has also raised some concerns among communities who were dealing directly with the bank, including former executive trustee Cas Coovadia, who questions whether a commercial bank will be able to advance the community banking concept.

Unibank, one of the youngest banks but the 11th in the country, was founded in 1990. It has assets that have grown to more than R1 billion.

Its business is grouped into two broad categories – assets-based finance and co-branded credit cards.

Van der Merwe says unlike before, when Community Bank was able to provide housing loans worth not more than R30 000 and personal or business loans of less than R15 000 to individuals, the direction to be taken by the bank's branches will be different.

'We have no intention of becoming the bank of the unbanked masses'

Common purpose

The bank, he says, will be changed from being a mutual bank to an equity bank – to enable it to raise enough deposits in the marketplace to operate as a respected and viable bank. This will mean that people will invest directly and have shares.

Regarding loans Van der Merwe says the bank will no longer offer loans to individuals, but to groups and associations with a common purpose and business plan. The assistance will range from R20 000 to R250 000.

The only individuals who will receive the loans are members of the trade unions through a scheme the bank started with leaders of the South African Municipal Workers Union and the Independent Municipal Allied Workers Union. The loans are up to R5 000.

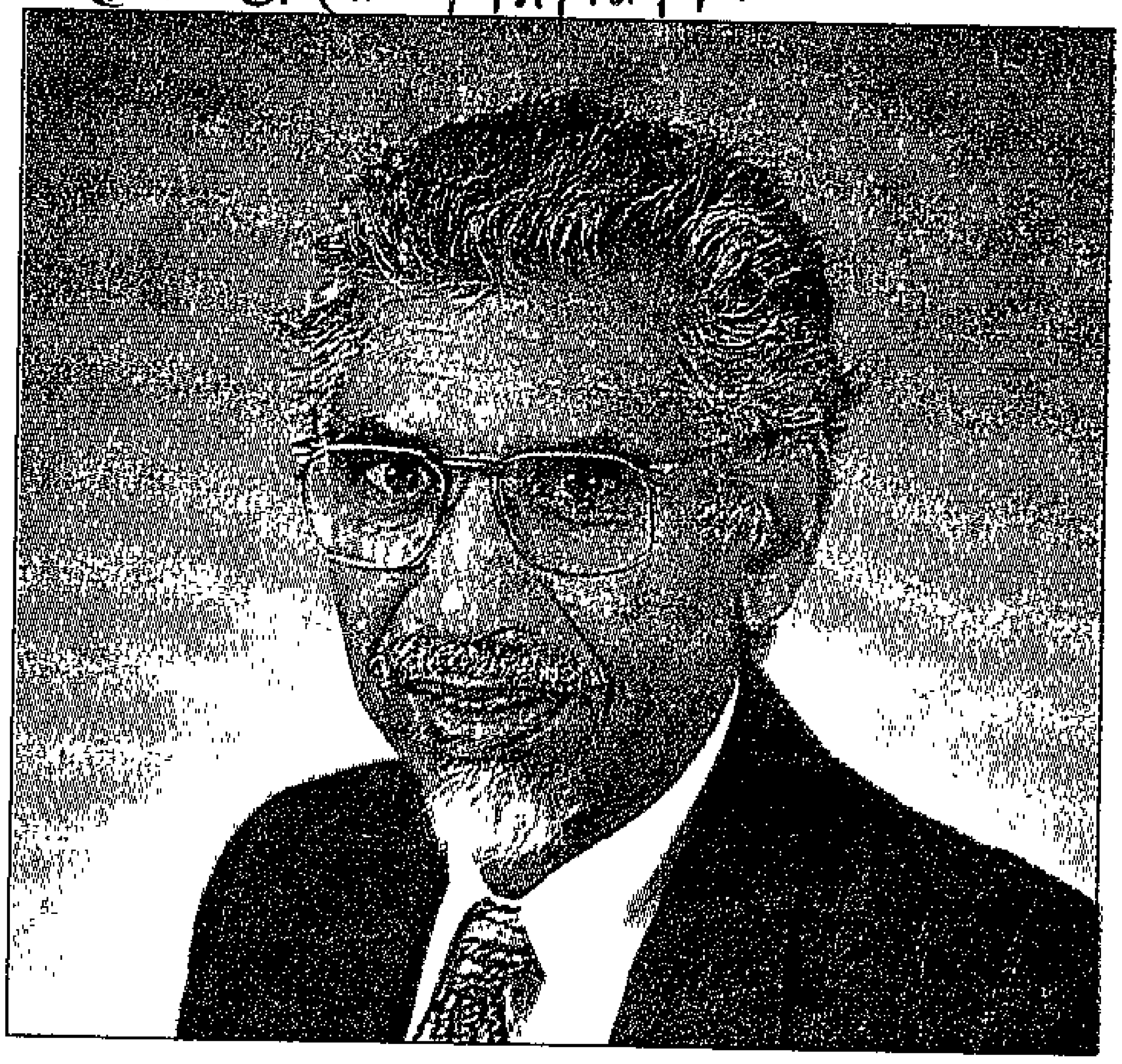
Community Bank was formed in 1994 with funding of more than R130 million from the private sector, individuals and the state to target the low-cost housing market. The bank was, however, placed under curatorship in May this year after a liquidity problem and the withdrawal of R70 million of funds by some of its original backers.

Apart from Community Bank having loaned nearly R90 million in the last two years to low-income communities, the bank reported an accumulated loss of more than R53 million as at March 31 this year. This was followed by another loss of about R9 million in six months up to September.

Row over motor accident fund

(58) CT (DR) 12/12/96

THABO LESHILO



PUSHING FOR CHANGE *Transport Minister Mac Maharaj*

Johannesburg — South Africa's poor are at the centre of a row between the government and lawyers over the dramatic changes proposed for the Multilateral Motor Vehicle Accident Fund (MMF).

Mac Maharaj, the transport minister, argues that the proposed changes to the fund will benefit the poor, most of whom are black, while the lawyers say the argument is a ploy to have the draft White Paper on the MMF, which proposes the changes, passed into law.

The minister, the transport department and the MMF's management argue that by enabling the unemployed to claim for a loss of earnings for the first time, the planned changes will benefit many blacks, who also constitute most of the unemployed.

The government says the changes to the fund, which place caps on benefits, are necessary to make the fund viable and enable the poor to benefit. The fund has a liability of R7,4 billion but assets of only R1 billion, a shortfall of R6,4 billion.

It says capping benefits can be implemented selectively to reduce the impact on those with the greatest needs.

In terms of further proposals still being considered, the caps include limiting payments to the dependents of breadwinners who die in vehicle accidents to between R100 000 and R200 000.

The draft White Paper, a second draft of which is still being considered, states that at least 85 percent of the economically active population earns less than R30 000 a year and that the proposed R2 500-a-month maximum sum, indexed for inflation, to be paid to the permanently disabled for the rest of their lives, is enough to fully compensate the vast majority of the population.

Willem Swanepoel, the chief executive officer of the MMF, says the current system is biased toward high-income earners — the more you earn, the more compensation you get.

The system places a limit of R25 000 for passengers' claims. The government wants the limit scrapped and all victims to be eligible for the same proposed benefits for loss of income. These would pay the unemployed R1 000 a month, those who are employed but have no tax documentation, R2 000 and those with proven employment, R4 000. The money would be paid for a maximum period of 18 months and indexed for inflation.

However, Ronald Bobroff, a personal injury lawyer, says the draft White Paper is a "cynical document which, while masquerading as being in the interests of the poor, would, to a great extent, have the opposite effect".

He strongly criticises the plan to place a cap on benefits. "Irrespective of a victim's pre-accident income, compensation for lost income would be limited to R2 500 a month for the rest of their lives."

Bobroff says the R800 000 cap placed on medical treatment is too little and would deny victims "First World" treatment. "A paraplegic would probably be condemned to death if any serious infection were to set in after the first few years' treatment exhausted the R800 000."

He argues that the government can simply double the fuel levy to raise the money required for greater benefits.

Volkskas raps rural financing proposals

Louise Cook BD 17/12/96 (58)

THE Volkskas Agricultural Business Unit has warned of shortcomings in the Strauss commission recommendations on rural financing.

The fact that commercial banks would not be represented on a proposed development board would create a "very uneven playing field" in financing, it said.

The commission was awaiting Cabinet acceptance of its report on rural financing, released in September. It recommended that the "co-ordinating role for effective rural development should be vested in a development council to be established and chaired by the finance ministry".

In the latest Agricultural Perspective, Volkskas said that if the Cabinet accepted the recommendation, commercial banks would not be involved in the decision-making process on matters such as subsidies and "other special measures".

The publication said indications were that institutions represented on the new board — the Development Bank of Southern Africa, Industrial Development Corporation, Khula Enterprise Finance, Land Bank and the National Housing Finance Corporation — would have access to finance funds of R5bn a year. If transaction costs, interest and administration costs were added, competition with commercial banks would be distorted even further. The Strauss commission, set up by the then land affairs minister Derek Hanekom, said the development council should co-ordinate the activities of development financing institutions, the introduction of a rural development policy and upgrading of infrastructure.

Other important recommendations included making government funding available to the Post Office to offer linked accounts, the transformation of the Land Bank into an agent for the agriculture and land affairs departments and the scrapping of the Agricultural Credit Board.

The Land Bank has meanwhile extended its role to cater for land reform and emerging farmers. Hanekom said he would appoint the bank's new board of directors on March 31.

Luthuli's widow

BANKING IN DEVELOPING COUNTRIES

BID TO REDUCE THE RISKS

(58) FM 20/12/96

Banking problems in transitional and developing economies have cost the public about US$250bn over the past 15 years, an IMF study reveals.

The high cost of rescuing banks in distress and the Mexican financial crisis of late 1994 and early 1995 "have focused world attention on the risks posed by banking sector problems," former deputy director of the IMF research department Morris Goldstein said at a recent IMF seminar.

Goldstein, who is now a senior fellow at the Washington-based Institute for International Economics, and colleague Carmen Reinhart are studying the effect on the banking system of:

❑ A real exchange rate appreciation which lowers the profitability of exports and often precedes losses on unmatched currency positions;

❑ Falling equity prices which reduce the net worth of companies and the collateral underlying bank loans; and

❑ A rising ratio of monetary aggregates to international reserves.

These are early warning signs of impending trouble in the banking sector.

There are several definitions of what constitutes a banking crisis. Goldstein identified an increasingly popular one: when the capital of the banking system is essentially exhausted — with nonperforming loans of at least 15% of total loans and the public resolution cost equivalent to at least 5% of GDP

The primary causes of banking crises in developing countries were:

❑ External and domestic macro-economic volatility. The main elements were sudden adverse changes in terms of trade and wide swings in international interest rates, real exchange rates and growth and inflation rates,

❑ Lending booms characterised by rapid increases in bank credit growth and unsound financing during economic expansions;

❑ Rapidly increasing bank liabilities when there are large mismatches relating to liquidity, maturity and currency;

❑ Inadequate preparation for financial liberalisation which leaves bank supervisors to face new risks before the supervisory and regulatory framework is securely in place;

❑ Heavy government involvement in the banking system and loose controls on connected lending (loans extended to banks' owners or managers and to their related businesses),

❑ Weaknesses in accounting, disclosure and legal frameworks which hinder the operation of market discipline and effective banking supervision;

❑ Distorted incentives such as pressures for regulatory forbearance, created by insufficient political protection of bank supervisors and the absence of suitable financial incentives for bank owners, managers and depositors to avoid excessive risk, and

❑ The exchange rate regime. A currency board or fixed exchange rate regime, for example, can constrain the exercise of the lender of last resort function by the central bank

Goldstein is working on a set of international banking standards. Existing guidelines, he says, are too narrow and relate mainly to the circumstances of Group of 10 industrial countries.

New banking standards, he adds, should be voluntary. Market pressures would persuade countries to become signatories. Adherence to banking standards would not eliminate crises but would mitigate their severity and frequency. ■

FINANCE - GENERAL

1997

R104m deal yields new black bank

(58)

Nancy Myburgh

CT (BR) 6/1/97

Eastern Cape-based Citizen Bank, a subsidiary of JSE-listed Citizen Bank Holdings, which is jointly controlled by black investment group Thebe Investment Corporation and First National Bank, announced on Friday it had bought Bophuthatswana Building Society (BBS) for R61,6 million, and FutureBank for R42,1 million.

This confirms plans announced in July to merge the three to a black-controlled banking group and to have First National Bank as a strategic banking partner with 25 percent equity interest in Citizen Bank Holdings (CBH).

"If the acquisitions had been effective for the full financial year ending March 31 1996, attributable earnings would have been R10 million higher at R16,4 million, compared with R6,4 million," said Vusi Khanyile, the chairman of CBH. The R6,4 million had represented an 84,3 percent drop on the previous year's result.

Stokvel denies that directors have fled with investors' funds

Star 17/1/97 (58)

By Patrick Phosa

Directors and managers of the informal savings scheme Sun Multi Serve (SMS) have not fled with millions of rands from the scheme's coffers to enrich themselves, says SMS general secretary Nicholas Neniels.

He was responding to weekend reports that said SMS directors and managers had milked millions of rands from the scheme.

The reports claimed the scheme's funds had been laundered into expensive houses and properties used by the scheme's directors and their associates.

SMS is a scheme which promised its investors a 300% return on their investments when it was established in 1995. Its accounts were frozen by the registrar of banks after investigations indicated the scheme had contravened the Banks Act. The act stipulates that a stokvel should not have funds exceeding R9,9-million. SMS had R46-million.

After protracted negotiations between the SMS and the Reserve Bank, the funds were released and the scheme had to be reconstituted under 28 individual branches.

Addressing a press conference in Johannesburg yesterday, Neniels said the directors used their own money to buy the houses, which are located in Safari Gardens, a posh suburb outside Rustenburg.

Neniels said the directors and managers received a handsome monthly salary which they might have used to buy the properties.

One of the scheme's directors, Lazarus Phage, did not comment on the allegation that he had used the scheme's funds to buy 10 minibus taxis, two luxury cars and a house.

About 200 disgruntled investors in Rustenburg are taking legal action to have the scheme liquidated so that they can recoup their money.

The Office for Serious Economic Offences said possible charges of theft and contravention of the Banks Act might be brought against the directors and managers if they were found to have stolen the money.

Deloitte and Touche accountant Fred Mare – an assistant manager for the scheme after the freezing of the accounts – said the houses and cars would be sold to pay back the investors if they were found to have been bought with the scheme's funds.

Multi Serve debacle to hit taxpayers hard

(58) BD 17/~~12/96~~ 1/97

Lukanyo Mnyanda

SA's taxpayers will fork out a "sizeable" amount to pay for the Reserve Bank's intervention and year-long conflict with the directors of pyramid scheme Sun Multi Serve.

Bank supervision spokesman Johann de Jager said yesterday that as the investigation of Sun Multi Serve's running was continuing, the Bank could not yet quantify the cost of the operation, but he admitted that the amount would be "sizeable".

Asked if the expenses would run into thousands of rands, he said: "I do not think it will be in thousands; the figure was much more sizeable." He would not elaborate.

Registrar of banks Christo Wiese closed down the scheme, which called itself a stokvels, in December 1995 after ruling that it was operating as a pyramid in contravention of the Banks Act.

De Jager said the Bank had not used any of the scheme's frozen funds — totalling R68m when its accounts were released in October — to cover administrative costs resulting from attempts to repay investors.

"We used our own money," he said.

The Bank hired Deloitte & Touche chartered accountant Tim Store to repay investors when it closed down Sun Multi Serve. Store is still involved in the case and has been asked to investigate fresh allegations that the scheme's directors have misappropriated millions in investors' funds.

Taxpayers also had to foot the bill for aborted attempts last March to return investors' money directly.

The plan — which involved the employment of two advisers at magistrate's courts in each of the 27 towns where Sun Multi Serve operated — was halted after only two days amid intimidation of claimants and reports of officials being beaten up.

De Jager said the bank still had R10m in a Sun Multi Serve account and would not release the money until claims of fraud against the scheme had been discounted.

Despite the Bank's efforts, Sun Multi Serve investors decided to reinvest their funds with the scheme when it was reopened in October.

They lost at least R28m when the funds proved insufficient to cover claims.

These losses could have grown following reports that the scheme's directors had since then laundered at least about R100m in expensive houses and properties.

Development Bank has new focus

BD 17/1/97 (58)

Robyn Chalmers

THE Development Bank of southern Africa released R544m into the market against R650m in the previous comparable period, hampered by the weak financial position of many local governments in the six months ended September.

The disbursement of R544m represents 42% of the R1,3bn budgeted for investment flows during the year.

Bank CE Ian Goldin said the bank underwent a transformation of its management and business structure during the review period, based on its new focus on infrastructure finance.

New commitments amounted to R392m against R576m for the same period in the previous year. The lower figure could be ascribed to factors such as the financial position of local governments and the fact that provincial governments had not yet taken up loans, he said.

R304m went to bulk, connector and service infrastructure, R87m went to entrepreneurial development and R1m for development planning, capacity building policyand information.

Interest from development loans rose 19% to R259,9m, while medium and long term financing increased by R275m to more than R2bn.

Goldin said most of the funds raised this year were tapped from the local financial markets. The balance would be raised by issuing own bond paper into the local market as well as drawing down on existing international loan facilities.

He said the bank was looking for alternatives to finance infrastructural development. Investment in equity, preference shares and debentures of development entities had kicked off with the acquisition of Northern Water Board project bills and Franchise Fund shares.

Bank denies bungling

(58) CP 19/1/97

By SIFELANI MLAMBO

SUN MULTISERVE directors and managers have allegedly fled with millions of rands released to them by the Reserve Bank to repay money invested by thousands of naïve people who were told they could treble their investments in weeks.

There was much criticism of the Reserve Bank last year from investors when the bank froze Sun MultiServe assets to stop the scheme which would have led to thousands of people losing their savings.

Spurred on by the founders of the scheme, investors held protest marches alleging the Reserve Bank was a white institution and did not understand black culture.

The Reserve Bank then released the money back to Sun MultiServe on condition that they either repay investors or pay the money into 28 different stokvels – the choice was left up to the individual investor.

However, it was revealed this week that the directors and managers of Sun MultiServe had disappeared after issuing investors with worthless bank cheques.

Now hundreds of underprivileged South Africans, with money amounting to millions of rands invested in the pyramid scheme, are accusing the Reserve Bank of having bungled in returning about R46 million to MultiServe without first guaranteeing investors would be repaid.

The Reserve Bank had assured investors the money would not be released to the directors of the scheme, yet the millions found their way into the directors' personal bank accounts.

Nick Niniels, a director of Sun MultiServe, recently held a press conference from a hotel, claiming his colleagues were not in hiding – yet their head office in Rustenburg has been closed since last year.

The Reserve Bank has quickly denied bungling, saying investors were given an opportunity either to have their money invested in a stokvel, or to have their contribution paid back with interest.

Reserve Bank spokesman Advocate Johann de Jager said it was the investors who opted to have their money put in a stokvel who seem to have lost out.

Investors who chose to have their money paid to them individually were paid by the Reserve Bank.

However, Advocate de Jager said the Reserve Bank was investigating the 28 stokvels after reports that money had been stolen.

One investor, Sheila Pilane, who chose to have her contributions put in a stokvel, was given a cheque of R1 980 by her stokvel – but the cheque bounced.

She had cashed the cheque at a supermarket in Rustenburg and was later told it had bounced. She is currently repaying the supermarket at a rate of R500 a month.

She said all Sun MultiServe offices were closed, and she was considering taking legal action against its directors.

Investors have alleged the money was used to buy houses in the posh Safari Gardens suburb outside Rustenburg.

In one instance, investors' money was allegedly used to buy ten minibus taxis, two luxury cars and house.

The Reserve Bank has warned that the houses and cars would be sold to repay investors if they were found to have been bought with their funds.

Investors said the Reserve Bank did not properly monitor the repayment of investors' money.

"The Reserve Bank assured us the directors won't get the pyramid loot and that although there was less money in the kitty than we contributed, we would receive 65 cents for every rand invested," Getrude Mohale said.

She said the initial move by the Reserve Bank to freeze the R46 million had proved futile as the schemes' directors managed to flee with the money after it was unblocked.

Mohale said the Reserve Bank banned the scheme as it was operating illegally, and investors were surprised when the Bank released the millions to Sun MultiServe.

She said investors would approach the Reserve Bank for clarity since they can not get any from Sun MultiServe directors.

Meanwhile, over 200 disappointed investors in Rustenburg have announced they will be taking legal action against Sun MultiServe to have it liquidated to recover their money.

They said Sun MultiServe directors were holding press conferences from hotels, and not at their head office in Rustenburg.

"If they are not in hiding, then they must open their offices and give us our money," said Mohale.

Accident victims' rights protected

ARG 20/1/97 (58)

Henry Shields is the senior partner in a firm of attorneys focused on the field of motor vehicle accident claims and is also the media spokesperson for the Road Accidents Victims Association (RAVA).

"Do I have a claim?" is one of the first questions on the lips of most motor accident victims. Sadly, all too many people are asking that question after the holiday season blood-bath on South African roads.

Aside from the injured, the high fatality rate has also left many dependents wondering whether they have a claim, particularly when the breadwinner who supported them has died on the road.

The first aspect concerning many people is the present confusion, following various "draft White papers" which contemplated certain claim exclusions and limitations. The current position is that the proposed changes are still being hotly debated, but that no changes have yet been made to the present Motor Vehicle Accident (MVA) legislation.

"It is worth mentioning that, statistically, every South African has a 30 percent chance of suffering a greater or lesser disability, as the result of a road accident," says Shields.

"Accordingly, every individual, as well as civic associations, professional bodies and associations for the physically disabled, should follow the debate on this topic closely.

"One, and any association one belongs to, has the right to make your voice hears in this debate, and the Minister of Transport, Mac Maharaj, has undertaken to publicise any deadlines for representations to be made, widely."

The next question is whether your claim has prospects of success. The best way to tackle this issue is to have the prospects assessed at the earliest possible stage. A few examples will indicate why this is recommended.

"In one case I recall," says Shields, "the key piece of evidence was a piece of metal step which broke off a trailer and was found on the roadway.

"This was vital evidence proving the 'horse and trailer' had in fact collided with the motor vehicle. Needless to say, any delay in investigating and inspecting the accident site would have resulted in such evidence disappearing."

Another issue is that many foreign motorists are hiring vehicles and driving on South African roads. the majority of these visitors are accustomed to driving on the rights hand side of the road.

"The typical overseas visitor is only in the country for a short time and it can be very expensive, if not impossible, to secure eye-witness statements at a later stage," says Shields.

"So, given that legal rights remain intact and assuming one can obtain the evidence which proves negligence, you may still ask yourself whether or not your injuries are serious enough to warrant the time and trouble of claiming damages. In extreme cases at either end, the answer will be obvious."

If you have broken a limb, or worse, the amount of the claim will certainly justify the expenditure of time and money. On the other hand, superficial grazing and mild bruising would probably not make it worthwhile to claim.

"The areas in between are more difficult," says Shields. "A typical mystery area is the 'whiplash injury' where there is no damage visible to the naked eye, but the pain, functional disability and work-related disability could be substantial.

"Here again, it is a wise precaution to obtain professional advice – particularly due to the complex set of time limits which eliminate a claim if certain procedures are not implemented in time."

It is no doubt a wise expenditure of time to make a number of enquiries, and to ask the right questions, when considering the appointment of the attorney who will handle the claim.

"This would of course apply whether you have a property transaction, matrimonial dispute or an invention to patent," says Shields.

"There is bound to be a friend, relative or colleague who has previously encountered a legal problem similar to yours and that person will be able to give you an independent and unbiased opinion as to whether their legal problem was handled to their satisfaction.

"One would certainly not want the best patent attorney in town handling your divorce, or the other way around, so a wise investment of your time and making the right enquiries should lead to wise investment of your money."

Move to monitor foreign banks in SA

(68) BD 23/1/97

Greta Steyn

THE Registrar of Banks is to begin monitoring the financial position of foreign banks' representative offices from March this year in a move to ensure they do not break the rules when competing with local banks.

The move will please SA banks which have argued that the foreign representative offices have an unfair advantage in the local markets because — unlike full branches — they do not have to comply with SA's regulatory requirements. However, some foreign representatives said there was no need for SA to impose regulation on them, as their parent companies were already being regulated in their countries of origin.

The registrar, Christo Wiese, has asked foreign banks for comment by the end of this month on suggested regulations which would require offices to submit monthly returns.

Wiese said yesterday he wanted to have a clear picture of the representatives' activities. "We want to know the size, the nature and the currency of their activities to see how far they go and whether they are authorised. In some cases representative offices are beginning to border on full banking operations. Once they tread over that line they will have to register as banks." He noted that one foreign office had 80 staff, which seemed large for a representative. His office wanted to know which other countries were involved.

Referring to currency disclosure, Wiese said: "Before the Mexican peso crisis, most foreign banking activity was dollar based. We want to be aware of a potentially unhealthy situation."

According to the documents sent to the foreign representatives, information required regularly is likely to include: revenue earned, and whether it was knowledge or transaction based; the number of transactions initiated and undertaken; expenditure incurred; the interest rate related to funding; and the currency in which the majority of loans was done.

Continued on Page 2

Foreign banks

(68)

Continued from Page 1

BD 23/1/97

In addition, staff numbers and a copy of the annual financial statements are required. The person running the office is also required to provide detailed personal information ranging from road traffic offences to his/her financial interests.

A foreign banking representative approached for comment declined to speak on the record, as the issue was still under discussion with the registrar. However, he said some of the representatives were gearing up to challenge Pretoria's right to regulate them at all. "Our balance sheets are foreign, and we are regulated offshore, so why is there a need for this at all?" He believed it was particularly unacceptable that the representatives had to disclose their monthly revenue figures.

However, local banks argued that foreign banks had found a loophole in the SA regulatory environment, which explained why they chose to open representative offices in droves rather than branches. They pointed out that branch regulations were onerous, in contrast to virtually non-existent constraints on representatives' activities.

Enabling legislation was passed last year to give the registrar the power to require monthly returns from foreign representatives. Wiese said consultations would take place with the foreign banks and once the regulations had been finalised, they would be published in the Government Gazette.

MVA committee budget increases

(68) BD 23/1/97

Deborah Fine

THE Association of Law Societies (ALS) has increased the annual budget of its Motor Vehicle Accident (MVA) standing committee to R280 000 this year in preparation for further rounds of consultation with government on the redrafting of the contentious White Paper on the Multilateral Motor Vehicle Accidents Fund (MMF).

Transport Minister Mac Maharaj and the MMF board withdrew their original draft white paper which had been aimed at radically restructuring the ailing fund last year, after it aroused complaints and heated criticism from various role players and interest groups, including the legal profession.

Lawyers submitted that the new reforms could seriously prejudice the role of the legal profession in MVA claims, might not be a fair system to all and could serve to worsen the fund's already weak financial position.

A revised white paper is to be drawn up by the transport ministry and the MMF board in consultation with the parliamentary portfolio committee on transport later this year.

It will take into account submissions made by delegates at the widely attended MMF Conference held in November last year.

Maharaj has assured interested parties that he would invite further responses to the new paper once it had been published.

The SA attorney's journal, De Rebus, reported in its January edition that the ALS had opted to increase the standing committee's funds to enable it to draw up a budget and specific proposals for the new MMF white paper.

Johannesburg attorney and committee member Ronald Boboff had, in addition, been asked to form a special MVA subcommittee to perform the task.

The ALS stressed, however, that the increased funds would remain under ALS control.

Referring to the revised paper, De Rebus said in its editorial that "after the heat and light surrounding the MVA debate last year, a space has been created in which the need for and methods of reform can properly ... be assessed, and the profession can now gird its loins to defend its legitimate interests".

SA bank fees 'are archaic'

(58) BD 24/1/97

Belinda Beresford

OPENING a bank account in SA is a somewhat schizophrenic experience for the user of British banks.

On the one hand, the efficiency of the process is impressive — as is the speed with which bank cards, cheque-books and credit cards arrive.

On the other, the concept of charging for running a bank account is archaic, since free banking is generally accepted as standard for UK banks.

To provide a snapshot comparison, high-street banks in both countries were asked to supply the charges for a basic cheque account used by a female accountant earning R17 000 a month, this being roughly the average monthly income of a Business Day reader.

The British banks spoken to were Barclay's Bank, the Royal Bank of Scotland and TSB, which is part of the Lloyds group.

According to Barclays spokesman Louise Footner, all in-credit banking is free. Charges are incurred only when an account is overdrawn. The same is true for a TSB cheque account holder.

The interest-bearing account at the Royal Bank of Scotland also carries no charges if the customer is in credit and a free £100 overdraft is available to all account holders.

The four major SA banking groups all offer the option of a flat monthly fee instead of transaction charges.

For a United Bank customer with the Pro-Distinct cheque account package, the management fee is R38 a month; for a Standard Bank Prestige-Plan holder it is R83; a Premier account holder at First National Bank pays a flat rate of R60; and a United Bank Pro-Distinct client pays R38.

First National Bank declined to give examples of service fees paid for cheques and debit orders "because they are negotiable with the manager". Stop orders cost R2,50 plus service fee, while using an ATM for withdrawals or transfers costs R1,25. Cash deposits are free for the first R200, then 55c per R100, but cheque deposits are free.

For United Bank customers, cash deposit fees are 40c per R100, while service fees for cheques for a Pro-Distinct customer are 66c per R100 up to a maximum of R10,56. A direct debit costs R1,71 and a credit order R1,14. Withdrawal from an ATM costs R1,14 and a counter withdrawal R2,28.

Standard Bank PrestigePlan customers are charged R1,35 for the first R100 withdrawn from an ATM, and 17c thereafter. Transfers cost R1,35, cheque fees R1,09 for the initial R100 and 73c thereafter to a maximum of R10,13, teller withdrawals R6 and direct debits R2,40.

Banking sector targeted for small business growth

(58)

New plan to mobilise loan capital

ARGT 27/1/97

ALIDE DASNOIS
BUSINESS EDITOR

A range of new products designed to leverage funds for small business from the banking sector was announced at the weekend by Khula Enterprise Finance.

Khula is a private company set up a year ago at the initiative of the Department of Trade and Industry, with R137-million of government money.

Its goal is to mobilise loan and equity capital via retail financial intermediaries for the small, medium and micro business sector.

Managing director Sizwe Tati announced the creation of the Khula Equity Fund, aimed at small to medium businesses with a net asset value of at least R500 000. The fund is designed to help small businesses which have grown to the point where they need to finance joint ventures, expand activities or recapitalise the company.

Applicants must show the business is viable and that investors can expect good returns.

Khula will act as a catalyst for equity funding, working with the private sector and with development agencies.

In a bid to free up money for small business, Khula will also offer guarantees of up to R600 000 to retail financial intermediaries to cover loans to individual entrepreneurs.

Intermediaries wishing to access money from the banking system to fund small business can also apply for a Khula guarantee.

Mr Tati announced three other new products which target retail financial intermediaries active in the small business sector:

■ Business loans

Loans of between R1-million and R100-million will be advanced to retail financial intermediaries for lending to small business.

■ Seed loans

Designed to help establish new financial institutions, these interest free loans are available to intermediaries which are undercapitalised and which target the small business market.

■ Capacity building

Khula will make grants available to retail financial intermediaries which need to fund staff training, provided the core activity is in the small business market.

Khula to provide loans to SMMEs

Sowetan 30/1/97 (58)

By Shadrack Mashalaba

GOVERNMENT-created Khula Enterprise Finance will grant loans ranging from R100 to R600 000 to small, micro and medium enterprises.

Khula will not be granting loans directly to SMMEs. It will use retailers in the form of provincial development corporations, non-governmental organisations and banks.

Speaking to *Sowetan* this week, chief executive Sizwe Tati said: "We sell our products to the retailers, who in turn sell them directly to the SMMEs".

He said according to their lending criteria, micro businesses would qualify for loans of between R100 and R25 000, small enterprises qualified for loans ranging between R25 000 and R100 000, while medium businesses could apply for loans between R100 000 and R600 000.

"I believe a bank can offer a loan to a business person who asks for a loan of more than R1 million without Khula offering credit guarantees. We believe we can offer guarantees to the SMMEs who borrow R600 000 and below because this sector has a greater need," said Tati.

Khula inherited the Credit Guarantee Scheme from the Small Business Development Corporation in July last year to cover the "untouchable" sector of business.

This was after the Government reduced its stake in SBDC to less than 30 percent. SBDC now deals with loans from around R30 000 to R3 million.

Khula had its official launch on Friday in Johannesburg.

It will be run by a 14-member board, which will be under the chairmanship of Gideon Sam.

'Khula schemes will be subject to spot checks and reviews'

Tati said the operations of Khula schemes will be subject to spot checks and quarterly reviews.

This, he said, would ensure that their implementation was effective.

MORE FOREIGN BANKS (58) (78)

MALAYSIAN TIDE

FM 31/1/97

Another foreign bank will be registered this week, part of a wave of investment from Malaysia. It is TA Bank of SA, one of three subsidiaries of TA Enterprise, a Malaysian listed securities firm.

It will be headed by Henry Shaw, formerly of Standard Bank.

Unlike most foreign banks entering SA, TA Bank will not target the top 100 quoted companies. Shaw says that end of the market is overbanked "with margins as low as an eighth or a quarter of a percentage point. TA Bank will target small and medium-sized businesses."

Seventeen foreign banks started operating in SA last year, including ABN Amro, based in the Netherlands, which opened a branch.

One of the most recent entries is the Bank of Tokyo-Mitsubishi, which opened a representative office in November.

Takefuma Murata . . . introducing Japanese industrialists

One of its components, the Bank of Tokyo, left SA in 1986.

A merger in April 1996 with Mitsubishi Bank created the world's largest bank.

The interim report of the merged entity shows about US$36bn in tier one capital and assets worth about $725bn in the six months ended September 30.

Its nearest international rival, HSBC, has not yet reported for 1996 — its financial year ends in December. However, its tier one capital in December 1995 was $20,8bn

Unlike other recent mergers in Japan, which were prompted by a solvency crisis in one or both of the banks, the merger united two profitable banks, says SA office head Takefuma Murata.

The Bank of Tokyo, he says, "was specially strong in the international markets with hundreds of offices and big subsidiaries abroad. But it had only about 33 branches in Japan while Mitsubishi Bank had a huge domestic customer base."

The merged bank has 360 outlets in Japan and 400 worldwide.

In SA, says Murata, it will concentrate on introducing Japanese industrialists and assisting them in joint ventures with local partners.

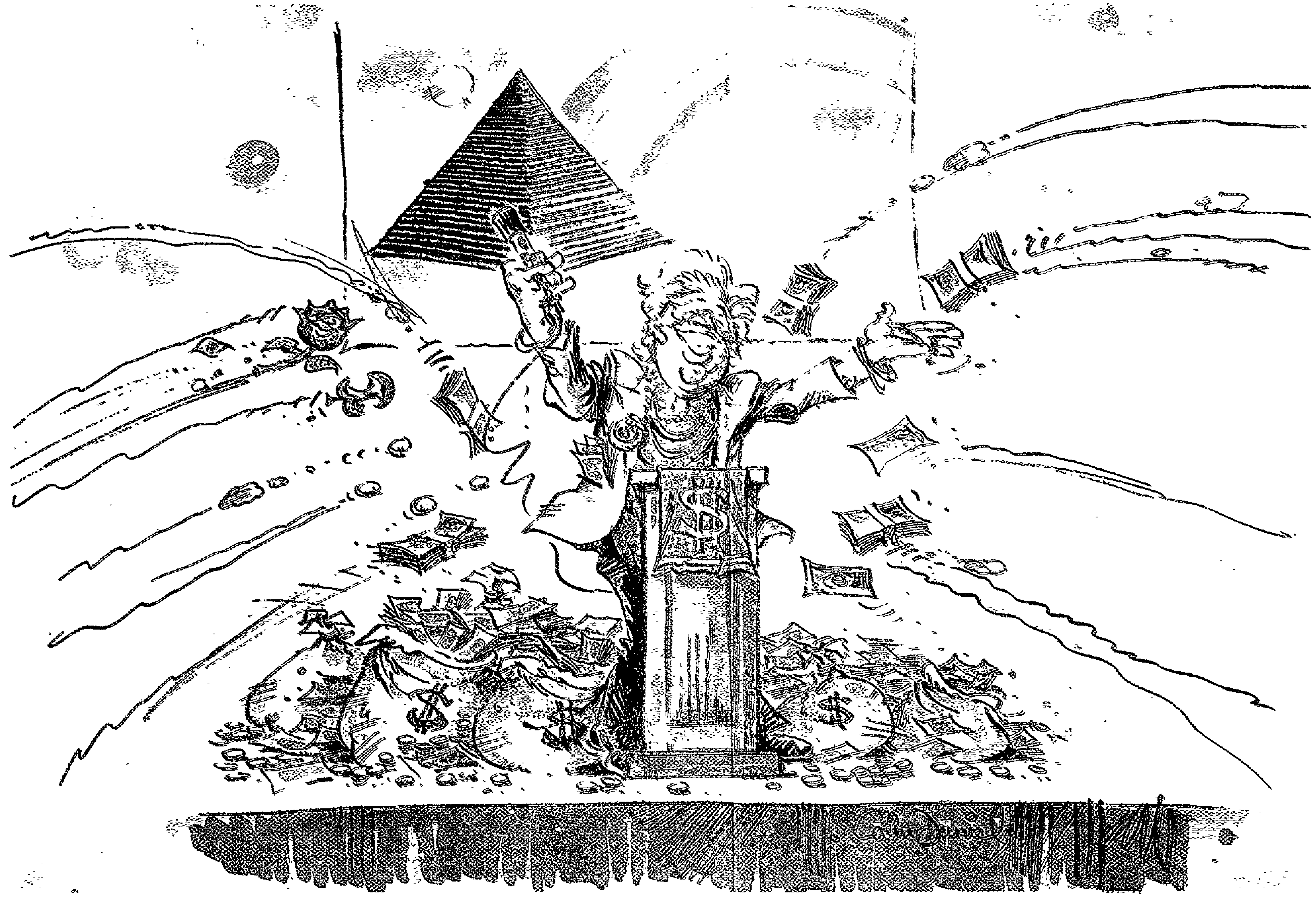
Ethel Hazelhurst

Pyramid schemes under fire

ARG 1/2/97 (58)

Yet in South Africa they are flourishing daily at your expense

BRUCE CAMERON



Rioters swept down the streets in Albania this week as get-rich-quick pyramid structure schemes collapsed. In Britain new legislation banning the schemes was implemented. In South Africa the schemes are flourishing, thumbing their collective noses at both the regulators and the tax authorities.

A number of the schemes, which are sweeping the country, are run by foreign operators with no known addresses in South Africa and who are handling millions of rands in cash.

Louise Tager, chairperson of the Business Practices Board, confirmed a major investigation was underway into the schemes but she could not predict when the investigation would be completed "because we are so badly under resourced".

At least one scheme, Rainbow, is telling its recruits, who put R10 000 into the kitty at a time, that there are no tax implications.

This scheme was the subject of a Business Practices warning to the public, issued last year. Participants were warned they could lose their entire investment.

However, there is bad news on the way for Rainbow and other pyramid structured schemes. The taxman confirmed to Personal Finance this week he will be investigating the schemes and members could find themselves having to pay over substantial amounts.

Tax experts said that claims that "donations tax" exempted them from tax commitments were not correct.

Tax court rulings made it clear that if you donated money it must be an act of generosity with no expectations of returns.

In terms of this, initial investment into one of the get-rich-quick-schemes could not be interpreted as a donation. There is also a R25 000 annual limit for donations.

Tager said the problem in South Africa was that many people were knowingly going into these schemes on the calculated risk that they were getting in early and making a financial killing, leaving people lower down the pyramid structure to take the losses when the pyramid inevitably collapsed.

"It is like gambling".

Many of the schemes do everything to avoid publicity, threatening legal action to any publication or person who threatens to write about them.

Personal Finance columnist and Radio 702 personal finance commentator Magnus Heystek was threatened with court action last week by Rainbow in an attempt to stop him warning, on his radio show, investors from putting their money into the scheme.

Heystek said he was particularly concerned that many people were using retirement fund money to get involved in high risk ventures.

The Rainbow scheme tries particularly hard to keep its activities a secret. Its sales people attempt to force people, even those not signing up, to sign secrecy clauses threatening them with a R5 000 penalty if they divulge any information and legal action if the club suffers any damage as a result of what they reveal to people who have not signed the secrecy clause.

Personal Finance had a reporter at one of the Rainbow meetings this week (see page 2). The meetings are conducted with an almost religious fervour. The people operating the club have no local address. The only address given is one in Liverpool, Britain.

Another foreign-based scheme is Newport, which gives a Netherlands address on its documents.

The schemes attempt to use semantics and complicated structures to disguise the fact that they are pyramid schemes, often attaching virtually worthless products to the scheme to make themselves legal.

Last year Personal Finance challenged many incorrect claims made by another scheme Balltron, proving that it would eventually implode and that the financial services product it was peddling as a significant savings instrument was one of the worst investment products on the market. The product belongs to direct sales marketer Clientèle.

New get-rich-quick schemes are cropping up almost every week with Personal Finance receiving numerous requests to comment on their safety.

The schemes range from pyramid-structured schemes through to lotto games. Some are attached to other financial products like unit trusts, others only have a magazine, while others like the Rainbow scheme offer discounts on various products like airline fares.

What most of the schemes have in common is that they depend on one or more layers of people being recruited to ensure the earlier entrants recover their money.

When the stage of implosion is reached, as happened in Albania, many thousands of people are going to be left out of pocket. The schemes all attempt to claim that there is no saturation point but Albania has spectacularly proved the contrary.

Personal Finance proved conclusively last year on the Balltron scheme that if perfect pyramids were achieved going down 13 levels a population twice the size of South Africa's current population would be required.

Unbundling trend softens need to ban pyramids

(68) BD 4/2/97

Official policy on pyramid companies is still in a state of flux. Meanwhile, many of them are voluntarily unbundled and others are used to further black economic empowerment, reports Shareen Singh

THE drive to outlaw listed pyramid-style holding companies appears to be running out of steam as many conglomerates unbundle voluntarily and the need for black empowerment mechanisms gains some support for pyramids.

Pyramid companies have been listed on the Johannesburg Stock Exchange (JSE) for many years, even though such structures are outlawed in most parts of the world. The control of wealth by a minority in SA was made possible through the pyramid mechanism — and more recently black consortia, such as New Africa Investments Limited (Nail), have used it to obtain control of assets which they would otherwise not have been able to acquire.

The African National Congress (ANC) had threatened legislation or regulations to ban pyramids — a move it hoped would break entrenched control of the economy by a few families. However, evidence of such action has not been forthcoming.

Meanwhile, several major companies, including Seardel Consolidated Holdings, Grinaker Holdings, Anglovaal Group, Genbel, Shoprite Holdings, Nail and Malbak, have partially or fully collapsed pyramid and holding company structures in the past year. And more major unbundlings could be expected in the next two to three years, JSE listings director Mark Durr predicted.

Analysts say unwieldy companies are being forced to unbundle by market pressures rather than the threat of legislation. Investors prefer putting their money into operating companies rather than holding companies.

It also makes sound business sense for holding companies that have served their original purpose — financing the acquisition of underlying assets — to unbundle rather than keep a structure with low investment ratings. Malbak is cited as a case in point.

However, many economists, once vehemently opposed to the pyramid controlling structure because it inhibited competition and ensured the concentration of economic power in the hands of a small elite, are reconsidering their position in the context of black economic empowerment.

"I don't like the effects of pyramids, but I have come to understand they are necessary for minority groups like the National Empowerment Consortium (NEC). Black companies would need the mechanism to gain control of assets," says Competition Board member Robin McGregor.

Trade and Industry Minister Alec Erwin and his predecessor, Trevor Manuel, are on record as opposing pyramids. It is believed that government had considered addressing the issue within the context of competition policy by broadening its definition to include the economy as a whole rather than narrow market regulation. Some analysts suggest government may now be looking to the JSE to amend its regulations to ban pyramids.

The argument by prominent black businessmen such as Nail chairman Nthatho Motlana that pyramids are necessary for black economic empowerment, as well as the recent voluntary unbundling of conglomerates, may influence government's position.

Motlana maintains that it would be impossible for blacks to make significant inroads into the economy if pyramids are abolished. He says that if the structure worked for the Oppenheimers and Wieses, it should be allowed — at least for a while — to further the interests of black empowerment.

Government's position is likely to be guided by these opinions. Some form of regulation could be expected, allowing pyramids to continue but with a particular focus — "perhaps specifying limitations on the percentage of shares each partner in a consortium could hold", says one analyst.

He says that other impediments to black economic empowerment, such as nonvoting N shares and provisions in the Companies Act which oblige a majority shareholder to make an offer to minorities — are also issues that could be addressed. The NEC, for example, was exempted from the latter provision in its acquisition of Johnnic.

The JSE had approached the finance ministry last year outlining its perspective. Some analysts argue that while there are differences between pyramids and weighted voting securities, or N shares, their effect is the same — that of entrenching control. Hence, any change in policy should apply to both.

There is no duplication of listing with respect to N shares and the result could be a cash injection into the company while funds from pyramid structures go to the existing controlling shareholder.

Both the London Stock Exchange and the New York Stock Exchange list N shares while outlawing pyramids which does not make sense, some analysts said.

Sources said that the JSE had not permitted the listing of N shares for some time. However, due to increasing demand for these instruments by the market, the JSE amended its listing requirements to permit the listing of N shares although it does not encourage the practice.

Durr said there were safeguards built into listings requirements for both pyramids and N shares and in any event the market was regulating these structures and instruments. The growing trend of unbundlings and discounts to N shares was evidence of this, he said.

FOREIGNERS HIT CITY WITH GET-RICH QUICK BAIT

Pyramid schemes under investigation

(58) CT 12/2/97

THE RESERVE BANK and the Harmful Business Practices Committee are probing two pyramid-style schemes doing the rounds in Cape Town. Consumer Writer **JACKIE CAMERON** reports.

HUNDREDS of people nationwide have been lured into at least two massive — and secretive — get-rich-quick pyramid-style schemes now sweeping through the city.

The Reserve Bank is to investigate at least one of the schemes amid fears that consumers could lose thousands when the scheme inevitably crashes.

The Rainbow Club, which started in Durban in June, has come to the city and has started drawing crowds of more than 1 000 at a time.

They promise investors a tantalising return of about R139 000 for an initial investment of R10 000 — if you lure at least six friends into the scheme and they, in turn, coerce others to join.

The other scheme, Newport Investments, takes R14 000 from each participant with a similar promise of healthy returns.

Both groups are headed by British men who make participants sign secrecy agreements, or face the threat of legal action if the activities of meetings are divulged to outsiders.

Both groups also hold slick, evangelical-style meetings in which the crowds are whipped into a frenzy of clapping and thrust into daydreams about exotic holidays and luxury sports cars.

The Rainbow Club holds its meeting at the Civic Centre at least twice weekly, and Newport Investments holds its presentations at hotels around the Peninsula.

A Reserve Bank spokesman said yesterday: "We have received complaints involving a contravention of the Banks Act. Companies may not take deposits and act as banks. I cannot think of a pyramid scheme that isn't in contravention of the Banks Act.

"We are starting an investigation into the Rainbow Club. We will investigate it thoroughly."

The Harmful Business Practices Committee — which has the power to shut down businesses that may not necessarily be illegal but could cause much harm to consumers — is also investigating the Rainbow Club, a reliable source confirmed.

Several participants at the meetings have contacted the Cape Times to complain that gullible people are going to be "ripped off" by foreign con men.

On Monday night, more than 1 000 people attended a Rainbow Club presentation at the Civic Centre.

City council spokesman Mr Ted Doman said the council did not find it problematic that the company was using the Civic Centre.

"They claim they are above-board. They have explained to us what they are doing, and we've let them have the hall. As far as we are concerned, this is a legitimate business."

When told that the Harmful Business Practices Committee was conducting an investigation, Doman said: "Well, it's a warning but it doesn't mean it's illegal — it's dicey."

He said the group had been working at the Civic Centre for several weeks but had not made any bookings for March.

Police in Cape Town and Durban have received telephone calls from people who have attended the presentations, but no one has formally complained that they have lost money or that a crime has been committed.

A police spokesman said: "We have an informal inquiry into the schemes, but we cannot investigate officially until a crime has been committed. We have been in touch with the Harmful Business Practices Committee to voice our concerns about the schemes."

Some people are obviously making a lot of money but the systems are bound to crash, as is inevitable with any pyramid-type scheme.

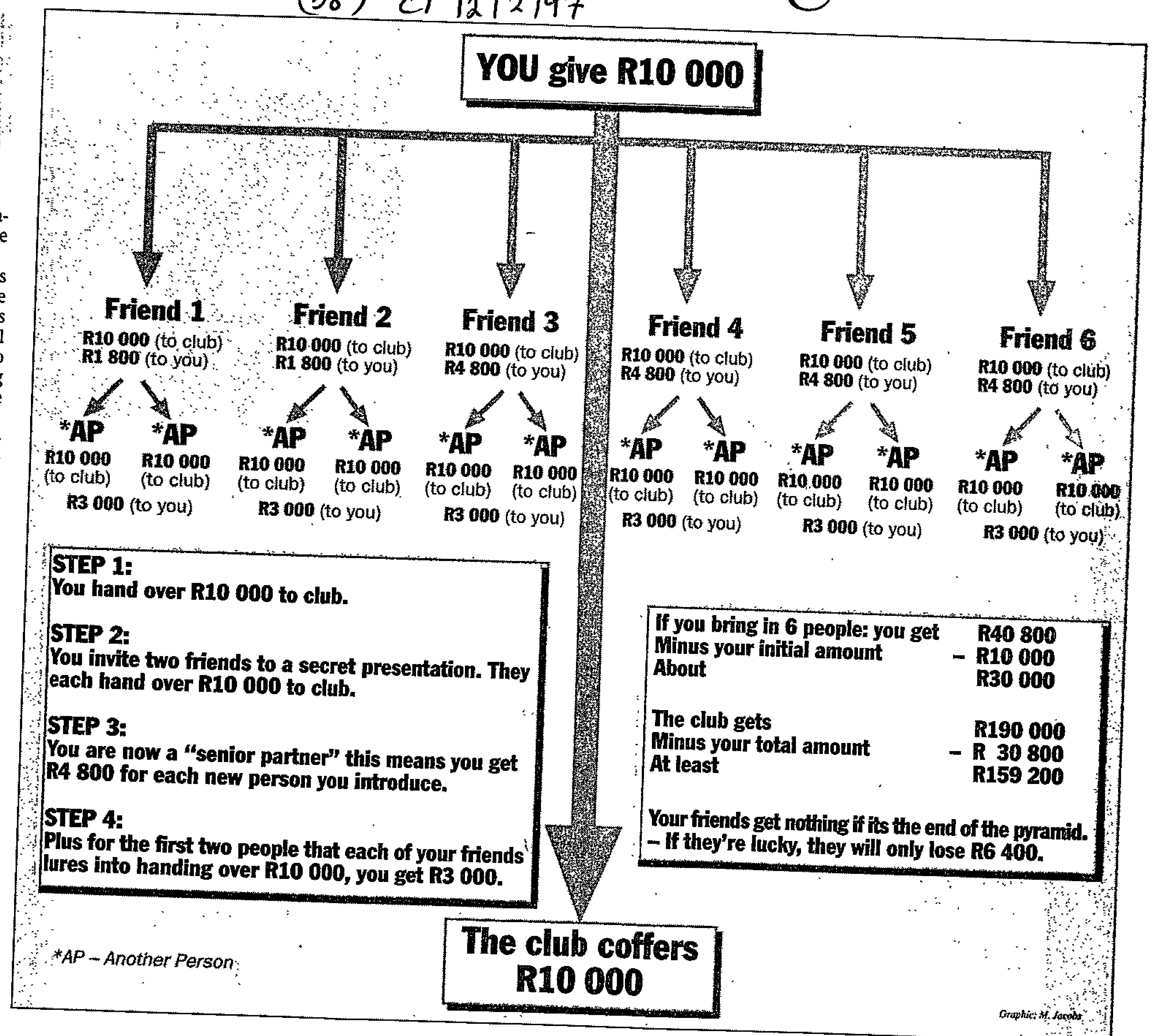
These schemes depend on one or more layers of people being recruited to ensure the earlier entrants recover their money.

When the stage of implosion is reached, many thousands of people are going to be left out of pocket.

An angry Mr Bob Mitchell, of Newport Investments, said he was in charge of operations in this province but would not divulge any details about his company's activities.

He said all inquiries had to be directed to a fax number in Johannesburg and that a telephone had not been installed yet at his head office in Gauteng.

The Rainbow Club could not be reached for comment.



Staff at Afribank uneasy

(58)

Sowetan 19/2/97

By Mzimkulu Malunga

THERE is apprehension among African Bank staff after rumours that the bank might close some of its unprofitable branches and consequently retrench some workers.

By yesterday afternoon the bank's management were still locked in discussions with representatives from the South African Commercial and Catering Workers Union on the issue.

The bank wants to restructure its entire operation – a factor that could lead to retrenchments, but at this stage it is not clear what form the overhauling process will take.

A bank statement issued yesterday said: "The board of African Bank is currently considering a nationwide business plan aimed at ensuring the future success of the bank.

"After a meeting with key stakeholders on February 14, it was agreed that any decision regarding the adoption of such a process be made after consultation with interested parties."

As the rumours about the pending retrenchments spread among the bank's employees, Afbank management issued an internal circular saying no retrenchments were taking place.

However, the circular appears not to have halted rumours, which continue unabated.

Afbank, with more than 30 branches in the historically black areas was re-launched last August by its owners – New Africa Investments Limited and Natal Building Society.

ANC told to prove banks favour bill

(58) CT(BR) 19/2/97

CHRISTO VOLSCHENK

Cape Town — Minority political parties refused yesterday to debate the Development Bank of Southern Africa bill until proof was given that the bill had been discussed with banks, the Council of Southern African Bankers and the registrar of companies. The showdown came at a meeting of the portfolio committee on finance in parliament.

Debate was postponed until today, despite the assurances of Ian Goldin, the chief executive of the Development Bank, that the bill had been widely consulted. The bill is due to be debated by the national assembly on Friday.

Sipho Mpahlwa, the finance committee's chairman, promised to supply minority parties with a list of institutions consulted.

The ANC-dominated committee does not want the bill's passage delayed. It provides for the Development Bank of Southern Africa to be turned into a company with the government as its only shareholder. It also provides for other countries, regions (like southern African) and multilateral institutions (like the African Development Bank) to become shareholders.

The minority parties are concerned that the bill will pave the way for the bank to compete unfairly with other banks since it may be funded with subsidised capital. Ken Andrew, a DP MP, insisted that proof be given that private sector financial institutions approved.

Mewa Ramgobin, an ANC MP, said it was important that the bank be given the status to fulfil its mandate of financing regional infrastructural development. "To those who are of the opinion that the Development Bank will be unfair competition to commercial banks I say: 'So be it'."

While turning it into a company might be construed as unfair competition to commercial banks, it would redress economic imbalances for millions of people in the region, he said.

PARLIAMENT *Concerns over competition*

Development Bank Bill is thrown out

(158)

CT (DR) 20/2/97

Christo Volschenk
ECONOMICS EDITOR

Cape Town — The portfolio committee on finance threw the Development Bank of Southern Africa Bill out in parliament yesterday after Sipho Mpahlwa, the committee's chairman, informed members that banks, the Council of Southern African Bankers and the registrar of companies expressed reservations about it.

The Bill aims to turn the Development Bank into a company with authorised share capital worth R5 billion. Of that, shares worth R2 billion would be issued to the government as the sole shareholder.

Minority political parties objected to the Bill on the grounds that it might create unfair competition for banks.

Once the Development Bank has been incorporated under the Companies Act, other countries, multilateral development agencies like the African Development Bank or even regions, may be invited to take up shares.

Some members of the portfolio committee were concerned that the Development Bank might compete unfairly with other banks in the future should it gain access to subsidised funds.

The Bill was referred back to the finance department and removed from the list of Bills to be debated by the National Assembly later this week.

The portfolio committee asked the department to re-enter into negotiations with banks and development agencies in the public sector to get everyone's approval before retabling the Bill.

Sources said it could be tabled again early next month for debate by the portfolio committee on March 10.

Maria Ramos, the director-general of finance, defended the Bill in a meeting of the portfolio committee yesterday. That followed the minority parties' refusal to debate the Bill on Tuesday, until after they had been assured that the Bill had been widely consulted.

She said the Development Bank's objectives did not include competing with the private sector.

"The fact that the bank provides concessionary loans almost by definition means it does not compete with the private sector. It gets involved in projects which are too risky for the banks," she said.

"We will do everything in our power to resolve problems which may exist and get consensus among all stakeholders," Ramos said.

She said her department "will spend the next five or six days in intensive discussions with all the parties concerned".

MAIL & GUARDIAN
February 21 to 27 1997

No stamp for bank Bill

M&G (BM) 21-27/2/97 (58)

Controversy surrounds the proposed Bill to convert the Development Bank of South Africa into a company, writes **Lynda Loxton**

NEW parliamentary finance committee chairman Sipho Mpahlwa had a baptism of fire this week when the committee once again flexed its muscles and refused to rubber stamp an important Bill.

Appointed on February 17, Mpahlwa almost immediately had to cope with a crisis that saw the Finance Department's director general, Maria Ramos, rush down to Cape Town in a vain bid to soothe the committee.

On Wednesday the committee refused to approve a Bill aimed at giving the Development Bank of Southern Africa (DBSA) legal status and convert it into a company as it felt that all the interested parties had not been consulted and it did not want to approve the Bill in haste only to repent later.

Instead, it asked the DBSA and the Finance Department to resolve differences concerning the planned change with interested parties and report back as soon as possible.

If these differences could not be resolved, public hearings would be held, possibly on March 10.

Ramos said this would have no effect on the government's full support for the DBSA, which taps about R1-billion from the financial market each year to fund infrastructure projects.

The rejection of the Bill followed objections from several organisations hastily consulted on Tuesday night after minority parties in the committee had expressed reservations about several aspects of the Bill.

'It is not the objective of the DBSA to compete with the private sector'

Formed in 1983 through a treaty between the former South African government and its so-called black homelands, the DBSA was thrown into a legal limbo following the adoption of the new Constitution.

DBSA chief executive Dr Ian Goldin told the committee that the Bill would give the bank legal status and provide it with a share capital of R5-billion, of which R2-billion would be held by the government.

This would help the bank retain its AAA rating in the face of the withdrawal of government guarantees and allow it to continue to provide low-interest loans to high-risk infrastructure projects.

Goldin said its AAA rating was also important as the bank had not received any government funding since 1994 and about 75% of its funding came from the financial markets.

Ramos told the committee that after extensive consultation with interested parties, it had been decided that the bank should be converted into a company and should concentrate on providing concessional finance for infrastructure projects.

Democratic Party and Inkatha Freedom Front committee members questioned the fact that the DBSA was not formally being turned into a bank and therefore made subject to all the necessary financial controls.

They also wanted to know whether all the interested parties that could be affected by the bank becoming a company had been consulted and if it would not, in fact, pose unfair competition to commercial banks and other government financial institutions.

African National Congress committee members were concerned about who had been consulted about the Bill and faxes were hastily sent to organisations such as the Council of South African Banks, the Registrar of Companies, the Department of Trade and Industry and its business finance house, Khula Enterprise Finance Limited.

On Wednesday, committee members were dismayed to receive faxes from some of these saying they had not been consulted about the final draft of the Bill, believed it would give the bank an unfair advantage or would give it powers to encroach on their territories.

Some committee members who had not attended Tuesday's meetings expressed misgivings that converting the bank into a company could open the way for "privatisation by stealth".

Ramos admitted that the Bill had only been published on January 24 and that some interested parties might not have had time to study it. But she said they had all been broadly consulted about the Bill and its aims, which had formed part of the transformation of the bank in the past two years.

She said it had been decided after taking legal advice that it would be best to convert the bank into a company, along the lines of the Industrial Development Corporation, rather than a bank.

It would not be a deposit-taking institution, but would raise funds in the market for infrastructure projects that other banks regarded as too risky to support.

It was true that the bank had in the past granted loans for other projects but this had been because of its historic role of funding the former homelands.

It, therefore, had loans that supported small business, but these would be transferred to Khula. It also had land acquisition loans, and these would be transferred to the Land Bank when it had completed its restructuring process.

The bank was not involved in housing loans and would leave these to the National Housing Finance Corporation. "It is not the objective of the DBSA to compete in any way with the private sector," Ramos said.

She said it was also not the aim to open up the way for the privatisation of the bank and it would be a statutory body subject to the control of Parliament.

Moses Majola: Outside a house with a barely accessible garage

PHOTOGRAPH RUTH MOTAU

Banks in redline ploy

(56) M+G 28/2-6/3/97

The Mortgage Indemnity Fund has admitted victimising a Sowetan community, reports Mungo Soggot

THE key government player in getting bank loans for the masses has admitted to a group of Soweto residents that it collaborated with three major banks to blacklist a relatively comfortable area in Soweto even though residents meet their bond payments.

Residents of Meadowlands have spent the past five years demanding that the banks — Amalgamated Banks of South Africa, Perm and Standard Bank — cut their mortages to compensate them for the poor quality of their houses. They only discovered this week that their area, Zone 9, had been officially redlined — subject to banks' blanket refusal to grant mortgages to homeowners.

In a letter sent to the Gauteng government this week, residents' representative Moses Majola said the Mortgage Indemnity Fund (MIF) explained the reasons for the redlining, saying it was a tactic to stop residents from complaining to the banks about their bonds.

The residents' letter says: "The only reason that Meadowlands Zone 9 is redlined is that our group has been struggling for several years to get justice from the banks who financed poor quality housing."

Residents say the MIF's assistant risk cover manager Tlhoriso Thelejane told them "the community should put pressure on the bad apples" — those lodging complaints about the condition of their houses. He also reportedly told the residents that "we [the MIF] don't check the validity" of the claims made by the banks. But the residents say in the letter that they have never met Thelejane nor any of his representatives, "so it is extraordinary that he would simply take the word of Standard Bank that we are 'bad apples'."

Thelejane told the *Mail & Guardian* that the words had been "taken out of context" in the residents' letter. He said he had merely told Majola and his committee that the MIF's "door is always open" if they had any complaints.

Majola says the residents never opted for a bond boycott, knowing it would undermine their case. MIF documents about the area say under boycotts: "None but in Zone 9, 97 houses affected."

The MIF is a government-backed fund to facilitate bank-backed mass housing.

The lower middle class area that has been redlined has tarred roads and is situated near a clinic and a shopping centre. It is the only section of Meadowlands to be redlined.

The houses, valued between R55 000 and R60 000, were built in 1989 by a contractor named Piet Smit. He was later found guilty of shoddy workmanship in the development, but has escaped liability by changing the name of his company five times. The plans — many of which do not exist or refer to the wrong houses — were "approved" by the Diepmeadow City Council, which has since become part of the Western Metropolitan Substructure.

During their battle with the residents, the banks have been represented by Ismail Ayob, President Nelson Mandela's attorney. Ayob, who was unavailable for comment, acted for Majola during the 1976 Soweto riots.

A senior official from one of the banks, who has been intimately involved with the saga over the years, said the banks did not have a duty to ensure the quality of the houses. The official, who asked not to be named, confirmed the banks had offered to lend the residents more money to improve their houses. He said many of the faults in the houses were caused by poor maintenance.

Majola says that bank inspectors did come to look at their houses but did not get out of their cars.

Odette Geldenhuys, an attorney at the Legal Resources Centre which is representing the residents, says the banks should have a common law duty of care to monitor the quality of the houses for which they lend money. But she says this has yet to be tested by a South African court. "The banks are dealing with an ignorant consumer market. They should take some responsibility ..."

Geldenhuys says she is negotiating with the council to pay the residents compensation. She expects the local council to make the payments. Of the MIF's collaboration over the redlining, she says: "It is shocking and disgusting and probably unconstitutional."

The residents' letter to Premier Tokyo Sexwale, Finance MEC Jabu Moleketi and Housing MEC Dan Mofekeng says: "The MIF was established to facilitate the flow of financing to the townships. Instead, as you can see, the MIF is the kiss of death ..."

Rainbow stopped in its tracks

(58) AAG 1/3/97

BRUCE CAMERON

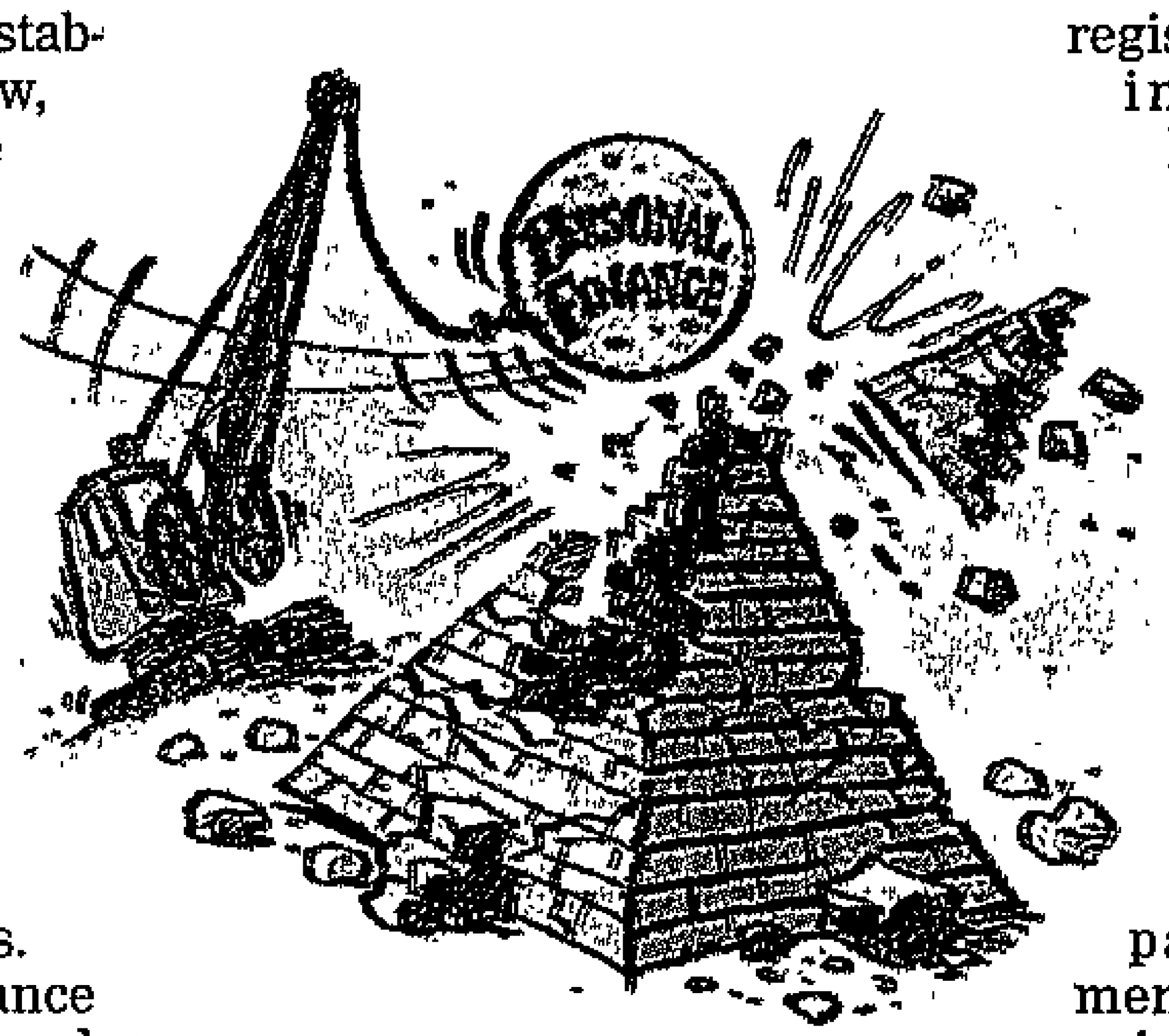
The pyramid organisation, Rainbow Business Club, has been stopped in its tracks with the Reserve Bank ordering that all money paid to it by members be refunded.

The order was issued this week in terms of the Bank Act, which limits who can take cash deposits.

The order follows an investigation into the pyramid scheme by accountants Deloitte & Touche on the request of the Reserve Bank.

Simultaneously Professor Louise Tager, chairperson of the Business Practices Committee, which issued a warning in September last year advising the public they could lose money in the Rainbow scheme, has announced another investigation to establish if Rainbow, and people involved with the club, are involved in a harmful business practice.

The Business Practices Committee is also undertaking a general investigation into pyramid schemes.



Personal Finance started warning readers as early as last year, soon after the club was started by a number of people from Britain, that putting money into the club could be a risky venture.

Because of these warnings, Personal Finance has been subjected to a campaign of condemnatory letters, often signed with fictitious names and addresses, while staff members have received telephone threats of physical violence against themselves and families if we did not stop writing about Rainbow.

The warnings to investors were part of the undertaken given by Personal Finance at its launch one year ago this week that everything possible would be done to inform readers of the pros and cons of different investment instruments.

With proliferation of different types of get-rich-quick schemes in South Africa it is one of the areas in which we have advised readers to be cautious.

It is understood a number of alleged contraventions by the Rainbow Club and its organisers, including offences under the Bank Act, are also being investigated by the authorities.

People named in the Business Practices announcement are: Stuart Kitchen, John Crane, Gary Roche, Greg Davies and Stuart Davies. Also subject to the investigation are any director, promoter, member, employee or agent.

It is understood similar investigations could be instituted soon against two other pyramid clubs: Newport, whose registered address is in the Netherlands; and Millennium about which Personal Finance does not know much at this stage.

All the clubs operate in much the same way, taking R10 000 payments from members with the promise that they will make a fortune as they build up pyramids.

Most of the members are recruited at meetings which are conducted like religious revivalist services.

Personal Finance has been unable to establish permanent addresses in South Africa for any of the clubs.

Rainbow provides an address in Liverpool, Britain while its organisers are not South African citizens. The chief organiser Stuart Kitchen can only be contacted by cellular telephone.

All transactions with all of the clubs have been in cash.

The tax authorities are also looking at the implications with the view being that all transactions are taxable.

No pot of gold with get-rich-quick Rainbow

(68) Star 1/3/97

By PAUL KIRK

Dreams of finding a pot of gold at the end of the rainbow collapsed yesterday when the multimillion-rand Rainbow Scheme was crushed..

The Reserve Bank put an end to the scheme at a meeting in Umhlanga yesterday. About R40-million has been plunged into the get-rich-quick venture.

The closure follows a two-week investigation by forensic auditors appointed by the Reserve Bank. It found that Rainbow was illegally conducting a banking business.

But it is not only the directors of the business who could be in hot water – members of the scheme may also face criminal prosecution because, by taking part in the scheme, they have contravened regulations regarding pyramid schemes set out in the Harmful Business Practices Act.

The auditors issued a stern warning to the public not to participate in any similar scheme. Yesterday three of the directors of Rainbow, John Crane, Stuart Kitchen and Gary Roche, were called to a meeting in Umhlanga.

At the meeting the Reserve Bank directive ordering them to cease operations was handed over. Crane undertook to help police in their investigation.

SEE PAGE 17

Bank of India opens in SA

(58)

Belinda Beresford

BD 3/3/97

THE State Bank of India opened its first office in Johannesburg at the weekend, lured by the increasing trade between SA and India.

Bank chairman Panduranj Kakodkar said the new office, the base for the company's banking operations in southern Africa, would initially focus on corporate banking, in particular trade-related business. The bank expected to get a licence to deal in foreign exchange within the next few months.

Opening endowment capital was R67,5m and asset levels were expected to be around R190m at the end of the first year, Kakodkar said.

Kakodkar said the bank would probably open a dealing room and take on project financing when it was more established. SA banking regulations precluded it from retail dealing operations unless they were worth more than R1m.

He said there were similarities between the exchange control regimes in India and SA. There had been an increase in joint ventures between the two countries, but controls were hampering direct investment. He expected exchange control to be removed in both countries in the next few years.

In March last year, the bank had assets of more than $42,08bn and paid up capital and reserves of $1,59bn.

BANKING *Small businesses and industries to get special attention*

State Bank of India opens in SA

CT(BR) 3/3/97 (58)

Nancy Myburgh

FINANCIAL SERVICES EDITOR

Johannesburg — India's largest commercial bank, the State Bank of India, opened a South African branch in Johannesburg at the weekend, and will open one in Durban soon, the bank said on Friday.

The bank will focus on building up trade between India and South Africa, which is worth about R2 billion a year, and should reach nearly R3 billion by the end of this year, it said.

It would give special attention to small business and industries, said Pandurang Kakodkar, the chairman, who was in Johannesburg at the weekend for the inauguration of the new branch.

Kakodkar said that all commercial banks in India, domestic and foreign, are required by law to devote 40 percent of their lending to small-scale industries which have capital of less than $1 million, small business and agriculture.

India's economic growth jumped from an average of about 3,5 percent in the early 1990s to more than 6 percent last year, according to the magazine Infrastructure India, because of economic reforms including the abolition of most licensing requirements, liberalising restrictions on private investment and the relaxation of some forms of exchange control.

MONEY MATTERS *State Bank of India officials Ram Sabnis, chief executive of the Johannesburg branch, and group chairman Pandurang Kakodkar* PHOTO: JOHN WOODROOF

Kakodkar said the Indian finance ministry announced on Friday that it had asked the Indian central bank to investigate ways of abolishing the rest of the country's exchange control laws, which he said were very similar to South Africa's.

But Indian nationals living outside the country had the right to hold foreign currency within Indian banks, for which they received a slight interest incentive, at a rate 25 basis points above the benchmark London Interbank Offered Rate, or Libor.

"This is a good way of getting stable deposits," Kakodkar said. Indian banks had about $6 billion in foreign currency deposits under the scheme.

The State Bank of India's South African branches would also give foreign currency loans to South African corporations and banks, Kakodkar said.

It would provide forward currency cover, a market from which the Reserve Bank had pledged to withdraw, for importers and other types of businesses, he said. The bank has spent about R67,5 million setting up its South African operations.

CAPE ARGUS, **MONDAY,** MARCH 3, 1997

Maharaj asked to kick out chief of accident fund

Out of control, says board

ARG 3/3/97 (58)

CLIVE SAWYER
POLITICAL CORRESPONDENT

A group of board members of the Multilateral Motor Vehicle Accidents Fund, to which all motorists contribute through the petrol price, have asked that fund chief executive Willem Swanepoel be fired.

They complain of frustration as a result of his alleged lack of co-operation with the board.

Tensions erupted at a heated meeting of the board in Pretoria, where a resolution was tabled by members calling for Mr Swanepoel to be removed from office.

The resolution emphasised that Mr Swanepoel had done much to improve the financial condition and administration of the fund, but said the new board, appointed after the 1994 election, had not been able to control him.

It called for an investigation of the matter by the National Assembly committee on transport.

The fund was set up to compensate people for injuries in road accidents for which they were not responsible or only partly responsible. Funded through a fuel levy, it has been the source of great concern in recent years because of its huge deficit.

Claims against the fund were reported in October to be increasing at a rate of 20 percent, totalling about R7,35-billion.

Although no formal decision was taken on the motion, said to be supported by most board members, it was decided that transport director-general Khetso Gordhan should discuss with Transport Minister Mac Maharaj the appointment of a public relations officer in the minister's office.

Unhappiness about Mr Swanepoel surfaced at a meeting of the National Assembly committee on transport in January, when the committee asked the board to exercise proper control over him.

Alleged incidents which led to last week's resolution included Mr Swanepoel sending staff to Australia to inspect computer systems to administer a no-fault vehicle accident insurance system.

It is understood no decision had been taken yet on which system South Africa had opted to use and the board was allegedly not informed about the trip to Australia.

There was also unhappiness about Mr Swanepoel telling a hearing by the parliamentary public accounts committee last year that lawyers often overcharged clients, an incident which led the board to ask him to not use such terminology.

Mr Swanepoel also allegedly went against the board by not revising a white paper on a future motor vehicle accident insurance system in line with its wishes.

This followed a recommendation, after public hearings at a joint meeting of the National Assembly committee and the board in November, that the views of the public be incorporated in the revised draft.

The resolution claimed the draft produced by Mr Swanepoel at the next meeting, in January essentially restated the proposals in the original white paper. The board had been acutely embarrassed.

The board members who backed the resolution said Mr Swanepoel had a hidden agenda which left little or no room for democratic considerations.

The board, which has no legal power to fire the chief executive, will have to rely on a decision by Mr Maharaj.

Contacted for comment, Mr Swanepoel said he had not been at the meeting. He confirmed he had been informed of its outcome, but declined to comment.

Mbeki hits out at SA's 'parasitic' pyramids

BD 4/3/97 (58)

Shareen Singh

BLACK business consortiums should decrease their reliance on pyramid structures as a vehicle for black economic empowerment, Deputy President Thabo Mbeki said yesterday.

Speaking at the launch of National Empowerment Corporation (NE Corp) in Johannesburg, Mbeki cautioned black business not to project itself as a "parasitic class that can thrive only on pillaging state resources". He said most black empowerment deals appeared limited to existing economic activities, and created no new jobs.

The government would like to see the emergence of more black consortiums, but stressed that their investment should focus on sustainable growth and job creation in sectors such as manufacturing. He praised the NE Corp for pooling the limited financial capacities of various black businesses.

The NE Corp emerged eight months ago during the sale of Johnnic to the National Empowerment Consortium (NEC) as a vehicle to enable smaller players to get a stake in the industrial corporation. As a collective of smaller investors, the NE Corp managed to secure 3% of Johnnic for R300m and representation on the Johnnic Board.

NE Corp chairman Mashudu Ramano said the company increased its shareholding base to more than 300 000 and 30 investment groupings with a total investment capital of R275m. The company had plans to list on the Johannesburg Stock Exchange within three years. Two big deals were in the process of being finalised and these would add more value to the company, Ramano said.

NE Corp's shareholders are spread across seven provinces and include Nafcoc Investment Holding Company, SA Democratic Teachers Union Investment Trust, Enterprising Women's Investment and Brimstone Investment Corporation.

Ramano said over the next two years NE Corp would focus on growing businesses in the industrial, financial services, printing and retail sectors. Its major objectives were to "obtain financial empowerment by acquiring meaningful stakes in growth sectors, and ... economic empowerment by participating at an operational level". The three transactions concluded thus far have "doubled shareholder value", he said.

Deputy President Thabo Mbeki, flanked by NE Corp vice-chairman Connie Nkosi, right, and chairman Mashudu Ramano, left, at the launch of NE Corp in Johannesburg yesterday. Picture: GARTH LUMLEY

Investors lose out as pyramid scheme folds

LLEWELLYN JONES (68)
BUSINESS REPORTER
ARG 4/3/97

The Rainbow Business Club, a pyramid investment scheme run by British nationals, has collapsed after the operators fled the country – leaving investors very little chance of getting their money back.

Robert Cameron Ellis, an assistant general manager for legal services at Deloitte & Touche, which is investigating Rainbow and two other similar pyramid schemes, said he did not expect to find the money to pay back investors.

It is believed that the five directors who ran Rainbow – Stewart Kitchen, Gary Roche, Stewart Davies, Greg Davies and John Crane – fled the country last week just ahead of the Reserve Bank's edict that the scheme fell foul of the Banks Act.

Mr Kitchen lived in high style Constantia, allegedly paying more than R20 000 a month rent.

According to Mr Cameron Ellis, the luxurious home is deserted.

Rainbow was ordered to pay back investors' money, estimated at anywhere between R40-million and R65-million.

Rainbow's promoters have to repay public R40-million

Star 4/3/97 (58)

By June Bearzi

The directors of the Ponzi-type pyramid scheme Rainbow International Business Club recently made a bid to buy a luxury Durban home for R1,6-million on condition the owner moved out within 24 hours.

Apparently, the home offer was part of Rainbow's strategy to legitimise its operation in South Africa by providing the authorities with a fixed address. The homeowner said although the offer was tempting the family was unable to move out overnight.

However, this plan of Rainbow directors Stuart Kitchen, John Crane, Gary Roche, Greg Davies and Stuart Davies has failed because the authorities have outlawed the get-rich-quick scheme.

On Saturday the Reserve Bank halted the scheme at a meeting with the Rainbow promoters at Umhlanga following an investigation by auditors which found the pyramid scheme had illegally been operating a banking business.

In another dramatic step the promoters were ordered to repay the participating public about R40-million which has so far been handed over by recruits at Rainbow's highly secretive by-invitation-only meetings.

Amid threats of legal action by Rainbow International, Star Line ran an article in October last year highlighting the dangers of investing money in the scheme.

At the time, Star Line pointed out that, according to informed opinion, by the time 14 steps have been taken in a Ponzi pyramid scheme the total number of participants will have to be larger than the earth's entire population for the scheme to continue growing. So most Ponzi schemes are only uncovered as scams when no new investors can be recruited.

Rainbow enticed people to pay R10 000 fees by using psychological ploys such as whipping up evangelical-like fervour and flashing large bundles of cash during meetings.

Recruits were promised R1 800 for each person they personally got to join on the first level. A further R3 000 per person was promised to the first level recruits for more enlistments.

At the time Star Line first exposed the scheme six months ago, Rainbow's Liverpudlian promoter, Stuart Kitchen, maintained that Rainbow was not a "pyramid" but a "rhomboid parabola". However, experts say no matter what fancy words are used to describe this scheme the bottom line is that it is an illegal Ponzi scam and ultimately investors will lose their money when it becomes saturated and there are no new enrollees.

Bid to buy R1,6-m home to legitimise scheme fails

The Business Practices Committee announced on Friday that it, too, has launched an investigation into the Rainbow International Club, one of a number of pyramid schemes which have taken the country by storm over the last few months.

The Business Practices Committee has warned that the scheme could be prejudicial to consumers.

The committee points out that consumers should take note of the risks involved before joining.

The scheme is run by paying out old members with the funds raked in from new members.

In a legitimate pyramid scheme, often promoted as multilevel marketing, the entry fee is generally small and is used to acquire stock to be sold by members.

The Business Practices Committee has said that any person may within 14 days from the date of the notice in the Government Gazette dated February 28 make written representations about the investigation to The Secretary, Business Practices Committee, Private Bag X84, Pretoria 0001.

Bill targets financial services

Tim Cohen (58) BD 5/3/97

CAPE TOWN — Legislation was tabled in Parliament yesterday which strengthens the courts' ability to intervene when members of the financial services industry conduct themselves fraudulently or dishonestly.

According to the memorandum of the Financial Institutions Amendment Bill, problems encountered in certain sectors of the financial services industry revealed legal deficiencies.

These deficiencies led to unsuccessful litigation by the executive officer of the Financial Services Board in respect of persons doing unauthorised business, the memorandum said.

It is understood that one such problem has been that the board was found to have no locus standi when taking a case of apparent fraud by an insurance broker to court because it could not demonstrate it had a "real interest" in the matter.

The legislation, among other things, enables the High Court to issue an order prohibiting financial institutions from doing unauthorised business or enforce the duties or responsibilities of financial institutions.

The legislation applies to the financial services industry rather than to banking institutions, which are largely covered by other legislation.

Pyramid scams brought to ground

(58) ST 9/3/97

PETER De IONNO

TWO multimillion-rand pyramid schemes have been closed down in the space of a week, dashing their yuppie members' hopes of making a killing.

A third syndicate has stopped taking money for membership until courts rule on the legality of the hard-sell "money distribution" business.

Friday's Reserve Bank order to shut down Gauteng-based Newport Business Club, which has collected more than R7-million since December, will be challenged in the High Court in Pretoria on Tuesday.

Next on the list for Deloitte & Touche investigators is Millenium, which operates from Durban.

Millenium's manager, "Doc" Hawkins, said he would stop trading until the Newport case was resolved. While he claimed legitimacy as a "corporate discount" club, charging R10 000 for membership, he admitted the cash incentives paid for recruiting new members were modelled on the illegal Rainbow Business Club.

However, the British founders of Rainbow, which took R40-million cash from the public in eight months, have chosen flight over fight, leaving last Friday, within hours of being called to a meeting with Reserve Bank-appointed investigators Robert Cameron-Ellis and Corne Oberholzer.

Two days before Rainbow's national operation was closed, Stuart Kitchen, Gary Roche and Greg and Stuart Davies flew out of Johannesburg international airport to Paris.

Since then, fraud investigators, searching for some R20-million of the takings, have been unable to contact the fast-talking, high-living salesmen.

Kitchen, with a taste for expensive jewellery, paid R20 000 a month for a house in Cape Town's Constantia.

Scratch handicap golfer Stuart Davies, who rented a house and played at Johannesburg's exclusive Dainfern golf estate, was this week reported to be on the green at a tournament in Spain.

The men arrived in South Africa in June and linked up with Briton John Crane in Durban. Together with Durban lawyer Ian Stokes, they are among the first names on the 4 000-strong Rainbow membership list.

Crane pulled out of a R1,6-million deal to buy a house in Amanzimtoti to leave for the UK this week and Stokes, believed to be on vacation, could not be contacted.

Hyped-up recruitment meetings, combining the energy and emotion of hot gospelling evangelism, motivational psychology and mass hysteria, convinced hundreds of Durbanites that Rainbow would bring them a pot of gold.

Prospective members were tempted to become junior partners for an outlay of R10 000.

The same formula worked in all major centres. The snowballing effect of the membership drive means as many as 2 000 recent members, the lowest levels of the pyramid, will have lost their money.

Members who joined in the past month at branches set up in Bloemfontein and Port Elizabeth are expected to be particularly hard hit.

"That music and that handclapping was like a circus," said Alexis du Toit, a charcoal merchant from Bloemfontein. "I thought it could work but now it looks like a mug's game."

More than a dozen other members interviewed denied making money out of their gamble. Many, including a woman keeping her blunder a secret from her husband, said they had borrowed their stake.

Meanwhile, Peter Sealey, a British solicitor speaking for Newport, incorporated in Nevis, in the West Indies, claimed senior counsel had advised that Friday's closure order was invalid. Newport had complied with SA laws and the R14 000 membership fee was lawful.

Newport criticises shutdown

(58)

Patrick Wadula

BD 10/3/97

NEWPORT, a Gauteng based business club, has criticised the Reserve Bank's order to close down its operations for allegedly contravening the Banks Act.

Newport regional director Martin Bradley said yesterday the club had no objection to being investigated and welcomed the regulation. He said Newport had complied with all requirements of the Companies Act. This included registration with tax authorities, VAT and all other necessary authorities.

His reaction follows the Reserve Bank's order on Friday for the Newport Business Club to stop taking deposits and repay all money taken from the public.

Deloitte & Touche forensic attorney Corne Oberholzer said Newport's bank account had been frozen. The forensic division of Deloitte & Touche, Pretoria has been appointed to manage and control the repayment process.

"The Reserve Bank was satisfied that Newport had contravened the Banks Act, but now we still need further information on Newport's investors and how much money has already been invested so that repayments can be made," he said.

Oberholzer said Newport had enough time to submit the required information before the drastic measures.

Bradley said the club would challenge this in the Pretoria High Court tomorrow. He said the application by the Reserve Bank to cease their operations was unlawful and unconstitutional.

Charges possible over pyramid schemes

(58)

CT 10/3/97

JACKIE CAMERON
CONSUMER WRITER

AS the Reserve Bank closes the net on pyramid scheme operators for contravening the Banks Act, it has warned that participants could face criminal charges.

A wave of the fast-buck schemes has swept the country since early last year, and they are now collapsing like dominoes.

Newport Investments LLC, which could have netted as much as R21 million, was ordered to stop business by the Registrar of Banks last week as it was acting like a bank, but was not registered as one.

Despite the order, forensic accountants appointed to investigate the scheme have received information that the group — which runs revivalist-style meetings to allegedly lure people into parting with their money — is allegedly continuing with business.

The Rainbow Business Club, also a pyramid scheme, received a similar instruction to stop business — and its directors have left SA.

This particular scheme is believed to have netted about R40m, of which about half has been paid out in commissions to members who have lured friends and family into parting with savings.

Mr Stuart Kitchen, a key member of the Rainbow Business Club, told the Cape Times — shortly before his wife returned to Britain and he disappeared — that there were at least 11 schemes "copy-catting" his operation.

Investigators have so far only uncovered four schemes. Investigations into Starlight and Millennium have just started.

Mr Robert Cameron-Ellis, of Deloitte & Touche, which has been appointed to investigate for the authorities, said yesterday: "Participants may be contravening the regulations regarding pyramid selling schemes, in terms of the Harmful Business Practices Act, and may be committing a criminal offence. However, the authorities want to concentrate on the big fish."

Lenders campaign for Usury Act amendment

58

Sowetan 10/3/97

By Shadrack Mashalaba

> **The association has about 210 000 clients who have taken loans**

THE Association of Micro Lenders, an association which claims to issue out small loans to small business, says it will continue its campaign to ensure that the Usury Act is being amended.

This is despite the government's announcement nearly three years ago to do so.

The Usury Act, which relates to the granting of credit and interest charges, exempted the application of interest rate ceilings to money lending transactions not exceeding R6 000. However, it was regulated by the new Government in 1994 following its (Government's) announcement to remove the exemption to protect the public.

AML chairman Johan Jonck says an amendment to the Usury Act will allow proper regulation by the Government.

"We as people involved in the industry want to see the industry strictly regulated to ensure that people are not exploited and make sure that money is made available freely to those in need," he says.

Jonck says AML was formed last year as a voluntary association whose 750 membership includes businessmen and individuals who are concerned with the granting of credit and the interest charged.

"The setting of interest rates by members when lending is left to the market to decide," he argues.

Develop standards

He says the association has as its objectives to strive to redress lack of knowledge and understanding of the industry, develop and implement standards of good practice, creating self-regulatory mechanisms to ensure that these standards are upheld.

AML provides the service of micro lending to people who are unable to obtain loans or credit from financial institutions because of lack of security.

AML vice-chairman Hendrik Smit says the association made available R7 million of study loans in January this year.

Last year about R12,4 million was spent on loans for small business enterprises, adds Smit.

About 80 percent of borrowers were from the black community and the association has about 210 000 clients who have currently taken loans.

Responding to the existence of AML, Department of Trade and Industry assistant director for trade regulations and credit protection Lizell Schultz says so far DTI has no problem about the existence of such organisations.

"We cannot prescribe to the industry how it should operate as long as the public is not exploited. However, the DTI was reviewing the exemption of micro lenders in the Usury Act, a process that will take two years to complete," says Schultz.

Cutbacks proposed on payouts to accident victims

Linda Ensor

CAPE TOWN — Proposed changes to the draft white paper on motor vehicle insurance — which was discussed behind closed doors in Parliament yesterday — would severely limit the benefits paid to injured people, an attorney has claimed.

The benefit provisions were worse than in the original draft, said Hilton Munro, a legal representative of several interest groups including road safety organisation Drive Alive. For instance, the permanently impaired would not get any payment for future loss of earnings, future medical expenses and general damages.

"People will get virtually nothing," said Munro. "All that they would get would be payment for past medical expenses — provided these were incurred at an accredited medical facility — and loss of earnings for a maximum of a year, limited to R4 000."

Furthermore, injured people would receive only 20% of the claim as a lump sum payment, with the rest being apportioned on a monthly basis.

In terms of the proposals, all accident victims, regardless of who was at fault for the accident, would be covered for emergency treatment on the same basis, with the question of fault being used to determine the size of the benefit to the permanently impaired.

Munro was angered that the Multilateral Motor Vehicle Accidents Fund (MMF) board had taken no account of objections raised at last year's public hearings on the draft white paper.

However, board members were quick to point out that the proposals were still just a "working document".

The parliamentary portfolio committee on transport decided to close the meeting to the press and public on the grounds that it needed to consult the MMF board on formulation of policy.

Chairman Patricia de Lille said the white paper would be available for public comment in about three weeks' time. The committee would conduct public hearings on its proposals.

Meanwhile, Drive Alive has called on De Lille to institute an inquiry urgently into the conduct of MFF chairman Willem Swanepoel to determine his role in the process of drafting the white paper and his accountability to the board.

Chairman Moira Winslow claimed in a letter to De Lille that Swanepoel had ignored the board's instructions with regard to the drafting of the draft white paper and proposed that the inquiry should also examine the practices and policies of the board and its handling of claims.

Alternatively, Drive Alive called for the immediate termination of Swanepoel's employment.

BD 11/3/97 (58)

Microlenders lose R150m through debt

Business Day Reporter

THE SA microlenders' industry suffered losses of about R150m in bad debt a year, but it was the only sector prepared to grant such loans, said Johan Jonck, chairman of the Microlenders' Association (MLA).

To compensate for the risks, relatively high loan rates had to be charged.

(58)

Jonck said financial institutions such as banks and building societies were ignoring the needs of people from disadvantaged communities and those wishing to take out small loans, claiming that such loans were simply too risky.

"We have looked too long at Africa and its needs from a European bureaucratic perspective. This is one of the reasons why questions are raised about microlenders."

Jonck said it would be short-sighted and discriminating to disregard the needs of the small money borrower. Microlenders were rendering a service which was not available in any other form or offered by financial institutions.

Jonck said the trade and industry department, financial institutions and the MLA should join forces to structure the industry.

"Too much time is spent on finding fault and concentrating on problems rather than helping to find solutions.

"This is counter-productive and to the detriment of millions of small borrowers. We must be realistic and accept the fact that most of the small borrowers . . . had little chance of building up security through solid bank balances, houses and other fixed assets.

"The time has come for people to decide for themselves what is acceptable, even if this should fly in the face of the European bureaucratic approach of the business sector," Jonck said. BD 13/3/97

The MLA's objective was the creation and preservation of a code of ethics and standards within their industry.

instructi was dressed in civilian clothes and on his way about 300 rou

High Court permits Newport to operate

(58)

Stephané Bothma BD 13/3/97

PRETORIA — The "pyramid-type money-making scheme" Newport business club could resume its operations until such time as a court decided its actions were unlawful, the High Court ruled yesterday.

Judge Fanie Mynhardt ordered that a Reserve Bank directive halting the operations of Newport be set aside, finding that the Bank and its appointed investigators had failed to conduct a proper inquiry into the nature of the business club's operations before issuing the directive on Friday, March 7.

"Managers (to take control of Newport) were appointed and directives were issued at a time when it could not have been done.

"Newport has also not been given the opportunity to put their side of the story before the registrar as required by law," Mynhardt found.

The directive — in terms of which managers were appointed to take over control of Newport and the club's bank account was frozen — was issued on the grounds that Newport was conducting the business of a bank while not registered to do so.

The managers also had to control repayment to investors — believed to total approximately R14m.

Independent auditors appointed by the banks registrar claimed in an affidavit before Mynhardt that the money taken by Newport from investors was being flown out of SA on a weekly basis and that R1,7m had already been transferred from an attorney's trust account into the private account of Newport.

An application to determine whether or not Newport's business operations are lawful will be heard in the High Court next week. Until then, Mynhardt ruled, Newport, the subsidiary of a West Indies-registered company, could continue to hold weekly meetings at which prospective investors are told how to "invest" R14 000 each with no guarantee of a refund.

Mynhardt said the potential prejudice to Newport and its investors, should the business activities of the club be halted, outweighed the potential prejudice to members of the general public as claimed by the registrar and the Bank.

The judge stressed he was not making any finding on the legality or otherwise of the business operations of Newport — to be decided in next week's court action. He ordered that the registrar and other respondents pay the full costs of the application.

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UK operations buoy Liberty Life

(58) BD 14/3/97

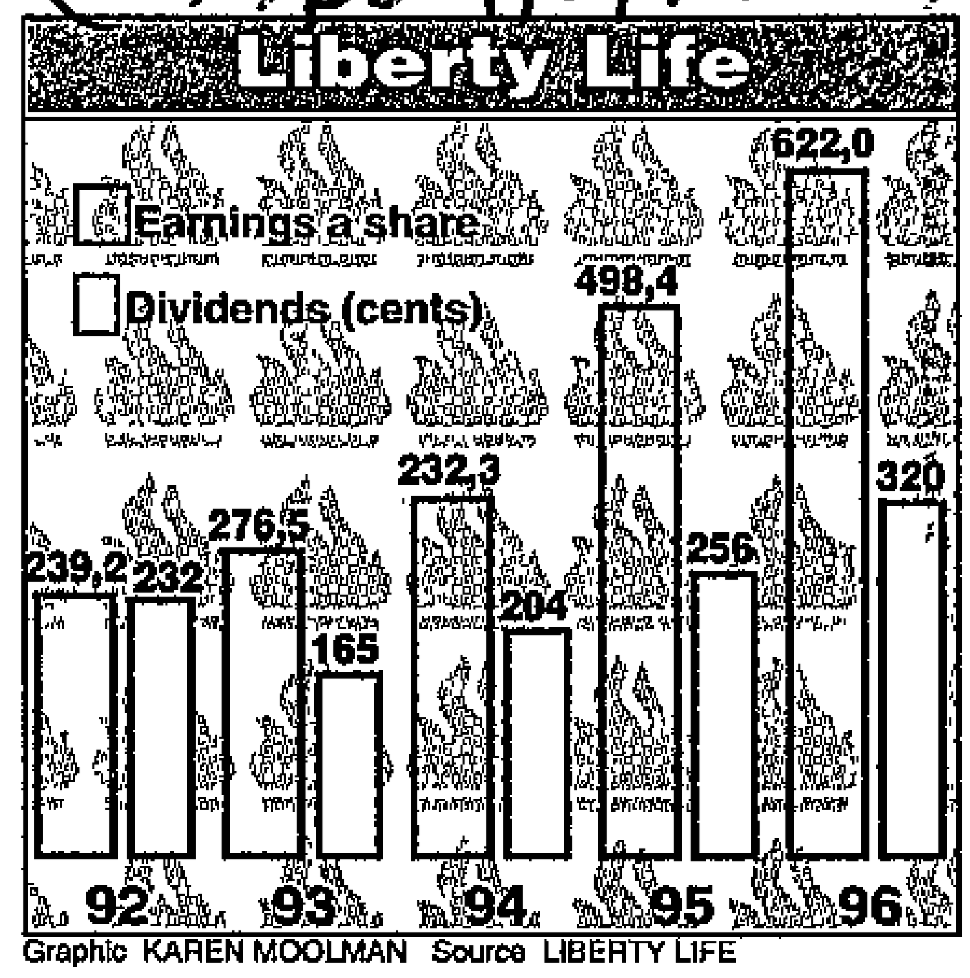
Samantha Sharpe

CAPE TOWN — Life insurance group Liberty Life Association of Africa lifted its attributable operating surplus 27,8% to R1,5bn in the year to December, benefiting from a sound performance by its UK operations and a lower tax charge.

The healthy growth was accompanied by a 24,8% increase in operating surplus a share to 622c after an increase in shares in issue. The group announced a 25% hike in total dividend to 320c. A capitalisation share award was offered in place of dividends.

Liberty Life chairman Donald Gordon said the focus on quality long-term investment, unquestioned financial strength and an unrivalled client profile had enabled the group to emerge with "truly outstanding results".

"Recognition over a prolonged period of the importance of internationalisation and a global perspective was vindicated by the exceptional contribution from our UK operations, which not only took advantage of the buoyant and



Graphic KAREN MOOLMAN Source LIBERTY LIFE

prosperous UK economy, but, also through an exceptionally strong British pound ... ameliorated the disastrous impact of the 40% depreciation of the rand against sterling," he said.

Gordon said an 18% rise in total new business to R4,7bn helped lift net

Continued on Page 2

Liberty

(58)

Continued from Page 1

BD 14/3/97

premium income and annuity considerations 19% to R7,7bn. New annualised recurring premium income rose to a record R1,09bn from R1,02bn previously. Single premiums came in at R3,63bn from R2,98bn, excluding automatic loans from inception on wealth-creator policies.

Investment income rose 35% to R4,5bn, largely attributable to a higher interest factor. However, investments surpluses for the year attributable to life funds fell to R950,4m from R4,1bn.

Benefits and claims to policyholders rose to R5,5bn from R4,4bn in the previous year with commissions standing at R662,9m compared with R601,7m previously. Gordon said excellent bonus levels were recorded on the various categories of policies issued, totalling R3,2bn.

An increase in management expenses to R523,2m from R453,9m, in line with income, R265,7m tax charge versus R390,7m at the same time last year and transfers to life funds of R4,7bn from R6,9bn brought the net taxed operating surplus to R1,5bn. The lower tax burden was attributed to overprovision in previous years.

On the balance sheet side Gordon said Liberty Life's assets had reached R82,5bn, an increase of R12,7bn from the previous year, boosted by its UK property investments, which enjoyed a significant valuation uplift.

Total capital resources rose R6,4bn to a record R28,2bn. "Of this figure more than half of the total increase accrued to minority shareholders. This is indicative of the fact that the bulk of this wealth creation for the first time emanated from the UK where we place great reliance and importance on outside shareholder participation."

Liberty Holdings, which derives 89% of its consolidated taxed operating earnings from Liberty Life, saw attributable profit rise 26,2% to R901,7m, with operating earnings a share 23,9% higher at 1 866,1c and the total dividend 28,6% higher at 900c.

"Discretionary funds and property interests entrusted for management to the group by the international and local pension fund clients and other institutional investors now amount to R33bn. As a result the Liberty Life group has assets of around R116bn under its management and control."

PYRAMID INVESTMENT SCHEMES (58)

BRITS INVADE SA MARKET

FM 14/3/97

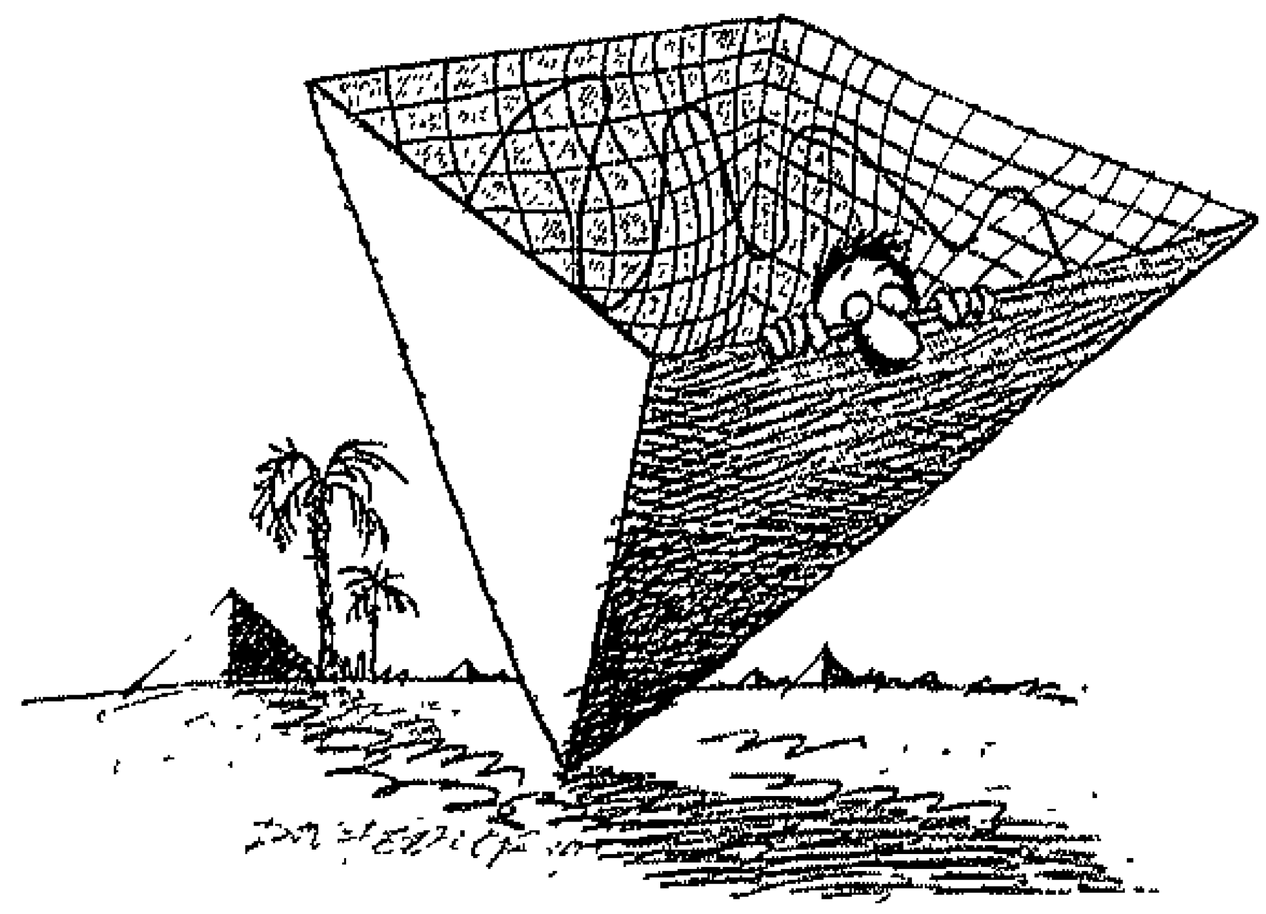
Though not strong on maths, the implementers of pyramid investment schemes are proving linguistically inventive. To escape the unpleasant connotations attached to pyramids, they are coining new terms for their activities.

Two schemes, recently halted in SA for transgressing the Banks Act, were described by their founders as a rhomboid parabola (mathematically a contradiction in terms because the one has angles and the other curves) and a matrix.

The first term was used by the Durban-based Rainbow Business Club and the second by the Bedfordview-based Newport Club, which is challenging its suspension. The case is continuing.

Whatever it is called by its designers, a money circulation scheme by any other name is illegal in most jurisdictions. And for good reason — Albania is reeling from the failure of similar schemes.

However, the purveyors of the concept that there is an endless pool of "recruitment fees" which can be tapped in return for a "membership fee," are spreading their tentacles internationally SA has recently felt the effect of tighter controls in the UK, as Britons have been exploring other pastures — among them SA.



The five managers of Rainbow, which was suspended on February 28, were UK citizens, says Corne Oberholzer, of Deloitte & Touche, which has been retained by the Reserve Bank to control what was left of the funds

The managers are Stuart Kitchen, John Crane, Gary Roche, and Greg and Stuart Davies who have since left SA for Paris.

Rainbow, which started in mid-1996, had collected R40m, says Oberholzer, of which 50% was paid out in recruitment fees. Oberholzer says only R100 000 has been recovered so far.

The Bedfordview-based Newport Club, run by UK citizen Richard King until its suspension on Friday last week, has links to the Titan Business Club, a scheme closed last year by a British High Court order. In the papers filed with the Pretoria Supreme Court, Peter Allan Sealey described himself as a consultant to Newport. In the UK press last year Sealey was described as a corporate consultant to Titan

Titan, with links to operations in Germany, was banned in the UK in June. The banning was upheld in August when the Court of Appeal decreed it an unlawful lottery. Total losses to investors when the scheme was closed were estimated at £17m.

However, members were immediately enrolled in a clone, Titan International, a US-based vehicle for the same scheme Shortly after, this was also declared unlawful in the UK. Later, a third Titan scheme opened and closed.

The Trading Schemes Act was introduced last month to increase the speed at which the UK authorities can act against future money circulation operations

While Rainbow and Newport were starting up in SA late last year, a Briton was at work in Hong Kong, on a similar scheme *The Wall St Journal* reported recently that Alan O'Neill jumped bail, along with his seven partners, while police were investigating their business, Quantum Capital.

O'Neill reportedly had links with the UK Titan group.

Britons have also been active in the US In August last year, the *Financial Times* reported the state of Wyoming had become "a favourite homestead for promoters of UK pyramid schemes."

Not that South Africans are without initiative in this area Another pyramid scheme suspended recently is Venkor, based in Florida It was run by Charles Venter and M J (Rita) Engelbrecht.

Venkor has been advertising since December and has taken R500 000.

Nine people have invested the bulk of their money, says Deloitte & Touche's Frederick Mare — but most are not interested in applying for the return of their funds.

As pyramids spread throughout the world and the authorities in each country try to make their environments less pyramid friendly, this story is likely to run and run. *Ethel Hazelhurst*

HANSARD

QUESTIONS

†Indicates translated version.

For written reply:

MMF: investments 58

2. Mr J SELFE asked the Minister of Transport:

(1) (a) What total amount received into the Multilateral Motor Vehicle Accidents Fund was placed in investments by the MMF, and (b) what was the annual return on these investments, in each of the latest specified five financial years for which information is available;

(2) whether he will furnish a breakdown of (a) each investment made by the MMF, and (b) the average annual return on each such investment, in each such year? C2E

The MINISTER OF TRANSPORT:

(1) The vast bulk of the MMF's investments are handled by five external investment portfolio managers. The MMF itself maintains an investment of some R100 million in the money market for liquidity purposes. The table below reflects the moneys transferred to the investment managers, the yields they achieved, and the yields on the MMF's money market investments:

Year	Moneys Transferred (Rm)	Yield Portfolio Investments	Yields on Money Market Investment
1991/2	0	14,03%	16,47%
1992/3	0	14,24%	12,79%
1993/4	202	27,11%	10,09%
1994/5	128	3,96%	11,36%
1995/6	130	24,35%	13,96%

In addition the portfolio-investments reflected unrealised capital gains of R123m as at 30 April 1996

(2) The investments handled by the portfolio managers are not static and keep changing all the time as these managers take different views from time to time and as opportunities present themselves. They invest largely in ordinary shares and Government stock, comprising a wide variety of individual counters or items of scrip; but since individual items of scrip (and tranches thereof) are continuously bought and sold at different prices, no meaningful analysis can be made of any particular counter.

Commission on the Restitution of Land Rights

5. Mr E K MOORCROFT asked the Minister for Agriculture and Land Affairs:

Whether the Commission on the Restitution of Land Rights has offered any compensation to any persons and/or communities in the Western Cape in lieu of land claimed by such persons and/or communities; if so, in each case, (a) which persons and/or communities claimed such land, (b) where was the land located, (c) why was the decision taken to award compensation rather than return the land and (d) what compensation was paid? C5E

The MINISTER FOR AGRICULTURE AND LAND AFFAIRS:

The Regional Land Claims Commissioner for the Western and Northern Cape has prioritised 12 (twelve) cases for monetary compensation in lieu of land claimed by persons and/or communities.

(a) and (b) Please refer to the attached Schedule.

(c) The Commission is considering monetary compensation in lieu of land as this appears to be the preferred form of compensation by the claimants, subject to negotiations with the State and other parties and the final decision of the Land Claims Court.

(d) The Commission has not yet made recommendations about what amount of monetary compensation ought to be awarded by the Land Claims Court. Also refer to the fourth column of the attached Schedule.

Status Report as at Tuesday, 11 February 1997 Land Restitution cases ready for referral to the Land Claims court

(a)		(b)	(d)
Name of Claimant	*Person/Community*	*Location*	*Compensation*
B C Pool	Person	Erven 109 & 110	Alternative land in the same area of monetary compensation
C C Botha	Person	Erf 3449 Goodwood, CT	Monetary compensation
K Kumar	Person	Erf 81980 Retreat, CT	Monetary compensation
C M Wyngaardt	On behalf of his brothers as heritance	Erf 2461 Stellenbosch	Monetary compensation or compensation in the form of alternative land in the same area
A Arendse	Person	Erf 2943 Grassy Park, CT	Monetary compensation
E S Frost	Person	Erf 732 Somerset West, CT	Restitution of land or monetary compensation
E J Blake	Family representative	Erf 44528 Rondebosch CT	Monetary compensation
P J Blaauw	Person	Erf 46 Langebaan	Restitution of original property or monetary compensation
E Zoutenberg	Person	Erf 48789 Newlands CT	Restitution of original land or monetary compensation
J C Meyer	Person	Erven 2501 2510 2511, 2512, 3460 Stellenbosch	Monetary compensation
C M Rigby	Person	Erven 8829 13823 Elsies River	Monetary compensation
M C Jenkins	Person	Former Erf 951 Simon's Town	Monetary compensation

Free State: motor vehicle accidents

31. Mr R J MOKOTJO asked the Minister of Transport:†

(a) How many motor vehicle accidents occurred in the free State in 1996, (b) how many (i) occupants of motor vehicles and (ii) pedestrians (aa) died and (bb) were seriously injured in these accidents and (c) how many such accidents were caused by (i) the abuse of alcohol and (ii) speed limit being exceeded? C37E

The MINISTER OF TRANSPORT:

Information for 1996 as requested has not been made available by the Central Statistical Service as yet. Please see the following information on 1995 statistics according to the Central Statistical Service

(a) During 1995 27 044 vehicle accidents occurred in the Free State.

(b) (i) 332 occupants of motor vehicles and

(ii) 281 pedestrians

(aa) died and

(bb) 965 occupants of motor vehicles and 646 pedestrians were seriously injured.

(c) Information regarding the causes of road accidents can not be made available as no provision is being made on the SAP 352 report forms to supply this information.

Microlenders finding bad debts go with the territory

By Patrick Phosa (58)

Star 18/3/97

The Association of Microlenders, which offers relatively high-interest small loans to lower income earners, says it loses at least R150-million in bad debts every year.

But despite this loss and the "very risky nature of the venture", the association said last week it was prepared to continue granting loans.

Spokeswoman Lelanie Visser said financial institutions were not ready to grant loans to low earners because these people did not have security in cases where they defaulted.

She said the association focused mostly on people from disadvantaged communities, people who earned lower salaries and had no collateral to secure loans from banks.

"However, these people do not pay us once they have been offered loans. They sometimes give us wrong details and it is always difficult to trace them," Visser said.

She said the association only asked the applicant for a bank card and a personal identification number in order to make monthly withdrawals from his or her account.

"But nothing stops the person from cancelling his bank account. And in such an eventuality we are the losers because there is just no other way of retrieving our money," she said.

The association, which boasts an annual turnover of R5-billion, compensates for risks by charging relatively high interest rates and other services like credit card management.

Chairman of the association, Johan Jonck, said it would be shortsighted and discriminating to disregard the needs of the small money borrower.

"Microlenders are rendering a service which is not available in any other form or offered by the financial institutions.

"We must be realistic and accept the fact that most of the small borrowers do not have security," Jonck said.

The association is presently negotiating with the Trade and Industry Ministry to ensure that measures are formulated to eradicate the problem of bad debtors.

Court application to close Newport fails

(58)

Stephané Bothma

BD 24/3/97

PRETORIA — Newport Business Club remained in operation this weekend after the registrar of banks failed in a High Court attempt to close down the so-called pyramid scheme.

Judge BR du Plessis ruled that the R14 000 paid by investors to become partners in Newport did not constitute a deposit as meant in the Banks Act and therefore the company did not contravene the act by carrying on the business of a bank.

"Unlike in the case of a bank, where investors are guaranteed the repayment of their money, Newport gives its investors the opportunity to recoup initial investments (by being paid commission for introducing other investors), but investors know very well that they are putting their funds at risk."

This was the second unsuccessful attempt by the registrar to halt Newport's business dealings.

Earlier this month, a directive was issued to Newport to stop operating and the company's bank account was frozen. Auditors were also appointed to take over management of Newport. However, an urgent application to the Pretoria High Court set aside the directive.

Du Plessis said he would make no pronouncement on whether or not Newport was a pyramid scheme or if the "partnerships" entered into by the company and investors were a sham. "The sole issue I am dealing with is if the company were operating the business of a bank."

The registrar alleged in court papers that Newport, should it be allowed to continue growing unchecked, could pose a "threat to the SA economy and to registered banks".

He warned that the danger to investors, especially those who entered the scheme at a late stage, were enormous. "Because it is a pyramid scheme, it can never reach a stage where every investor gets his money back," Johann Louw SC, representing the registrar, argued.

"The inherent danger is that in the end, there are going to be losers." He said all the office bearers in Newport were foreign citizens who could not supply permanent addresses in SA.

To date, Newport had taken about R22,68m from investors with between 60 and 100 new investors recruited each week.

Robert Wise SC, representing Newport, accused the registrar of "paranoia", arguing that all investors were fully informed of how Newport operated and of the risks involved. It was an unwarranted assumption that all so-called pyramid schemes were bad and illegal. "There are similar schemes overseas that have been in operation for many years and still showed no hint of failing or collapsing."

Small loan industry welcomes self-policing

58

MPHO MANTJIU CT(BR) 24/3/97

Johannesburg — The small loan industry welcomed proposed amendments by the department of trade and industry to exercise minimal control of loan administration, Sizwe Tati, the CEO of Khula Enterprises, said yesterday.

Khula Enterprises is the finance body set up by the department two years ago.

The department has stressed the need to have a uniform minimum code of conduct to reduce the "chances of loan sharks attacking poor people out there", Tati said.

The amendments propose that organisations could introduce their own more stringent codes of conduct, but the minimum standards set out by the department should be complied with. Part of the regulatory framework gives the department the power to revoke a trade licence if a member of an organisation is found guilty of misconduct or is suspended by the organisation.

The department, it is proposed, will be represented on the councils of all self-regulatory bodies in the small loans industry. This will enable it to monitor minimum standards and disciplinary matters.

The department encouraged the introduction of an efficient and easily administered system of licensing and registration for participants in the small loans industry.

David Porteus, the general manager of the Niche Market Lenders at the National Housing Finance Corporation (NHFC), a public wholesale company that provides finance for home improvements through secondary organisations to low-income earners, said NHFC was part of the negotiations on the proposed amendments to the Usury Act.

These aimed at an efficient market with a regulatory framework for non-bank finance companies and housing institutions.

Call for probe into insurance company fund

(58)

By Anna Cox

Star 25/3/97

The Automobile Association is calling for a full investigation into the fund owned by the South African Special Risks Insurance Association (Sasria).

After recent reports that the Government wants to take the R8-billion the fund has in its coffers to repay foreign debts, the AA is demanding that the portion of money contributed to the fund by motorists be used for road safety projects.

AA spokesman Bjorn van Oort said: "We are adamant that the percentage contributed by vehicle owners be used to their benefit," he said.

The Sasria fund, which is a compulsory short-term insurance started in 1988 as an insurance against political riots, has paid out only R447-million since its inception. The Government is the final reinsurer and bears the ultimate risks.

Sasria managing director Michael Strydom said he was bemused by everyone laying claim to the money.

"We are currently holding amicable talks with the Government Finance Department. But the fund still belongs to Sasria, which is a public insurance company and is a registered non-profit and short-term insurance company." he said.

Life assurance ombudsman calls for review of his role

(58) CT(DR) 26/3/97

Marc Hasenfuss

Cape Town — The role and duties of the life assurance ombudsman should be urgently re-examined, Judge Jan Steyn, the ombudsman for life assurance, said yesterday.

Steyn assumes responsibility for the activities of the ombudsman's office when Justice Gerhardus Kotze, the joint ombudsman, retires at the end of June.

Steyn said other issues that would come under the spotlight included the way in which life industry products were sold and administered, the relationship between the consumers and life offices and how complaints were dealt with.

He stressed that these matters would be dealt with urgently. "In this regard there are several matters of principle that arise in respect of which I have requested an early meeting with those who represent the industry via the ombudsman's committee."

He said that the office's mission statement that "the ombudsman is appointed in the interests of the life assurance industry" should be reconsidered.

"My own view is that, in essence, the ombudsman seeks through mediation to keep the scale in balance between what sometimes appears to be the competing interests of the life assured and the life assurer."

Steyn was also concerned at complaints involving alleged misselling by brokers who had no formalised relationship with a life office.

He said the absence of an effective dispute resolution structure for this legitimate area of concern was, however, a matter that required urgent attention by the industry and the state.

Steyn said the ombudsman's office might be prepared to offer its services provided the necessary infrastructural support was given. "That this issue needs to be dealt with appropriately is beyond doubt ... this office may be prepared to accept an extension of its jurisdiction."

Steyn also addressed perceptions over the independence of the ombudsman's office, which is funded by the life industry.

He suggested that the ombudsman's committee levy a charge from each of its members. This charge would bear an appropriate relationship to the number of complaints referred to the ombudsman each year.

"I have suggested the consideration of such a system to the committee. I would, however, confirm that the mediation service the ombudsman performs is conducted with vigorous independence and in the public interest."

Government clamps down on pyramid schemes

BANK SUPERVISION

By ZILLA EFRAT

THE Registrar of Banks, Christo Wiese, has taken steps to outlaw "get rich quick" pyramid schemes operating in South Africa.

The type of schemes affected could include Newport Business Club and Rainbow Business Club, both of which are presently being investigated by the Business Practices Committee.

On Thursday, Wiese extended the ambit of the Banks Act to include so-called pyramid schemes.

He did this in terms of Section 1 of the Act which empowers him, after consulting with the Governor of the SA Reserve Bank, to declare any activity to be "the business of the bank".

This action makes the activity illegal unless the person conducting the activity is registered as a bank in terms of the Banks Act.

According to Thursday's Government Gazette, Wiese has declared as "the business of the bank" those business practices which accept money from people with the prospect of paying them money for introducing new members to the business.

According to Robert Cameron-Ellis, an associate director of Deloitte & Touche, the Business Practices Committee is currently drafting a mandate to investigate all pyramid schemes in South Africa.

The committee has appointed his firm's forensic division to look into Newport Business Club and Rainbow Business Club by the committee.

"Should BPC find that the schemes operated by Newport and Rainbow constitute harmful business practices, these schemes might also be outlawed in terms of the Harmful Business Practises Act," Wiese said in a statement.

Pyramid schemes have been operating in South Africa for years but have only recently been under public scrutiny after some high-profile failures in the industry.

(58)

ST (BT) 30/3/97

COMPANIES

Merger gives birth to new bank

(58) BD 9/4/97

Shareen Singh

FUTUREBANK Corporation, SA's largest black-owned banking group, formed through a merger of four banking institutions, will be launched tomorrow under the chairmanship of Thebe Investment head Vusi Khanyile.

Newly appointed CEO Inus Prinsloo, formerly of BoE Natwest, said the new bank was capitalised at more than R220m, with a capital adequacy of more than 25%.

The bank has roots in both established and emerging banking organisations, having been born out of a merger of FutureBank, Bophuthatswana Building Society and Citizen Bank, and incorporating Thebe Investments' financial services division, Msele Corporate & Merchant Bank.

First National Bank has a 25% stake, Msele Financial Holdings 42%, the Foundation of African Business and Consumer Services (Fabcos) 10%, and minorities 23%.

Prinsloo said the new bank would focus on establishing itself as a key player in niche markets. "We will concentrate on areas we are good at rather than getting involved in a broad scope of financial activities." He identified three area of business which FutureBank has targeted: merchant banking, mortgage lending in the affordable housing market with average bonds of R65 000, and providing risk minimised finance of between R1m and R2m on average.

"We have found a mechanism to minimise risk in lending to emerging entrepreneurs through international agency support and principal support, whereby the principal business entering into a contract with an entrepreneur shares risk with the financial institution," Prinsloo said.

The bank's board includes Msele CE Litha Nyhonyha, Fabcos CE Ashley Mabogoane, First National senior general manager Johan Meiring and SA Express CE Israel Skosana as nonexecutive directors. Former Citizen Bank CE Edgar van Deventer, and former FutureBank GM Trevor Fourie, are executive directors.

"In time, through skills transfer, black management will become more dominant at executive level. Our immediate strategy is to get the most experienced bankers to build the group," Prinsloo said.

PYRAMIDS *ANC Youth League and business want tougher laws*

Government crackdown urged

(58) CT(BR) 9/4/97

Françoise Botha

Johannesburg — Stiffer legislation should be adopted to stamp out pyramid schemes, which have cost unwary investors more than R80 million over the past year, business and the ANC Youth League said yesterday.

Robert Cameron-Ellis, an associate director of forensic services at Deloitte & Touche, said a lack of legislative clarity about pyramid scheme operators has hampered the process of combating the operations. This left Reserve Bank legislation as the only effective route to follow.

"The old legislation is there, but the 1980 regulations are difficult to apply because they are not clear," he said.

Cameron-Ellis was responsible for the investigation of Rainbow Business Club, which was recently closed down, and two other similar schemes, Millenium 2000 and Newport Business Club, whose future is in the balance.

The five directors who ran Rainbow left the country two weeks ago, ahead of a Reserve Bank statement that the scheme contravened the Banks Act. Rainbow was ordered to repay investors' money estimated at between R40 million and R65 million.

"As things stand at the moment, the assets of the schemes can be attached in terms of the Banks Act, as (it) happened in the Rainbow case. This legislation is very clear and will be used," he said.

Thabo Masebe, a spokesman for the ANC Youth League, said there was an obvious need for tougher legislation. "We agree with the standpoint of business and plan to approach trade and industry, the ANC policy section and eventually parliament to propose stiffer legislation."

He said: "Given this situation, I believe that government will welcome proposals for stiffer legislation if it helps to protect the public."

Interested parties, including the police and the Reserve Bank, have also called for far stronger legislation to help them do their jobs. The Business Practices Committee is also looking into the structure of the schemes and possible alternative means of regulating them.

Cameron-Ellis said: "Because they (the committee) are understaffed, it could be some time before any recommendations about changes to the legislation are made. The alternative would be to ban all pyramid schemes entirely. But this is not really feasible because there are a number of pyramid selling schemes like Golden Products and Herbalife, which are legal and based on products rather than money. Perhaps the solution is to outlaw all money-based pyramid schemes."

The schemes could also be attacked under the Gambling Act and legislation surrounding illegal lotteries.

"What is really needed, though, is more clear legislation concerning this type of scheme," Cameron-Ellis said.

Financial institutions team up to establish powerful black banking corporation

AAG 10/4/97 (58)

THABO MABASO
Business Reporter

Four South African financial institutions have teamed up to form what is thought to be one of the biggest black banking groups in the country.

They are FutureBank, Bophuthatswana Building Society, Msele Corporate and Merchânt Bank and Citizen Bank.

The new banking group is to be called FutureBank Corporation.

First National Bank has taken a strategic 25 percent stake in the group.

FutureBank Corporation chief executive officer Inus Prinsloo said the group would concentrate on mortgage lending for first-time home buyers.

It would also deal in corporate support finance, government and community-based finance, franchising and entrepreneurial finance for small and medium sized enterprises.

The group would also have a merchant bank division "which would focus on leaders in government and civil service to provide tailored and value-added financial solutions".

Mr Prinsloo said the group would strive to establish itself as a sound and respected provider of banking and financial services in its niche markets.

"The key ingredients in fulfilling this objective are unquestionable ethics and integrity, providing clients with a high level of value-added services, recognising that quality people are FutureBank Corporation's greatest asset, and achieving a superior return on capital," Mr Prinsloo said.

Other shareholders include Msele Financial Holdings, Get Ahead Financial Services and Taxi Marketing and the Foundation for African Business and Consumer Services (Fabcos).

Msele Holdings, which is 75 percent owned by Thebe Investments and 25 percent by Fedsure, will provide marketing, human resource services and support to the banking group.

Thebe Investments head Vusi Khanyile will become chairman of FutureBank Corporation.

Mr Prinsloo said one of the strengths of the group lay in the diversification of the services it offered.

Workers help themselves

Sowetan 10/4/97 (58)

By Abdul Milazi

WHAT started off as a small savings initiative by workers at a Cape Town metal company six years ago, has to date turned into a thriving R1,5-million savings cooperative with more than 600 members.

The initiative by members of the National Union of Metalworkers of South Africa (Numsa), known as the Cape Metal Employees' Savings and Credit Cooperative (Sacco), was started by 50 workers at the John Thompson Africa Metal Company in Cape Town in 1991.

This came about as a result of employers' reluctance to give loans to workers.

Sacco has since grown to more than 600 members and has spread to eight more factories.

It's newly appointed general manager, Victor Botha, told *Sowetan Business*: "We got tired of waiting for things to be done for us. We realised that we had a problem and decided to do something about it."

'After six months, members are allowed to take out loans of double the amount they have actually saved'

Botha said workers first pooled their money for six months before loans could be given to members.

27 African countries

The cooperative is managed by African Care Credit Union and the money invested in the Central Finance Facility of the Savings and Credit Cooperative League of South Africa (Saccol).

Saccol is affiliated to the African Confederation of Credit Cooperative Savings and Credit Associations (ACCOSCA), the World Council for Credit Unions (WOCCU) affiliate found in 27 African countries.

Botha says members receive 10 percent interest per year and a 12 percent dividend on shares.

"After six months, members are allowed to take out loans of double the amount they have actually saved."

He said most of Sacco's money is invested in loans to its members who are charged 20 percent interest, and the monies are guaranteed by Cuna Insurers.

"Workers have to learn to stand up and solve their own problems instead of begging management or waiting for Government to improve their lives.

"A few years ago our ceiling for loans was R6 000, but now we have increased it to R25 000," said Botha.

S Africa gets first 'indigenous' bank

(58)

Sowetan 10/4/97

Ownership shows country's diversity

By Isaac Moledi

SOUTH AFRICA will today witness the launch of the first large black-owned financial institution said to be truly representative of the country's demographics.

FutureBank Corporation, formed through the merger of FutureBank, Bophuthatswana Building Society and Citizen Bank, which incorporates Thebe Investments' financial services divisions, Msele Corporate and Merchant Bank, will have a market capitalisation of over R220 million.

The new bank will be under the chairmanship of Thebe Investments head Vusi Khanyile. It will have First National Bank as a strategic partner holding a 25 percent stake.

New chief

Former Board of Executors Natwest general manager and Ridge Corporate Finance managing director Inus Prinsloo is the new bank's chief executive officer.

Prinsloo says FutureBank's ownership reflects the diversity of South Africa because of its roots in both established and emerging banking as well as entrepreneurial organisations.

FBC's shareholders include Msele Financial Holdings (42 percent) which is owned by Thebe Investments (75 percent shareholding) and Fedsure (25 percent), FNB, the Foundation of African Business and Consumer Services (10 percent) and minorities (23 percent).

FutureBank Corporation's aim, says Prinsloo, is to establish the group as a sound and respected provider of banking and financial services.

The key ingredients in fulfilling this objective, he says, are unquestionable ethics and integrity, providing clients with a high level of value-added services and achieving superior returns on capital provided by its shareholders.

"We will concentrate on areas we are good at rather than getting involved in a broad scope of financial activities," he says.

"Our major objective will be to be a national, niche focused banking group."

FutureBank Corporation will target merchant banking, mortgage lending in the affordable housing market with an average bond of R65 000 and provide risk minimised finance of between R1 million and R2 million.

"We have found a mechanism in minimising risk in lending to emerging entrepreneurs through international agency support and principal support. The principal business entering into a contract with an entrepreneur shares risk with the financial institution," says Prinsloo.

Msele chief executive Litha Nyhonyha, FNB senior general manager Johan Meiring, Fabcos chief executive Ashley Mabogoane and South Africa Express chief executive Israel Skosana are among the non-executive board members of the new bank.

Executive directors are former Citizen Bank chief executive Edgar van Deventer and former FutureBank general manager Trevor Fourie.

Thebe Investments head Vusi Khanyile is the chairman of FutureBank Corporation.

ILPA CONFERENCE

Self-regulation for life industry urged

BD 15/4/97 (58)

Belinda Beresford

THE life assurance industry needs further effective self-regulation if it is to avoid restrictive legislative control, Life Offices Association (LOA) chairman Charles Davies said yesterday.

Speaking at the Institute Of Life and Pensions Advisers (ILPA) convention at Sun City, Davies said the industry had to accept it was going through "a potentially rough and occasionally chaotic transition" and ensure it did not follow the same route as the UK life industry.

It was necessary to "understand and remember that today's laws are frequently the result of yesterday's failure to discipline and self-regulate," Davies said.

To avoid this, the industry should adopt the policy of "seller beware" rather than "buyer beware", with clients being provided with all the information necessary to make informed decisions.

The LOA needed to concentrate on improving its voluntary code of practice, with disclosure being an important aspect, he said.

The insurance industry should not cling to previous definitions of financial services, since "there are new products and new players in our changing market and they do not care about the past".

The LOA and ILPA believed it was important to have an effective sanctioning tool or a black list to regulate intermediaries such as brokers.

However, administrative and cost implications meant the LOA did not support up-front licensing or registration, Davies said.

Business Practices Committee chairman Louise Tager also urged caution on the issue of regulation. She said registration could give the impression of government approval and thus give consumers false security.

The idea that government regulations could protect consumers totally was a "pernicious myth which leads consumers to believe that they need not guard against harm".

Government had clearly signalled its intention to provide "a sound consumer policy" at both a national and provincial level. Legislation should be enacted only if it was absolutely necessary and in the public interest, she said.

Government must provide an accessible and efficient legal framework for consumers to enforce their rights. There must also be sufficient legislative disclosure requirements to enable consumers to make informed decisions, Tager said.

Until recently, self-regulation had been "self-serving and inward looking" and difficult to enforce, she said.

Self-regulatory codes of conduct could be strengthened by using provisions in the Harmful Business Practices Act.

Through this act, the businesses practices committee could ensure that every single company within a sector complied with such codes while still allowing regulation to be introduced by the industry rather than government.

ILPA CONVENTION 1997

Responsibility of registration should lie with the product providers

Central register of agents will be ineffective says Bean

(58)

ET (BR) 16/4/97

BRUCE CAMERON

The registration of all financial services intermediaries on one central register could never be effectively administered or policed to ensure that best advice was provided to the public.

This is the view of Christopher Bean, president of the Institute of Life and Pension Advisers (ILPA).

In an interview at the ILPA annual convention at Sun City, Bean was reacting to proposals made by the newly created umbrella body of various insurance industry bodies, FIFSA, that all intermediaries should be centrally registered and different levels of qualifications should be set for selling various levels of financial products.

Bean said the formation and role of Fifsa was constructive. He supported the principle of different levels of qualifications being set for professionals in the financial services industry.

This was in line with changes being undertaken by the Institute of Life and Pension Advisers providing three levels of membership, attached to different educational qualifications.

However, he did not believe that a central register of intermediaries could be practically implemented.

The first problem would be deciding who would be on the register.

Apart from people involved in the life assurance industry, there were lawyers, accountants, bank clerks, post office workers, estate agents and many others who gave financial advice to the public at different levels.

PRESIDENT OF ILPA: *Christopher Bean*

He pointed out that at one stage the Life Offices Association (LOA), which represents the life assurance companies, kept a register of life assurance intermediaries.

The register had become unworkable with many duplications, as well as containing the names of people who had died or left the industry.

Because it was so unmanageable the LOA had scrapped the register.

"It is my belief that registration should lie with the product providers or whoever provides the financial services products that are sold.

"The regulators should police the product providers, not the intermediaries."

Bean said the product providers should be responsible for registering anyone who sold their products.

"This already applies to full time intermediaries or agents of financial institutions. The problem is no one accepts responsibility for independent brokers, very few of whom can afford professional indemnity insurance.

"If the responsibility for intermediaries is placed on the shoulders of the product providers they would be far more careful than they are now about whom they allow to represent them and to sell their products.

"For example, the life assurance companies would stop giving contracts to the rats and mice who come and go."

Bean said the product provider should be responsible for the actions of its own registered sales force.

The product provider would have to determine what type of person it wanted to represent it and what qualifications it required.

Comment

highest priority was attacking the 165 criminal syndicates which were known to be operating in Gauteng and which were largely responsible for the province's most widespread crime — housebreaking.

Duarte said government would also be fulfilling its obligation to ensure the "management processes we

she said.

Asked if she favoured the reintroduction of the death penalty, Duarte said: "The fact of the matter is if we are going to be hanging people in this country, we will be hanging young black males only." Focus needed to be placed on rehabilitative measures in SA prisons instead.

Bill allows insurance crackdown

Linda Ensor (58) BD 16/4/97.

CAPE TOWN — The urgent passage of legislation through Parliament to strengthen the regulatory powers of the Financial Services Board overcame its first hurdle yesterday when it was approved by the finance portfolio committee.

The Financial Institutions Amendment Bill would enable the board to crack down on unauthorised activities, particularly in the short-term insurance sector, board research head Fransovan Zyl said when motivating the bill. He said it had the backing of Finance Minister Trevor Manuel and the cabinet.

The board wanted to stamp out, among other things, brokers' failure to pass on premiums from policyholders to insurers, brokers' lack of financial guarantees, and unauthorised dealing in trust property.

The board had lost several court cases relating to the conduct of unauthorised business by insurance brokers because it lacked these powers, Van Zyl said.

Objections from the Johannesburg Stock Exchange (JSE), relating to its demand that banks be included in the clauses relating to the handling of trust property, were sorted out a week ago, he said. The Council of SA Banks and the registrar of banks did not object to this.

While the legislation empowered the board to inspect stockbrokers when the JSE failed to take action, it made no inroads into the powers of the JSE. Legal action against a stockbroker could be instituted by the board only with JSE approval.

Mobutu's guards flee to Zambia

BD 16/4/97 (~~355~~) ~~369~~

LUSAKA — More than 100 soldiers from the special guard of embattled Zairean President Mobutu Sese Seko fled into Zambia on Sunday night, local press reports said.

According to the reports yesterday, their weapons were immediately seized by the Zambian security forces.

The minister in charge of Zambia's northern copper belt region, Charles Museba, confirmed the arrival of 106 soldiers who were part of the elite division fleeing the advancing rebels of the Alliance of Democratic Forces for the Liberation of Congo-Zaire.

De Beers yesterday rejected claims by the rebel alliance that it commands a monopoly position in the central African nation's diamond industry.

A finance spokesman for Laurent-Desire Kabila's rebel forces said on Monday that the alliance planned to renegotiate previous contracts with international mining companies in the wake of rebel victories in eastern Zaire. Mwana Nanga Mawampanga described De Beers' operations in Zaire as a monopoly. "We don't want monopolies in this country any more," he said.

De Beers spokesman Tom Tweedy said in Johannesburg that Mawampanga's accusations were groundless given that the company did not mine gems in Zaire itself. Its Central Selling Organisation unit buys low-quality rough diamonds from the La Miniere de Bakwanga mine, 80%-owned by the Zairean government and 20% by Sibeka of Belgium. De Beers owns 20% of Sibeka.

This operation, known as the Miba mine, produces a little more than a third of Zaire's total annual diamond output of 15-million carats. All gems are sold to De Beers on a renewable-contract basis. The remaining two-thirds of Zaire's diamonds flow from alluvial operations around the country.

"De Beers is one of more than a dozen licensed to buy diamonds in Zaire," Tweedy said. "We compete on price, which doesn't always make us popular.

"In the case of Miba, we have a renewable sales contract and every three to five years, we've got to go back to the mine and pitch for their output."

De Beers has held two meetings with representatives of Kabila's rebel forces in the past 10 days, with a second encounter in Goma focusing on the benefits De Beers brought to the country, Tweedy said. — Sapa-AFP, AP-DJ.

(58)

Revamp of accident fund will aid poor

BD 17/4/97

Linda Ensor

CAPE TOWN — A fundamental restructuring of the operations of the Road Accident Fund (RAF) to distinguish between rich and poor accident victims and to remove the right to bring civil suits for damages against wrongdoers, has been proposed in the fund's second draft White Paper.

Transport Minister Mac Maharaj released the document yesterday and said its aim was to help the poor and seriously injured by increasing the amount paid to them in compensation.

It is proposed that the fund — previously known as the Multilateral Motor Vehicle Accidents Fund — would not cover people earning more than R4 000 after-tax for permanent impairment or death of dependants. These people would have to secure their own private insurance for this.

Another proposal is an independent tribunal, with the same status as a High Court, to fast-track the settlement of claims which currently take about four years to settle.

However, accident victims would not be able to sue privately for larger amounts than those paid out by the fund.

Whereas the first draft proposed a no-fault system throughout, the second one recommended a hybrid scheme incorporating elements of fault and no-fault payments. Transport director-general Khetso Gordhan pointed out that a comprehensive fault system resulted in costly delays.

Two benefits paid on a no-fault basis would appy to simple accidents in the first phase of the scheme, which would cover 90% of all accidents. This would give all accident victims immediate access to medical treatment.

Benefits would include the payment, without exclusions, of medical care costs until the patient's condition stabilised or for a period of 18 months, whichever was shorter. The other benefit in this phase would be for loss of earnings, except for drunken driving or driving without a licence.

Gordhan said a no-fault system for the majority of smaller claims would drastically reduce the legal work required for compensation cases. There might be opposition from lawyers who were paid R223m in legal fees last year, which was more than 20% of the total amount paid in claims.

The second phase benefits, covering 10%-15% of all accidents, would be limited to those with a taxable income of R4 000 or less — an estimated 80%-85% of all income-earners.

The draft White Paper noted that it was "effective and equitable" to place a cap on earnings qualifying for compensation to "conserve available resources for those who need it most".

These benefits, with exclusions, would cover death or permanent impairment and would be fault-based. The merits of the claim would be settled in the tribunal, and compensation for general damages for pain and suffering would be discontinued.

Gordhan said the benefit would take into account living expenses, income and medical expenses related to the nature of the impairment. A capital amount up to 20% would be paid out in

Continued on Page 2

Accident fund

BD 17/4/97

Continued from Page 1 (58)

a lump sum, and the rest in monthly payments. Second phase benefits would also consist of benefits for the deceased's dependants in the case of a fatal accident.

The draft White Paper also proposed removing the present "discriminatory" cap of R25 000 on the amount that could be claimed by public transport passengers.

It said all benefits should be paid on a tax-free basis with a three-year prescription for lodging claims.

Maharaj said he would welcome further debate but insisted that the White Paper would be presented to the cabinet by September, and that legislation would be promulgated early next year to take effect from May 1 1998.

The present system would continue to operate for accidents up to end-April 1998. Maharaj estimated it would take eight to nine years for old claims to be processed out of the system.

Gordhan explained that the proposed new system of compensation attempted to address the fund's mounting deficit which was expected to total R8bn by end-April. Claims would be settled more efficiently and 40% net savings were anticipated.

Consideration was therefore given to the fact that 92% of all motor accident claims in 1994/95 were for amounts less than R50 000, while the top 8% of claims took more than 60% of the fund's expenditure. The top 1% of claims accounted for 28% of the fund's expenditure.

R8,3-billion shortfall hits ailing MVA

(58)

WILLIAM-MERVIN GUMEDE
POLITICAL STAFF

ARG 17/4/97

The Multilateral Motor Vehicle Accident Fund, which handles claims by accident victims, is facing serious financial difficulties – with an estimated shortfall of as much as R8,3-billion by the end of April.

At a press briefing at the release of the second White Paper on the Road Accident Fund in Cape Town yesterday, transport director-general Khetso Gordhan said the deficit had to be brought down over the next 10 years.

The document said a major cause of the fund's financial problems was the high accident rate.

Mr Gordhan said the MVA would invest R30,5-million annually in the new fund, aiming to promote road safety. The fuel levy should be increased by one cent to 6c a litre for the next two years to fund road repairs. Accident victim levy contributions, now 10,5c a litre, should be increased by at least one percent more than inflation.

Drastic cuts in accident fund white paper

(58)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

CT (BR) 17/4/97

Cape Town — A cap of R4 000 a month on the loss of earnings following a road accident and the complete withdrawal of the right to claim for pain and suffering are two of the more drastic proposals contained in a second draft white paper on the restructuring of the Motor Accident Fund released by Mac Maharaj, the transport minister, yesterday.

Road users with incomes above R4 000 a month would have to buy additional insurance cover since Maharaj also proposed the withdrawal of a victim's common law right to claim additional damages in court.

The second draft contains proposals for capping benefits to be paid to road accident victims and the steady increase of the fund's income over 10 years.

Accident-fund paper proposes more victim-friendly approach

(58) Star 17/4/97

The Government's draft blueprint on the Road Accident Fund was released yesterday. It proposes an overhaul of the system and contains suggestions to make procedures to claim compensation more "victim-friendly".

The draft white paper on the fund, the second draft to be released by the Department of Transport, suggests that the responsibility for payments for the fund be transferred to the Ministry of Finance.

The paper proposes that all victims of motor vehicle accidents should have immediate access to emergency medical treatment and transport.

The paper suggests that passengers qualify for the same benefits as any other victim of motor vehicle accidents, which was not so in the past. It sets out proposals to simplify and standardise the forms, and to explain the benefits and conditions as far as possible.

However, to reduce fraud, the responsibility is still on the person who claims compensation to prove the claim and to supply evidence.

This means the victim will have to complete the claim, lodge it with the fund and report the accident to the police.

The claimant must provide medical reports and all relevant information, and submit proof of lost earnings.

In order to provide claimants with speedy, easy and inexpensive adjudication when they are dissatisfied with the administrative decisions of the fund, the draft paper proposes a tribunal – financed by the fund but operating independently.

It proposes that the period of prescription be three years in all instances – five years in the case of minors, people under curatorship and patients detained in terms of mental laws.

The paper said that because of the fund's poor financial situation, it would compensate for damage to property – usually the other vehicle.

The draft white paper said a major cause of the fund's financial problems resulted from the high accident rate. – Political Correspondent.

► **More parliamentary reports** *Page 5*

World Bank wants regional co-operation

(58) (~~2797~~)

BD 18/4/97

Reneé Grawitzky

THE World Bank is behind efforts to foster co-operation between financial markets in southern Africa.

Richard Keteley, who until recently worked for the World Bank, said yesterday that financial sector reform should be at the heart of a strategic agenda for Africa. He was addressing a workshop for southern African financial unions, organised by the International Co-ordinating Body for Financial and Administrative Unions and the Friedrich Ebert Foundation.

He said a strategic agenda to integrate the region's financial markets was critical for people to gain access to savings, especially at a time when donor money in Africa was declining.

In this context, there was a need for competitive banks which could mobilise savings, since investment depended on increasing savings.

Africa had to ensure it was not sidelined in the global trend towards "harmonising and integrating" financial institutions. A regional approach would imply that individual countries would attempt to harmonise their laws, customs and practices, as was already happening in west and east Africa.

It had been easier for west African countries to go this route since they shared a long history of a single currency and a French banking tradition. However, the southern African region had inherited the British-style banking system, which created strong opportunities for a move towards integrated markets.

The parties, however, were a long way off discussing a single currency in the region. A significant level of monetary integration already existed and this would continue in the future. However, a major concern was macroeconomic management of some countries. he said

With the exception of Mauritius and SA, financial systems in Africa remained weak.

Therefore, a move towards integrated markets would be more cost efficient and more effective for future financial market participants.

Keteley said the World Bank was providing some assistance to a Southern African Development Community secretariat committee, which had started discussing the integration of financial institutions.

Proposed vehicle accident scheme 'would not help poor'

BD 18/4/97 (58)

Linda Ensor

CAPE TOWN — Government's proposed new compensation scheme for motor vehicle accident victims would not help the poor as they would receive far less than previously, spokesmen for various lobby groups said yesterday.

They cited the abolition of compensation for general damages, and the capping of benefits for loss of earnings at R4 000 a month as ways in which the poor would be hit.

The transport department released its second draft White Paper on the Road Accident Fund this week with a view to finalising a final document by September this year.

In a provisional comment, pending a deeper study of the document, Medical Association of SA Gauteng regional president Dr Colin Froman welcomed the document. He lauded the lifting of the R25 000 limit on damages for public transport passengers as a significant step.

While generally supportive, Froman was concerned about the danger of a cost overrun in providing compensation for upfront medical expenses. Futhermore, he said, the dropping of general damages compensation would deprive many accident victims of much-needed funds.

Association of Law Societies spokesman Jan Maree and Malcolm Lyons, a specialist personal injury lawyer who has represented disabled organisations and Drive Alive, criticised the draft White Paper. More accident victims would be thrown into the state welfare system, they said.

Without proof of earnings, people would get either a poverty datum line amount of about R700 a month, or the state disability grant amount of about R470 a month.

Lyons believed the numerous submissions by the public had been disregarded. He said the exclusion of lawyers from the system would leave many illiterate people helpless. Under the present system, the fund pays the legal costs of accident victims.

Drive Alive CEO Moira Winslow appealed for more money to be spent on road safety programmes. The fund would have all the money it needed if the number of road deaths were reduced, she said.

Pick 'n Pay ruffles banking feathers

(58) M+G (MM) 18-24/4/97

Lynda Loxton

THE financial services market could be in for a shake-up this year as supermarket giant Pick 'n Pay moves into in-store banking.

Fairly common in Britain, the concept is new to South Africa and has created quite a stir in the conservative banking community.

What particularly irks the banks is that Pick 'n Pay has awarded a contract to Boland Bank to help run savings accounts without Pick 'n Pay having to register as a bank and being subject to all the rules and regulations they have to follow. Pick 'n Pay also plans to move into unit trusts and insurance once the savings accounts are established.

To make matters worse, Pick 'n Pay is promising better interest rates and services than ordinary banks are able to offer owing to high overheads in the form of buildings and staff.

Pick 'n Pay group enterprises managing director Gareth Ackerman and Boland insist that in terms of the law, the supermarket giant does not have to register as a bank, but others are less certain.

In terms of the Banks Act, only registered banks can take deposits, but Pick 'n Pay argues that it will only be taking deposits on behalf of Boland Bank, which will administer the accounts.

The Council of South African Banks and the Financial Services Board disagree. While they say they welcome free competition, "the playing fields must be level".

Registrar of Banks Christo Wiese was surprised to hear that Pick 'n Pay had linked up with Boland Bank, which is part of the rival Pepkor group. But he admitted that if all that Pick 'n Pay would be doing was facilitating the payment of deposits and withdrawals, registration might not be needed.

It would, however, have to comply with all the payment mechanisms and procedures and not accept deposits on its own behalf.

"We have not been approached at all on any of these issues. We will debate it among ourselves and see what the implications are once we are approached," Wiese said.

"Banking is a service industry, after all... and what we do is ensure that the depositor's money is under prudential supervision so that the depositor's money is safe."

On Pick 'n Pay's ability to offer better interest rates, Wiese said: "That is a matter of costing and I can't comment on that."

Banking is not new to Pick 'n Pay, however. It already offers a credit card to about 50 000 customers and a debit card to 20 000 people. It also runs a savers' association for about 17 000 staff members, which has provided many with their first opportunity to enter the formal banking arena.

'The fundamental issue is that we will not be a manufacturer. We will be a distributor of products'

The group also runs Transwitch Services, which allows customers to pay for their shopping and draw cash at Pick 'n Pay stores. It accepts cards from all banks apart from First National Bank and Nedbank which have refused to join the scheme.

Gareth Ackerman said that potential products being considered included long-term savings accounts, hospital cover, unit trusts and possibly funeral benefit products.

"One has to look at products that are going to be easy for consumers to understand," Ackerman said.

"The fundamental issue is that we will not be a manufacturer. We will be a distributor of products. We will be out in the marketplace looking for the best provider of a particular product that we will design. Our relationship with Boland will hinge on our first product only and if they are the right people to do the second product, they will do the second product."

Analysts have said that although it was difficult to quantify the effect that the introduction of financial services would have on Pick 'n Pay's results, it should add significantly to the already large contribution of interest income to pre-tax income.

They said it looked as though Pick 'n Pay would target middle- to low-income earners who have not had access to banking facilities before. By aggregating their savings, it would be able to offer account holders more competitive interest rates and lower bank charges, as well as credit cards.

But analysts did not see Pick 'n Pay emerging as a major competitor to ordinary commercial banks. "I think that in the short term the general public will maybe see them as a white knight," said one analyst.

Problems expected to be encountered in implementing the scheme included maintaining liquidity and increased congestion at the tills as more transactions were undertaken.

"What will they do on a Thursday afternoon before Easter and a few thousand people want to withdraw R200?"

Ackerman said he would love it. Pick 'n Pay's technology would be used to process the transactions, and it would get a fee for any money paid out.

"The stores take an enormous amount of money, especially at month-end and, quite frankly, the less money left in the tills at the end of a day, the better it is for us from a security point of view and even from a cash-handling point of view," he said.

There would only be additional congestion when people made financial transactions that were not part of a shopping transaction.

"Most customers will pay for their merchandise when they leave the store, so whether they do it with cash, credit card, debit card or Pick 'n Pay card, it is not an additional transaction, they will simply switch from one form of transaction to another.

"If they take cash back, we have done time and motion studies and the exercise lasts about 11 seconds. So sure, if you have 2 000 customers all doing that, it is a lot but perhaps the same as two extra cans of beans." People would, however, be encouraged to make direct debit transfers to Pick 'n Pay rather than deposit money at the tills.

Ackerman admitted the banks were not happy about this move on to their turf, but said Pick 'n Pay did not envisage taking a major share of their traditional market. "But I think that the banks have to worry about it in the sense that they will have egg on their faces because we will come in with superior interest rates, lower costs and people will question their own banks," he said.

"But in terms of market share profitability I can't think that we will make a difference."

He said insurance companies have reacted more enthusiastically to Pick 'n Pay's move into financial services. "They do not care what you brand the unit trusts, they just want to do business. They are much more positive and commercially viable."

Fight looms over accident-fund law

(BT) ST 20/4/97 (58)

WHITE PAPER DEBATE

By DON ROBERTSON

THE failure to take note of recommendations by stakeholders in the new draft White Paper on the Road Accident Fund will be strongly challenged, say legal sources.

Malcolm Lyons, a personal-injury lawyer who has represented disabled organisations and the Drive Alive organisation, says: "The present impasse is because major recommendations have been ignored at the whim of the fund." He believes that a number of details will be brought before the Constitutional Court if they are approved.

The fund had a shortfall of R6.3-billion at the end of April last year and this is expected to rise to R8-billion by the end of the month.

The revised White Paper suggests that expenditure by the fund be curtailed by introducing limits or caps on payments to accident victims and that income be increased annually by raising the current 10.5c a litre fuel levy by at least the rate of inflation.

Among the main proposals are that a victim will receive medical expenses and loss of earnings for a period of 18 months or until he or she attains "medical stability" on a no-fault basis.

Loss of earnings will be based on a number of factors. If the victim is unemployed, a payment of either R470 or R700 a month will be made. If there is proof of employment but no tax returns, a payment of R1 400 a month will be made. If the victim is able to provide tax returns, payments of up to R4 000 a month will be received.

In the event of disablement, payments of a maximum R4 000 a month will be made and in the event of death a maximum of R1.3-million can be expected, subject to apportionment of fault and to certain exclusions.

The figure of R1.3-million is subject to further discussion as are the other amounts which could increase as a result of inflation.

The proposals also withdraw the common-law right to sue a guilty party for amounts over and above that paid by the fund.

In the event of a dispute over the amount paid by the fund, a tribunal will be established and financed by the fund and will have the force of a judge of the High Court, but be subject to appeal.

It is also intended to require accidents to be reported within six months in the case of an injury and within 12 months in the case of death. The prescription period will be reduced to three years, except in the case of minors or those in a coma or an institution.

Lyons says the plan to withdraw the right to sue the guilty party for additional amounts is contrary to the Constitution and will be challenged. Comments can be submitted to the transport director-general until July 15. If passed, the proposals will become law in May next year.

Banks unite to stamp out robberies

(58)

Information pooled in bid to bring gangs to account

ST 20/4/97

PETER DE IONNO

THE country's major banks have set aside their rivalry in an attempt to fight a reign of terror being waged against them by ruthless gangs of robbers.

Bob Tucker, the new chief executive of the Council of SA Banks, said this week he wanted an "urgent" meeting with Safety and Security Minister Sydney Mufamadi to discuss ways of ending the epidemic of well-organised heists.

It was eroding confidence in financial institutions, he said.

The assault last weekend on a branch of Volkskas in Randburg in Johannesburg, which left three people dead, has focused attention on a spate of robberies which have netted about R5-million in Gauteng alone so far this year.

Bankers and police fear that the gangs will soon start targeting banks in other areas as well.

Now banks have decided to pool their information on the gangs, who continually elude the police and make a mockery of sophisticated security systems.

Tucker said: "It's not only about the money that is stolen, it's about the hidden cost that is draining society — additional security, trauma, the erosion of confidence in financial institutions. South Africa's bank robbers are especially violent by international standards and their readiness to shoot beats the most stringent security."

A frightening feature of recent bank robberies has been a threat to shoot customers or staff unless videotapes are removed from security cameras and handed over.

Police admit that they know little about the four main gangs suspected of being behind the 44 armed hold-ups in Gauteng this year.

Superintendent Rudie van Olst, appointed this week as the intelligence co-ordinator of a task force that includes murder and robbery specialists from all over Gauteng, said the unit was dependent on information from informers.

Fingerprints have been left at crime scenes and some raids have been recorded by cameras, but there are few other clues. Police have begun profiling the gangs and their members but the groups splinter and reform almost daily, spreading and sharing expertise.

Until recently, the key to identifying the gangs was the way individual robberies were conducted. But the trend now is towards copycat robberies, raising speculation that a single gang or syndicate is co-ordinating the heists.

The robberies are always carried out by between four and six gunmen, though a woman has taken part in several of the Johannesburg robberies. The gang always splits up, with one group vaulting the counters and scooping cash out of tills and the other keeping customers and security staff face-down on the floor at gunpoint.

Van Olst said: "These people are specialists. They don't just walk into a bank and pull a job. The first gang members go in with inquiries or stand around filling out forms, but what they are doing is checking the layout and security systems."

Banks could improve their security by adopting industry-wide common procedures and standards, he said.

The task force has made 18 arrests within six weeks.

Ten days ago, in a series of raids in Johannesburg, Hillbrow and Soweto, nine suspects were arrested, including three Zimbabweans. They had allegedly taken R4-million from a Fidelity Guards vehicle in Randburg in March, leaving two people dead and five wounded.

Also arrested were two men allegedly involved in a Trust Bank robbery in Norwood last month. They are believed to have links with the Fidelity Guards attackers.

Arrests were also made in connection with two Trust Bank robberies in Rosebank. One of those suspects has been linked to the Fidelity Guards robbery and the Norwood Trust Bank heist.

One of two suspects arrested after a Trust Bank raid in Primrose last month is believed to be linked to one of the Rosebank robberies.

AIG and Sanco link up to sell consumer insurance in SA

(58)

ARG 22/4/97

New York – American International Group has announced that its member company, AIG South Africa and the South African National Civic Organisation, have formed a joint venture to sell consumer insurance products to Sanco members throughout South Africa.

The company, Sakh'Ubuntu Sanco AIG (Pty) Limited, based in Johannesburg, will initially offer accident and health insurance products.

AIG South Africa will provide underwriting, marketing, administration, systems and general management support to Sakh'Ubuntu Sanco AIG, and Sanco will support the joint venture through campaigns of membership enrolment, marketing AIG insurance products through Sanco's national network of representatives.

Michael Behlmaier has been appointed general manager of the joint venture. Moses Mayekiso, chairman of Sanco Investments Holdings (Pty) Limited, will serve as chairman of the new company.

Sanco, a national organisation with 2 000 offices and a membership of 1,2-million, co-ordinates the initiatives of civic organisations throughout South Africa.

AIG executive vice-president, Evan G Greenberg, said: "This joint venture presents a significant opportunity for AIG to expand its distribution of personal insurance products in South Africa through the Sanco organisation. We are enthusiastic about the prospects to recruit and train Sanco members as local agents."

Mr Mayekiso said Sakh'Ubuntu was a major venture that would promote delivery of services, job creation and economic empowerment to the disadvantaged community of South Africa. – Sapa

Plans to nurse scheme back to financial health

(58)

CT(BR) 23/4/97

CHRISTO VOLSCHENK

The worsening financial predicament of the motor accident fund has compelled the government to look at ways to restructure the fund and cut down the actuarial deficit, expected to reach R9 billion by the end of this month. Three years ago the deficit still stood at a more manageable R4,6 billion.

How the government wants to nurse the fund back to financial health has been the subject of two draft white papers. The first was released in May last year and the second by Mac Maharaj, the transport minister, last week.

The second draft white paper offers a solution with three pillars. The first is that the very high accident fatality rate be cut by 10 percent by the turn of the century

This aspect of the proposal is already in its implementation phase. The government has developed the so-called road traffic management strategy for this task, which will be financed through the fund.

The second aspect is that the fuel levy — the fund's only source of income — be increased constantly in the next 10 years by at least the inflation rate. Whether this happens will depend on Cabinet.

The third is that the benefits paid to victims of road accidents be capped. The proposal contained in the second draft white paper will be debated with interest groups in the coming months.

Maharaj wants to restructure the benefits to ensure the poor or low-income victim of a road accident remains protected as before (in some ways even better protected) while the protection given to the richer road user is curtailed. More specifically, he proposed the victims of road accidents be allowed to claim as follows:

☐ All benefits to be grouped in two broad categories, namely phase one and phase two benefits.

All claims for medical expenses and loss of earnings from the time of the accident until the victim has "medically stabilised" are classified as phase one benefits. These costs will be paid in full regardless of who is to blame for the accident:

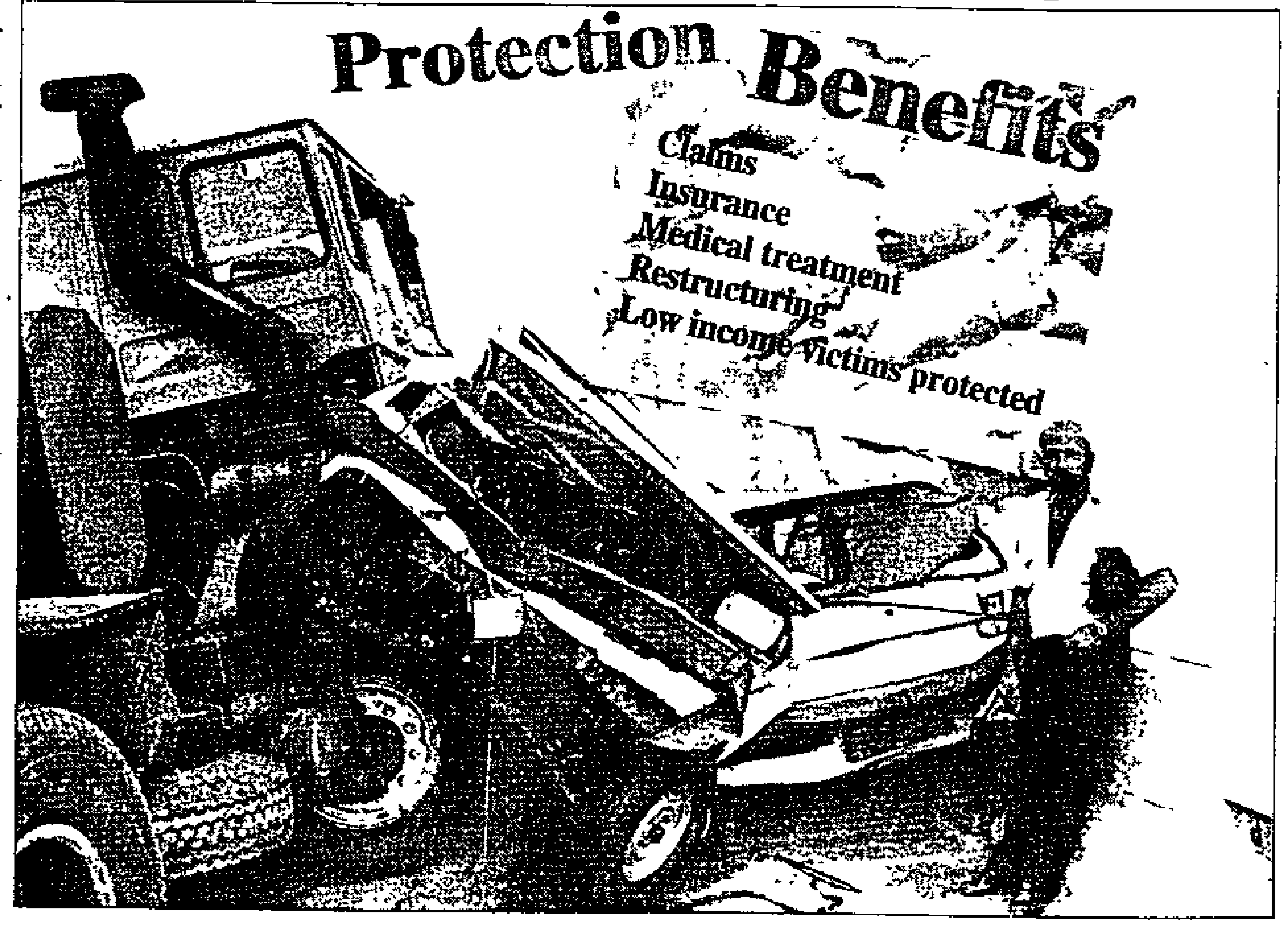
☐ Phase one benefits will give all victims of accidents immediate access to emergency medical treatment (including ambulance transport) and further treatment until their medical conditions has stabilised. There will be no cap on this type of benefit but the maximum tariffs to be charged for all medical procedures will be agreed between the fund and suppliers of medical services.

Secondly, victims between 16 years and 65 years will be able to claim for loss of earnings. The amounts claimable will depend on whether the victims can prove their incomes and whether they were employed or self-employed.

For instance, an unemployed victim with no income will be able to claim an amount equal to the state disability grant of R470 per month. A victim who does not pay tax, can prove his income and is self-employed or in the employ of someone will be able to claim R1 400 per month. A tax-paying victim who can prove his income and is self-employed or employed by someone will be able to claim R4 000 per month. Anyone who feels that the R4 000 ceiling is inadequate will have to buy additional insurance through the private sector;

☐ Phase two benefits are those paid when a victim died or was permanently impaired. When phase two benefits are claimed fault will be apportioned — that means the fund will decide whether the victim was 30 or 40 percent to blame for the accident and pay only 30 percent or 40 percent of the claim to the victim.

Costs of ongoing treatment may be claimed as permanent impairment benefits. This may include the costs of artificial aids like wheelchairs and alterations to cars. The victim will have to prove the percentage fault of the wrongdoer. Up to 20 percent of the permanent impairment benefit paid may be taken as a cash lump sum and the rest as a pension payable until death.



In case of death, the deceased victim's dependants will be able to claim loss of earnings, but this time as phase two benefits which means fault will be apportioned;

☐ In certain circumstances the victim whose fault the accident was will not be able to claim loss of earnings. The victim driving without a licence, the driver convicted of reckless driving, the driver under the influence of alcohol or other substance, and the thief of a stolen motor car will only be able to claim medical care benefits under phase one and no loss of earnings;

☐ What is more, the victim's common law right to institute a civil claim against the driver whose fault the accident was for damages over and above the amounts paid out by the fund will be withdrawn by the state.

The net effect of the proposals will be to limit the maximum which can be claimed against the fund to a couple of million rand.

The biggest claim paid to date is R16 million, and the fund is bracing itself for an R80 million claim which will be lodged in the near future.

The second draft white paper proposed claims be handled by the fund. Should victims be unhappy with decisions of the fund, they will have access to a tribunal which will give them an answer within three months.

Legal costs will be cut down significantly since phase one claims are paid automatically and without apportionment of fault.

Phase one type claims are the vast majority of claims handled by the fund. The assistance of attorneys may be called in on phase two-type claims.

Interested parties will be able to comment on the second white paper, and Maharaj will hold bilateral talks with interest groups before a final white paper will be presented to the Cabinet by September this year. A bill to implement the proposal will be tabled early next year.

Maharaj aims to have the new dispensation in place by April next year.

COMMENT & ANALYSIS

Banks have to balance safety with books

(58)

The incidence of bank robberies has risen markedly in recent months. Specialist writer **Stephen Laufer** investigates what is being done to counteract the trend

BD 25/4/97

WHEN a robber walked into an American Express branch in a Johannesburg shopping centre and threatened staff with a hand grenade this week, he was acting logically, security experts believe.

The man got away with traveller's cheques worth R315 000 and a briefcase filled with cash — proof, some say, that increased physical security in banks, foreign exchange bureaus and retail outlets handling large amounts of cash can give rise to an arms race in which callous criminals resort to ever more lethal weapons.

Recognition that upgrading physical security can be only a part answer to the spate of bank robberies in Gauteng — there have been more than 40 since January — places the banks in a dilemma.

Their task is to balance improvements in the security of staff and clients with the need to keep banking halls attractive and accessible, while limiting the costs of security and losses through robberies.

"Built-in security systems should never be assumed to be lasting," says Institute for Strategic Studies' policing expert Mark Shaw. "Criminals are always on the lookout for ways of overcoming security, and there is a need for banks and other institutions to keep one step ahead."

To do so, it is necessary to understand the nature of the crime, Shaw argues.

Effective counter-measures can only be the result of a more sophisticated understanding of why bank robberies are occurring at some branches and not others.

Closer analysis of the current spate of robberies should show whether they are targeting branches where security has not yet been upgraded, or whether the improvements do not matter to criminals.

"Many banks have double-door systems controlling access. Are they ineffective in preventing the bank robbers from making a quick getaway, or are the criminals avoiding them and targeting

Those who did not get away ... aftermath of a bank heist attempt in central Johannesburg. Picture: RUVAN BOSHOFF

banks without them?" Shaw asks.

Studies in other countries show that visible policing — uniformed officers on patrol near banks — has a significant deterrent effect. Shaw says it appears significant that many of the recent robberies have been in Johannesburg, not known for its successes in putting large numbers of highly visible police personnel on the streets.

Graeme Simpson of the Centre for the Study of Violence and Reconciliation believes that the double-door system is largely ineffective in the face of the massive firepower available to robbers, who enter banks individually before regrouping, robbing the institution and staging a blazing getaway.

One aim of new built-in security systems must therefore be to keep weapons out of banks entirely, he believes.

"Metal detectors and other sophisticated systems which allow people carrying guns to deposit them safely before entering the bank could be part of the solution."

Arming guards more heavily is not the answer, experts believe.

"There is no way to match gangs with automatic rifles without getting a lot of people killed," Simpson says.

A recent bank robbery shootout in Randburg, in which 10 people were wounded, illustrates the point. The emphasis must shift to preventing bank heists rather than reacting to them in kind.

For many European banks, the solution lies in high technology. Commerzbank, one of Germany's big four, is in the process of introducing sophisticated computer-controlled dispensers which limit the teller's — and therefore any bank robber's — access to cash. Programmed according to demand patterns observed in individual branches over a long period, they allow the teller access to only a certain amount of cash each hour, and only once the account number has been entered from which the money is being withdrawn.

"The machines also have a limit of one major payout of DM50 000 every half hour," said Commerzbank spokesman Dieter Schütz. "Clients requiring larger amounts must give notice, and those payouts are made in secure offices away from the public banking hall."

Commerzbank used to have a single teller behind bullet proof glass, but that meant all the money was in one place — just what the robbers wanted, Schütz said. "Now every time a branch is refurbished, we take out the protective glass, open the place up, and put in the smart machines."

A key element in the Commerzbank strategy is to publicise widely the conversion of a branch to the new system. "The more people know that there is no easy access to significant amounts of money in a branch, the less attractive it becomes for robbers."

Armed robberies are down, Schütz says, and the bank's security department is happy with the new system.

This is all very well in an ordered society where robbers are armed with pistols at most, and often only with vegetables — one man was arrested in the US after holding up a bank up with a zucchini — or toys, say the SA experts. In a context where criminals are particularly callous, it becomes more likely that hostages will be taken in an attempt to extort the cash if robbers already inside a bank find it harder to get at the money.

"We have reached a crisis situation where it appears as if security systems alone cannot do the trick," Council of Southern African Bankers (Cosab) chief executive Bob Tucker says.

"The banks do not see private armies as an alternative even if they could match the firepower of the criminals, because we believe that the police must be strengthened as part of building a democracy governed by law."

In the long term, Tucker believes, SA must reduce its reliance on cash. Although police have been successful in recovering most of the more than R4m seized in a spectacular highway robbery last week on the N1 between Pietersburg and Louis Trichardt, the attack illustrates the vulnerability of banks and transporters in a heavily cash-dependent society.

Cosab and its members want to accelerate initiatives aimed at reducing reliance on cash. Immediately, this means encouraging the increased use of debit cards.

A more viable solution for people used to budgeting by observing the cash flows in and out of their wallets might lie in stored value, or smart cards. Like phone cards, they would have a certain amount of money stored electronically, from which purchases would be deducted.

The system is cheaper than debit cards because there is no need for the point-of-sale device to be on-line. And robbers could find stolen cards cancelled electronically before they can use them.

In the meantime, Cosab has arranged meetings with government ministers responsible for finding, arresting, prosecuting and incarcerating bank robbers — safety and security, justice, and correctional services — in an effort to find ways of breaking the limited number of syndicates the organisation believes is behind the wave of robberies.

Getting policing and the criminal justice system's response right is the medium-term key to cutting the number of bank robberies significantly, policing experts believe.

Besides making heists more difficult through improved security measures, criminals operating in this field — like their counterparts involved in other illegal activities — must get the message that they will be caught and spend time in jail.

Commenting on a drop of 42% in attacks on security vehicles transporting money and a fall of 39% in building society robberies in London last year, Metropolitan Police Det-Const Steve Flack said the success was "a tribute to our partnership with our customers. The policy of targeting criminals rather than crimes" had been critical to the success of the London police force's organised crime group, he said.

No decision on contribution to development fund

(58) BD 25/4/97

John Dludlu

GOVERNMENT had not yet decided how much it would contribute towards replenishing the African Development Bank's soft loan window, a bank spokesman said yesterday.

Although Pretoria officials surprised bank officials last year by pledging to be the first African country to contribute to the seventh African Development Fund, the bank's soft loan facility, no decision had been taken by government on when or how much it would contribute, the official said.

However, the Abidjan-based bank believes SA will deliver on its promise, with some bank officials speculating that an nouncement might be made at next month's annual meeting of the bank.

The bank official played down the fact that there had not been any announcement to date from SA authorities.

The fund, created in 1972 and available to 39 of the bank's 53 member states, provides loans on concessionary terms to low-income regional member countries.

These loans bear no interest but carry a service charge of 0,75% yearly on unpaid disbursed loan amounts and a commitment charge of 0,50% yearly on the undisbursed loan amount.

In an unprecedented move, Botswana has undertaken to make a one-off payment of $2,4m in two instalments.

Contributions to the fund, which has accumulated commitments of $11,7bn for 1 182 projects, has traditionally been replenished by contributions by non-African members of the bank.

The seventh fund, launched last year after more than two years of negotiations, has about $2,6bn to cover the period from 1996 to 1998.

The official said SA, which held about 1% of the bank's shares, had agreed to have its currency used by the bank to raise debt capital. The bank launched a R100m Eurorand bond at the beginning of the year.

Although government had earlier indicated it might raise its shareholding in the bank, no decision had been made.

Finance Ministry spokesman Jennifer Wilson said this week that beefing up the shareholding also depended on the availability of unsubscribed stock.

SA's membership of the board entitles its firms to bid for projects funded by the bank in its member states, but it is unclear how many SA-based firms have benefited from this advantage.

VEHICLE ACCIDENT FUND (58)

Chalk lines on the road

FM 25/4/97

Government determined to introduce cap on compensation

The second draft White Paper on reforming the Multilateral Motor Vehicle Accidents Fund (MMF), to be called the Road Accidents Fund (RAF) from May 1, proposes a revolutionised structure that it claims will help overcome recurrent administrative hitches It wants to cap compensation payments and restrict rights to sue for damages.

The earlier version had proposed a universal no-fault system but this has been reconsidered, in favour of a hybrid system where certain categories of damages are to be payable on a no-fault basis and others should still require proof of fault. These claims should be heard by a new, dedicated tribunal with the same status as the High Court

The system of compulsory insurance for personal injury claims caused by road accidents has gone through various mutations, none of which solved deep-seated administrative and financial problems. The current system is financed by a portion of the fuel levies imposed by government but the obligations imposed by rocketing road accidents have grown exponentially in recent years (see table)

Malcolm Lyons, a senior partner in Malcom Lyons & Munro, complains public proposals put forward during the past 18 months have been ignored

A further problem is the high proportion of settlement costs paid to the legal and other professions Government says the provision for outstanding claims is badly underfunded; the MMF made an operating loss of R2,16bn in 1996 — on the assumption that the increase in provision for outstanding claims is put at R2,35bn Lyons argues the MMF's investments exceed R1bn and the Melamet Commission considered finance for a year's claims adequate Based on this, the MMF is not underfunded

The cap of R25 000 for claims against the driver of the vehicle in which the victim was a passenger should go and the nonpayment of a fare should be disregarded

The new system will curtail the fund's obligations by capping benefits and its income should be increased by raising the fuel levy annually.

The tribunal to hear fault-related claims seems attractive but Lyons says its costs would offset much of the savings achieved by scrapping the present system

Transitional arrangements should include a guarantee from government of the present liabilities of the MMF All claims up to May 1 1998 will be processed under the old system

Common law rights to sue for personal injuries for road accidents should be barred. The White Paper argues this would protect drivers against being sued and avoid the need for costly liability policies. Lyons contends the proposal is unconstitutional

It's proposed that all benefits should be tax-free and the earnings used in calculations for compensation should be net of tax This would raise the earnings cap for victims and save the new RAF tax costs and the costs of Paye on payments The RAF should be entitled to recover Vat on medical expenses.

There should also be percentage-based exclusions to cover intoxicated, unlicensed or reckless driving, intention to cause harm or driving a stolen vehicle.

Robin Friedland

IS THE MMF GOING BUST?

Financial year ending 30 April (Rm)

	1992	1993	1994	1995	1996
Income	526	791	1 157	1 217	1 333
LESS claims paid & admin expenses	671	727	855	1 016	1 147
Net cash flow & deprec	**(145)**	**64**	**302**	**201**	**185**
LESS increase in prov for outstanding claims	750	200	950	600	2 350
Operating loss	**895**	**136**	**648**	**400**	**2 165**
Deficit beginning of year	2 104	2 999	3 135	3 783	4 183
Deficit end of year	**2 999**	**3 135**	**3 783**	**4 183**	**6 347**
Prov for outstanding claims	3 250	3 450	4 400	5 000	7 350
LESS Net resources*	251	316	617	817	1 003
Deficit end of year	**2 999**	**3 135**	**3 783**	**4 183**	**6 347**

*Assets less creditors & nonclaim provisions SOURCE: DEPT OF TRANSPORT

FINANCIAL SERVICES AMENDMENT BILL

Con artists run for cover (58)

FM 25/4/97

New legislation will protect consumers from bogus brokers

A series of scams involving "underwriting managers" was exposed in the *FM* in 1994. The term was applied to insurance brokers who claimed to be passing on premiums to registered insurers in return for cover for their clients

Unknown to the consumers, the brokers were retaining the premiums and underwriting the risk themselves — out of the cash flow generated by new business. And, at one stage, it was estimated that 30 000 "policyholders" paying R10m in premiums each month were without valid cover.

Official action against these operators, by the Financial Services Board (FSB), was hampered because the Registrar was held by the courts to have no standing in the matter

A case in point occurred last year when the FSB alleged underwriting managers Prokor contravened Section 5 of the Insurance Act for 10 months. The FSB failed to place it in curatorship.

This will soon be remedied Last week, the Portfolio Committtee on Finance passed the Financial Institutions Amendment Bill which proposes amendments to the Financial Institutions (Investment of Funds) Act, the Financial Markets Control Act and the Financial Services Board Act

The amendments will "improve certain statutory definitions" and enable the Registrar to apply to the High Court for an order.

- Preventing financial institutions from doing unauthorised business,
- Enforcing the duties of financial institutions, or
- Seeking authoritative guidance on legal uncertainties.

More than 45 people and organisations have been consulted on the principles contained in the Bill (scheduled to come before parliament in June), says the FSB It is one of 20 on the FSB's legislative programme. Other Bills include:

- Long-term Insurance;
- Short-term Insurance;
- Unit Trust Amendment (two);
- Pension Funds Amendment;
- Financial Markets Control (Act);
- Securities Services;
- Retail Investment Services, and
- Insider Trading.

Ethel Hazelhurst

Fat cat foreigners scooping off the corporate cream

Where and why the newcomers are gaining an edge in a market dominated by SA's big four (58)

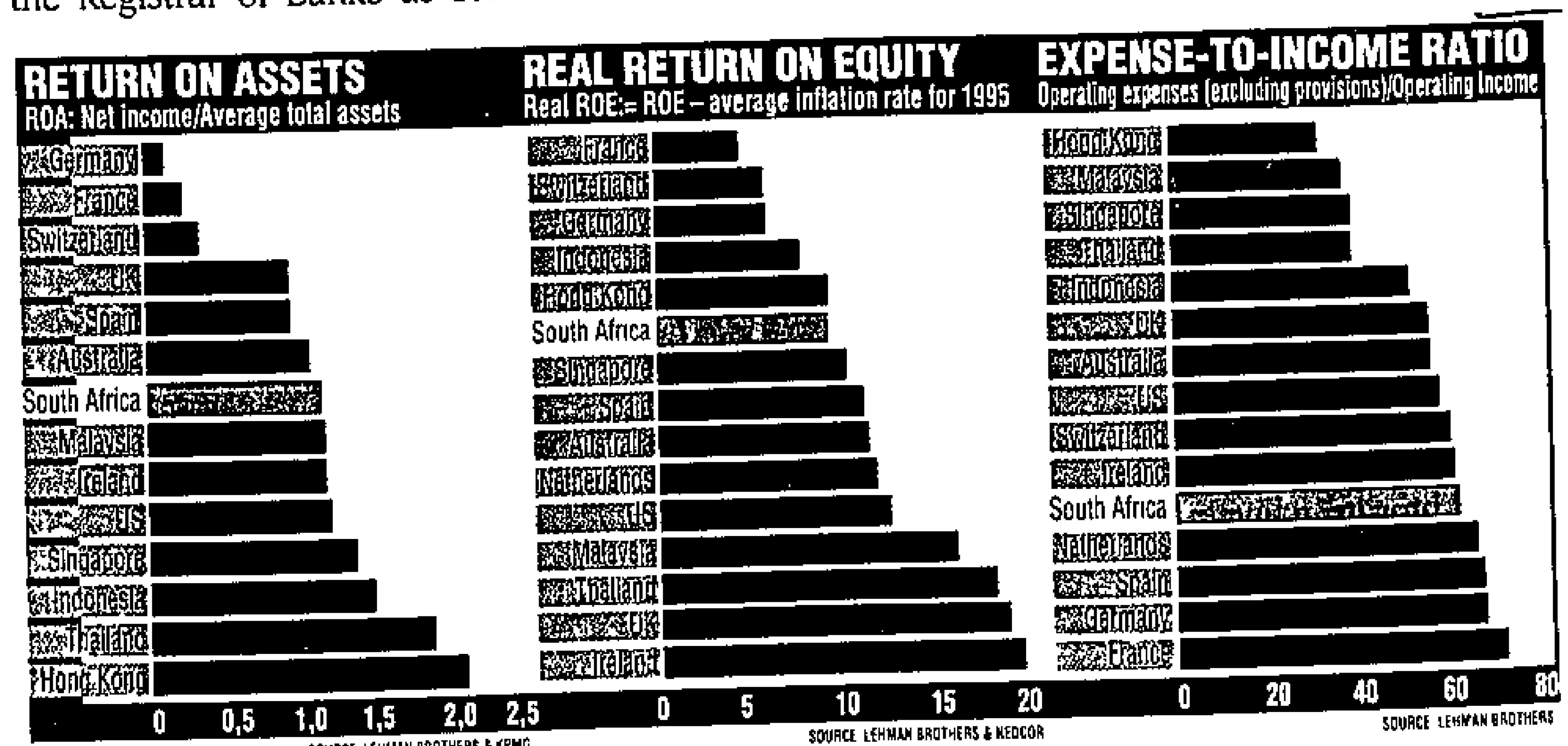
Fm 25/4/97

There is no simple way to establish the slice of the banking market that foreign institutions have taken from local banks over the past two years.

Official figures tell only part of the story.

The only foreign institutions allowed to do banking business are those registered with the Registrar of Banks as branches or subsidiaries.

Among them are German-based Commerzbank, with about R4bn worth of SA assets in December; the French-owned Société Générale (R2,7bn); French-owned Banque Indo Suez, formerly the French Bank of SA (R2,4bn); US-based Citibank (R2,4bn), the UK subsidiary Barclays (R1,3bn), and the



FINANCIAL MAIL · APRIL 25 · 1997

Dutch-owned UK-based ING Barings (R624m)

The figures appeared in monthly returns for end-December 1996

Though their combined assets of nearly R15bn represent only 3,2% of the entire market, some newcomers are growing fast. ABN Amro, for instance, grew 1 500% in 1996 — though off a small base

And still more foreign branches and subsidiaries are expected to open this year Apart from newcomers, there will be an upgrading of representative offices to branch status

Moreover, not all banking business is reflected in the balance sheet Anecdotal evidence is that the newcomers are starting to siphon off significant business.

The amount cannot be quantified for several reasons

Through their parents, they are able to lend at lower rates than local competitors But some of their loans are booked abroad, which means they are not captured in monthly returns to the Reserve Bank

An example comes from ING Barings "We have R1,3bn in loans booked offshore," says MD Simon Hollis

Also, much of its business is fee-based and not reflected in the balance sheet. According to a Price Waterhouse survey, at least five foreign banks earn more than 60% of total earnings in fees

Domestic banks also have to compete globally. What they are up against can be seen in the graphs which compare some crucial ratios

The picture that emerges is not wholly discouraging Though they are competing with some of the world's best, a number of industrial countries with the world's major financial centres lag

Certainly SA banks stand a fighting chance abroad But they will have to work hard to protect their terrain at home **Ethel Hazelhurst**

COMMENT & ANALYSIS

Banks have to balance safety with books

The incidence of bank robberies has risen markedly in recent months. Specialist writer Stephen Laufer investigates what is being done to counteract the trend

68

BD 25/4/97

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Those who did not get away ... aftermath of a bank heist attempt in central Johannesburg. Picture: RUVAN BOSHOFF

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A recent bank robbery shootout in Randburg, in which 10 people were wounded, illustrates the point. The emphasis must shift to preventing bank heists rather than reacting to them in kind.

For many European banks, the solution lies in high technology Commerzbank, one of Germany's big four, is in the process of introducing sophisticated computer-controlled dispensers which limit the teller's — and therefore any bank robber's — access to cash. Programmed according to demand patterns observed in individual branches over a long period, they allow the teller access to only a certain amount of cash each hour, and only once the account number has been entered from which the money is being withdrawn.

"The machines also have a limit of one major payout of DM50 000 every half hour," said Commerzbank spokesman Dieter Schutz. "Clients requiring larger amounts must give notice, and those payouts are made in secure offices away from the public banking hall."

Commerzbank used to have a sin le teller behind bu[illegible] glass, but that meant all the money was in one place — just what the robbers wanted, Schütz said. "Now every time a branch is refurbished, we take out the protective glass, open the place up, and put in the smart machines."

A key element in the Commerzbank strategy is to publicise widely the conversion of a branch to the new system. "The more people know that there is no easy access to significant amounts of money in a branch, the less attractive it becomes for robbers."

Armed robberies are down, Schütz says, and the bank's security department is happy with the new system.

This is all very well in an ordered society where robbers are armed with pistols at most, and often only with vegetables — one man was arrested in the US after holding up a bank up with a zucchini — or toys, say the SA experts. In a context where criminals are particularly callous, it becomes more likely that hostages will be taken in an attempt to extort the cash if robbers already inside a bank find it harder to get at the money.

"We have reached a crisis situation where it appears as if security systems alone cannot do the trick," Council of Southern African Bankers (Cosab) chief executive Bob Tucker says.

"The banks do not see private armies as an alternative even if they could match the firepower of the criminals, because we believe that the police must be strengthened as part of building a democracy governed by law."

In the long term, Tucker believes, SA must reduce its reliance on cash. Although police have been successful in recovering most of the more than R4m seized in a spectacular highway robbery last [illegible] burg and Louis Trichardt, the at[tack] illustrates the vulnerabilit[y] of banks and transporters in [a] heavily cash-dependent society

Cosab and its members want t[o] accelerate initiatives aimed at re[]ducing reliance on cash. Immedi[]ately, this means encouraging th[e] increased use of debit cards.

A more viable solution for peo[]ple used to budgeting by observin[g] the cash flows in and out of thei[r] wallets might lie in stored value or smart cards. Like phone cards they would have a certain amoun[t] of money stored electronically from which purchases would b[e] deducted.

The system is cheaper tha[n] debit cards because there is n[o] need for the point-of-sale device t[o] be on-line. And robbers could fin[d] stolen cards cancelled electroni[]cally before they can use them.

In the meantime, Cosab has ar[]ranged meetings with govern[]ment ministers responsible fo[r] finding, arresting, prosecutin[g] and incarcerating bank robbers — safety and security, justice, an[d] correctional services — in an ef[]fort to find ways of breaking th[e] limited number of syndicates th[e] organisation believes is behin[d] the wave of robberies.

Getting policing and the crim[]inal justice system's respons[e] right is the medium-term key t[o] cutting the number of bank rob[]beries significantly, policing ex[]perts believe.

Besides making heists mor[e] difficult through improved securi[]ty measures, criminals operatin[g] in this field — like their counter[]parts involved in other illega[l] activities — must get the messag[e] that they will be caught and spen[d] time in jail.

Commenting on a drop of 42% in attacks on security vehicles transporting money and a fall o[f] 39% in building society robberies in London last year, Metropolitan Police Det-Const Steve Flack said the success was "a tribute to ou[r] partnership with our customers The policy of targeting criminals rather than crimes" had been critical to the success of the London police force's organised crime

Insurance industry nightmare warning

(58) Sowetan 29/4/97

By Isaac Moledi

MANY South Africans are set to lose their hard-earned insurance savings unless the industry prepares itself for the year 2000.

This warning came from DexData Technologies managing director Arnold van der Linde at a breakfast presentation last week

"Unless the South African insurance industry as a whole is completely ready for the year 2000, it faces another crash like those of the AA Life and IGI insurance companies," said Van der Linde.

He said the approach of the year 2000 would fully alert the man in the street to how his life is affected by computers.

"Many people are still unaware that almost everything they do each day involves a computer at some stage," said Van der Linde, warning that on January 1 in the year 2 000, consumers may find their peaceful existence turning into a science fiction nightmare as unprepared computer systems suffer from the Y2K (year 2000) syndrome.

"Logging dates into computers using only the last two digits (for example 22 April '97) has long been acceptable practice," he argued, adding that the implications of this are, however, only becoming apparent as mankind reaches the year 2000.

"Imagine the confusion in data processing terms when the computer is asked if the date 01 January '00 is earlier or later than 01 January '99," said Van der Linde, whose company provides brokers and insurers with administrative systems, data and analysing instruments needed to make appropriate underwriting decisions.

"The potential problems could affect every aspect of our lives in which computers play a part

Vital issues include water and electricity supply and billing, telecommunications systems access to buildings, toll roads, banking and insurance," he added.

INSURANCE *Transformation should take 'two to three years' to complete*

Sanlam to focus on financial services

CT(BR) 30/4/97 (58)

MARC HASENFUSS
CAPE EDITOR

Cape Town — Sanlam, South Africa's second largest life assurance office, should be transformed into a "successful internationally expanding" financial services group by 2000, Marinus Daling, the chairman, said yesterday.

Speaking ahead of the institution's annual meeting today, Daling said that the Sanlam group's plans to focus on financial services would take two to three years to complete.

"We are in the process of changing our stakes in various companies to portfolio holdings ... but we want to do this in a way that adds value like the Engen-Petronas deal last year and not by simply building down these interests."

***ADDING VALUE** Marinus Daling, the chairman of Sanlam, says the changing financial services arena demands increasing interaction with the company's related interests* PHOTO ANDREW BROWN

He said the financial services arena was changing fast, which demanded increasing interaction between Sanlam and its related interests such as Santam and Gensec.

"These interactions could prompt further developments and also exploit synergies within the group."

Daling would not be drawn on whether Sanlam was set to reduce its stake of about 20 percent in Metropolitan Life, the life assurer controlled by New Africa Investments.

A recently published cautionary suggested that Sanlam would dilute its stake to a smaller portfolio holding. Daling said Metlife had passed the ultimate test of empowerment. "They are now a competitor ... a worthy competitor."

Questioned on Sanlam's international plans, Daling said no dramatic offshore moves were in the offing this year.

"Our focus now is internally to transform Sanlam into a internationally competitive organisation. From this base we will hopefully be able to make moves in the highly competitive international arena."

He hinted that Sanlam's offshore expansion would probably be via a partnership agreement rather than acquisition.

"We are looking at all opportunities, but I'm a great believer in joint ventures, which are proving more and more to be a successful way of entering new markets."

Daling was confident that Sanlam could better last year's modest financial performance, in which premium growth was restricted to 12 percent.

"We will improve on the 12 percent growth in premiums this year, but the importance of this figure will diminish as we change from an insurance company to a financial services group."

He said Sanlam was well advanced in a transformation programme to ensure the institution became more reactive in a changing market place. "We are creating separate business units to react better to changing customer needs. But we don't want to present ourselves as high flyers but rather retain our image of a stable and secure group that offers above average returns."

Assurer in no rush for JSE listing

Cape Town — Recurring market speculation that a JSE listing for a de-mutualised Sanlam was imminent was played down by Marinus Daling, the chairman of the group.

"A listing is the last piece of the jigsaw puzzle. We want to get everything ship shape before a decision is taken on our corporate form."

He said the possibility of a listing was "somewhat in the future" and definitely not on the discussion table at present.

"It will only be in the latter half of next year before we even consider internally a decision on whether to de-mutualise Sanlam."

☐ **Business Watch**

Land Bank embraces change

CT (32) 2/6/97 (58)

Ann Crotty

Johannesburg — The Land Bank will establish new lending criteria that are more flexible and will give a greater number of clients access to the financial services of the bank, Derek Hanekom, the minister of agriculture and land affairs, said on Wednesday evening at the launch of the new Land Bank board.

Hanekom said the recommendations of the Strauss commission will be used to guide the process of change at the bank.

"This clearly means that the bank, while continuing to lend to the commercial farming sector, is faced with the challenge of expanding its lending to a new clientele. We have to do this in such a way that it does not undermine the bottom-line rule of whether or not to approve a loan — and that is pay-back-ability."

Traditionally, the Land Bank's wholesale financing facilities were available to agricultural co-operatives, statutory agricultural institutions and control boards, while long- and medium-term financing was available to all persons farming on a commercial basis.

The bank's annual report for financial 1995 revealed that it had extended R45 million of short-term loans to control boards. This represented a significant decline from the 1991 level of R948 million.

'The bank is faced with the challenge of expanding its lending to a new clientele'

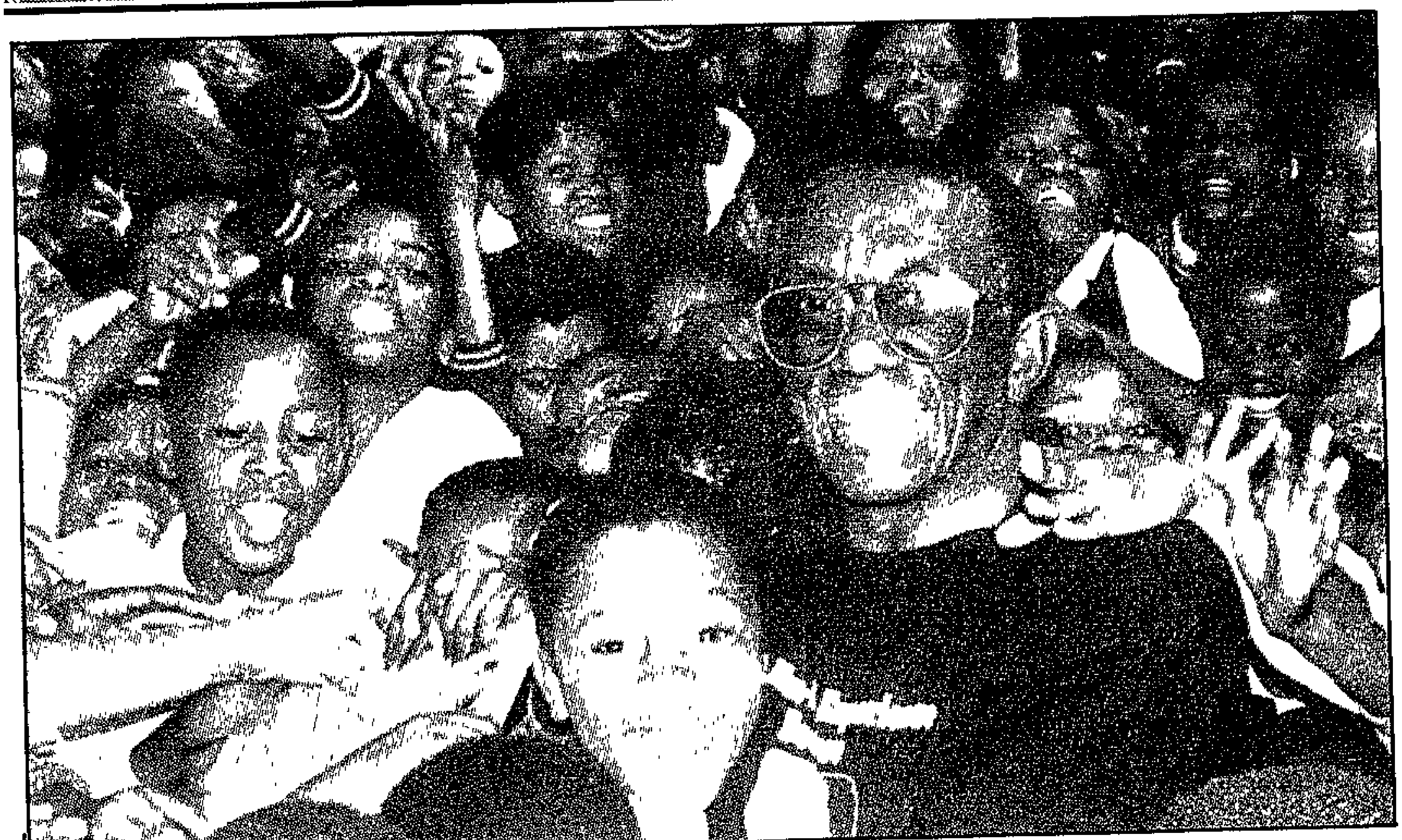
In the report it was noted that "in accordance with the provisions of the Land Bank Act, loans may be granted to control boards established under the Marketing Act".

The new Marketing Act will see the disappearance of these boards from September. A new Land Bank Act is being written.

Responsibility for the Land Bank has been switched from the minister of finance and now rests with the minister of agriculture and land affairs.

Referring to the newly appointed Land Bank board, Hanekom said he hoped its two-year term of office would be fruitful and that the bank would benefit from the considerable and diverse talents of the board.

"Your appointment marks a significant change in the operation of the bank — a move from an executive decision-making body made up of commercial farmers to a talented group of men and women with diverse skills from different sectors."



DREAM COME TRUE . . . Solomom Sikakane thronged is by cheering pupils at the book presentation to various schools.

Taking banking to the people

(58) CP 4/5/97

BANKING has adopted a new stride with Nedbank's latest initiative of taking the bank to the people.

Core to this new strategy is the emerging black entrepreneur, who is seen as "a key point of focus" in a new initiative by Nedbank's Business Banking unit.

Victor Sandamela, head of Nedbank's thrust into this arena, reports that he is more than satisfied with "what has been achieved so far in writing up new business in the emerging market place".

The Nedbank strategy uses highly mobile business banking teams to take banking services to small-to-medium enterprises with an annual turnover of R5-million or less.

Business managers and business bankers are empowered to take a full range of banking services to their clients, which include overdraft facilities, term loans, business credit cards and asset-based finance.

They also help with training in business skills.

The teams are backed by "specialised credit hubs" which make decisions on the basis of building up a close understanding of the owner/-manager and a business's potential.

This is a big departure from past practice when title, security and a strong balance sheet were expected before bank advances were agreed upon.

The Nedbank Business Banking teams serve entrepreneurs in both traditionally white business areas and emerging black businesses.

Says Sandamela: "Huge long-term growth can be unlocked by this new approach to personal, relationship banking.

"The largest beneficiary will ultimately be the emerging black entrepreneur," he said.

Bank sector relative growth outstrips industrials

(58) BD 6/5/97

Belinda Beresford

RELATIVE growth in the banking sector has increasingly outstripped growth in industrials so far this year, as it is rerated after a stagnant 1996 and ahead of anticipated interest rate cuts.

BoE Natwest banking analyst Alan McConnochie said yesterday the growth was "mainly because banks went sideways in 1996 — they only went up about 6%, but earnings growth was much stronger".

The banks had been "slowly inching towards value", and had probably now caught up, he said. The result would probably be a fairly flat next six months.

Another analyst said the banks were operating in an improved interest margin, related to the money market position, which was in turn related to capital inflows.

Banks were expected to show considerably better earnings than the industrial sector and were viewed more positively.

There was a perception that banks had shown their ability to reduce cost to income ratios and improve productivity, and to manage credit risk better.

Nedcor, often viewed as the best of the big four banks, was expected to produce "excellent" interim results — possibly above 25%, he said.

But he felt the sector had "gone too far" and was overpriced, with relative price ahead of relative earnings, when compared to the financial industrial index.

Fleming Martin analyst Richard Jesse agreed the index's growth was due to a rerating of the sector.

In addition, high interest rates meant SA was "getting quite good capital inflows, which should be bullish for bank margins", Jesse said.

He was not expecting an interest rate cut before the fourth quarter of the year.

Another analyst said money market rates had been below bank rates since the middle of January, opening up the margins for banks. He said margins generally opened up at the turn of interest rates, especially when the market was expecting a rate cut.

"Banking did nothing last year, it was a year behind," he said. He felt most banks had had their run, and would probably not go much further up.

Anyone buying into bank shares now had missed the boat, another analyst said.

One exception was NBS Boland, which could continue to rise as the merger between the two banks was settled down.

Battle on for investment rand

Financial services in turmoil

(58)

CT (BA) 7/5/97

Bruce Cameron

The financial services industry is in turmoil as different elements engage in what is turning out to be a no-holds-barred fight for your investment rand.

The result could benefit and prejudice investors as pressure is brought to bear on the product producers, like life assurers, banks and the unit trust industry, to reduce management and other costs.

At the same time ever-higher incentives are being offered to financial advisers and brokers.

The battle has been sparked by a number of factors including the move to greater disclosure of information, the explosion of linked-product factories and blurring of demarcation lines between the different sectors.

The unit trust industry's introduction of money market funds last week has seen banks responding with interest rates far more in line with what they charge borrowers.

Life assurance companies are experiencing a dramatic drop-off in new business. The total assets of the life companies have levelled off as individuals switch to unit trusts with greater transparency of costs and less onerous withdrawal conditions.

Even within sectors of the financial services industry, battle lines have been drawn.

Over the three months to March, 90 percent of net in-flows into the unit trust industry went to three management companies – Investec, Coronation and BOE. But some of the industry's flagship funds are seeing significant outflows of money.

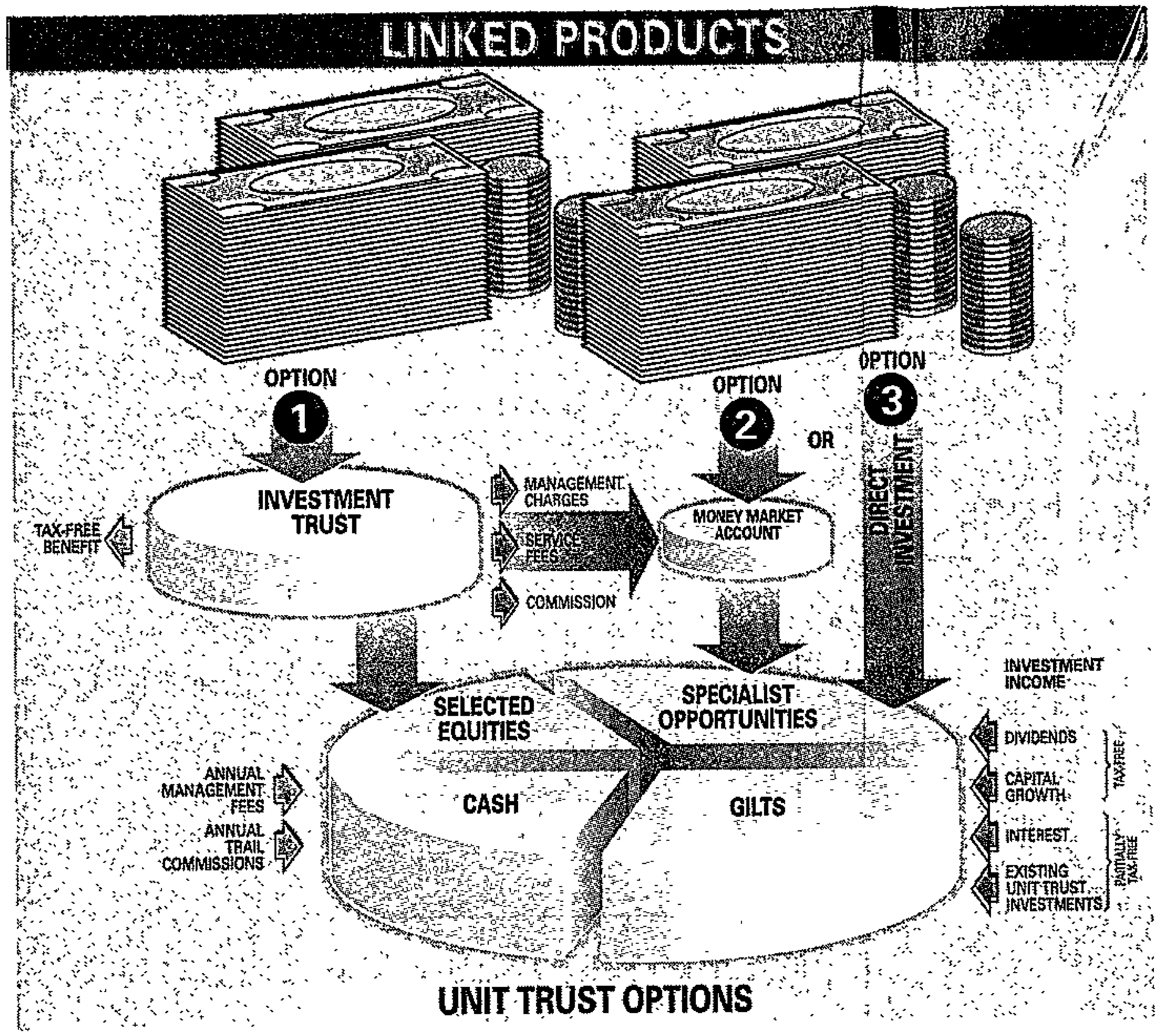
It is estimated that the linked-product companies could be responsible for up to 60 percent of the cash flows in the unit trust industry. They are using their immense shopping power to force down costs.

Already where an ordinary individual will pay five percent in initial charges (apart from about another 0,5 percent in compulsory tax and brokerage charges), the linked-product companies have negotiated this down to 0,25 percent. The same applies to fees for switching between funds.

Kevin Hinton, marketing manager of the original product-packer, TMA Investment Products Services, believes initial charges should be zero and annual management fees less than one percent.

The linked-product factories' business, which is channelled through intermediaries, has flourished. Commissions are rising and better incentives, like overseas trips, are being handed out.

Any benefit you pick up as a result of charges being lowered, could be more than cancelled out by higher commissions and incentives for brokers.



A MIXED PIE *This graphic shows how money can be channelled into a linked-product company from a number of sources, as a direct investment, through a trust, or through a holding interest account. The investment can then be distributed in a number of investment vehicles across different companies and in a variety of financial services products and asset classes.*

The life companies are squealing because they have regulations and agreements governing the commissions they can pay. But they are fighting back in other ways. They are examining costs and investment performance and providing more information.

The whole issue of commissions in the life assurance industry is now being examined and debated.

The two main camps are those that favour regulation of all commissions across the industry while others favour total deregulation with full disclosure to you, the investor, of all commissions paid. A few others favour regulation of commissions but without disclosure.

NEWS

Newport to sue Erwin and Tager

CT(AR)8/5/97 (58)

Matt Getz

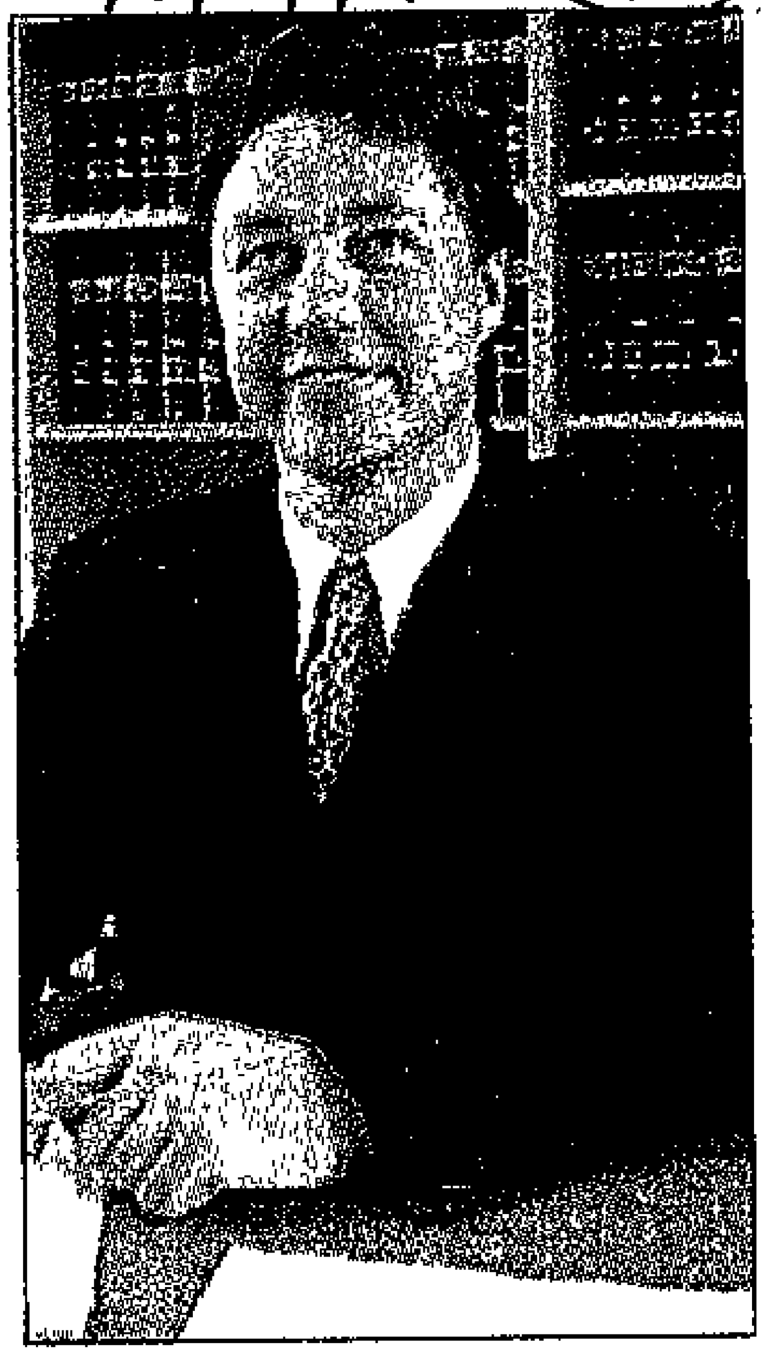
Johannesburg — The Newport Business Club, the pyramid organisation which has been in and out of court in the past few months, said yesterday it was suing Louise Tager's Business Practices Committee and Alec Erwin, the trade and industry minister.

Newport wanted the court to order the committee to explain the purposes and grounds of its investigation into the company. It said the respondents must give it an opportunity to be heard and allow it to see all relevant documents. Meanwhile, it said, the court must restrain the committee from proceeding with its investigation.

On March 14, the committee said in the Government Gazette that it was going to investigate Newport and some allied people in terms of the Harmful Business Practices Act.

Newport said in its notice of motion that the committee's notice was "bad in law" because it did not give any definition or description of the harmful practices, was "void for vagueness and ... accordingly of no force or effect".

John Cuzen, Newport's senior counsel, said this week that Newport had met the committee on April 15. "It was most unsatisfactory. We asked what they were investigating, what was harmful and what documents they were relying on. Tager refused to supply the documents or specify the practice, so we were obliged to bring the application."



FACE TO FACE *Louise Tager of the Business Practices Committee and Martin Bradley of Newport*

Tager said yesterday that she did not want to discuss the case. "It's up to (Newport) to do what they do," she said. "The matter was handled, and that was it. We will let things take their normal course."

Newport has also reacted to a notice in last Friday's Government Gazette in which Erwin ordered it to stay the "business practice whereby members are directly and/or indirectly canvassed to join (it) against payment of a cash consideration".

"My clients just don't do that," Cuzen said. He said members in company law meant shareholders, and Newport was a limited partnership. "They canvas for people to join the partnerships, therefore, we ignore it."

Martin Bradley, Newport's regional manager, said this week that he welcomed regulation and wanted the authorities to present their problems directly to Newport. "We just want them to come sit around the table and say what they want from us."

Last month, Newport won a case brought by the Registrar of Banks in Pretoria.

The registrar had claimed Newport was operating as a bank without a licence.

New plan to curb money laundering

Special centre mooted

(58)

ALIDE DASNOIS
BUSINESS EDITOR

ARGUS 9/5/97

Banks, attorneys, stockbrokers and others could soon have to report all transactions over R50 000 or R100 000 to a new Financial Intelligence Centre, in terms of moves by the authorities to curb money laundering.

Measures under consideration to tackle the spreading evil of money laundering include the creation of a unit with powers to investigate a range of people and institutions including banks, attorneys, insurance brokers, estate agents, coin and bullion dealers and accountants, according to Reserve Bank official Charles van Staden.

> *'The obligation to report suspicious transactions would override any duty of secrecy to the customer or client'*

In a speech to the International Forensic Conference in the Waterfront yesterday, Mr Van Staden said a draft Money Laundering Control Bill, as revised by the Law Commission, was being considered by the Department of Finance.

The bill suggested the creation of a Financial Intelligence Centre, which could be housed in the Department of Finance, the Reserve Bank, or be a separate entity, with powers similar to those of the Office for Serious Economic Offences.

Banks, attorneys, brokers, traders, estate agents, stockbrokers, casino managers, coin and Krugerrand dealers, accountants, stokvel directors and other "accountable institutions" would be obliged to report to the centre details of any transaction involving cash above a set limit.

Mr Van Staden said the threshold had not yet been set but "one can safely assume that it would be between R50 000 and R100 000".

In the United States, cash transactions from $10 000 had to be reported, he said, and the US equivalent of the proposed Financial Intelligence Centre processed 11,5 million deals a year.

"As a threshold-based reporting system is automatic, it leaves less scope for corruption and errors of judgment," Mr Van Staden said. Transactions which might appear innocent when seen in isolation could be shown to warrant investigation when seen as part of the broader picture.

Institutions would also have to report all international electronic fund transfers and cross border cash transfers, as well as all "suspicious transactions", within a maximum of 10 days.

The obligation to report would override any duty of secrecy to the customer or client, and anyone making such a report would be protected by law from any breach of confidentiality, Mr Van Staden said.

The Financial Intelligence Centre would not only collect and analyse information and pass it on to the relevant investigating authority, but could also conduct its own investigations into money laundering. The director of the centre would be able to demand access to records and could order an institution to suspend a deal.

Mr Van Staden quoted international figures suggesting that in 1990 nearly US $233 million in drug money was available daily for laundering around the world.

In South Africa alone there were more than 278 international crime syndicates operating and the country was increasingly seen as a convenient place to market and transit drugs.

So far banks had been the main agents for "washing" and recycling illegally acquired wealth, but non-banking institutions were likely to be used more and more, he said.

RETAIL *Shopping chain under scrutiny from registrar of banks*

Pick 'n Pay ruffles banking feathers

ET (BR) 9/6/97 (68)

Marc Hasenfuss

Cape Town — Pick 'n Pay, which is ruffling feathers in the financial services sector by embarking on an in-house banking venture with Boland Bank, has drawn scrutiny from the registrar of banks.

Gareth Ackerman, the managing director of Pick 'n Pay Group Enterprises, confirmed yesterday that the retailing company had received a letter from the registrar of banks.

He refused to detail the contents of the letter, but acknowledged that it revolved around Pick 'n Pay's intended foray into the banking arena with operating partner Boland Bank.

Christo Wiese, the registrar of banks, said yesterday that it simply wanted details concerning the risk management procedures that would be put in place by Boland Bank.

Gareth Ackerman, the managing director of Pick 'n Pay
PHOTO ANDREW BROWN

He believed the Reserve Bank's concerns would not stall Pick 'n Pay's long-awaited entry into financial services. "It really depends on when they come back to us ... giving us assurances on risk management procedures acting as agents for Boland Bank."

Ackerman stressed that the Bank's concerns about Pick 'n Pay's intentions would be placated. "Initially we were a little surprised but we, along with Boland Bank, have met with the registrar of banks to clarify our position."

Ackerman stressed the launch of Pick 'n Pay's first financial services product — most likely a savings account facility — would not be delayed by developments.

The letter warned that if the retailer wanted to conduct banking without proper prior registration this would constitute a criminal offence.

Ackerman noted that Pick 'n Pay was merely acting as an agent for Boland Bank and was not contravening the Banks Act.

□ Business Watch, Page 18

Aldworth pleads guilty to fraud

BANKING

Counting on customers' first impressions

(68)

The memories linger on — rubric remains long after British institution makes stage left exit

FM 9/5/97

It's 10 years since Barclays SA became First National Bank (FNB) But long-time clients still talk about their "Barclaycard." This is testimony to the strength of branding

The name change was forced on the bank by the withdrawal of its major shareholder, Barclays Plc, in 1986 In terms of an agreement between the SA bank and its parents, it had to stop using Barclay's name within 12 months of the disinvestment.

The name change also followed the finding of the Munnik Commission of Inquiry that MD Chris Ball authorised an overdraft facility of R100 000, knowing it would be used to pay for advertisements calling for the unbanning of the ANC. In P W Botha's SA, the fallout damaged Barclays in certain market sectors

Stripped of its imperial eagle and a name going back to 1926, FNB launched an intensive advertising campaign to promote its new branded image.

For 10 years it concentrated its efforts on building brand awareness alongside normal product advertising. "None of the other SA banks had to build a new brand the way FNB did," says senior manager Roy San-Garde.

However, in very different circumstances, the same policy is followed in the UK by former parent Barclays. "Whereas other banks have used a proliferation of brands to sell a wide variety of products," says Interbrand (see box), "Barclay's retail banking products have only one brand — Barclays."

In the UK, Barclaycard's brand value is considerably higher than that of other banking products. A valuation exercise conducted by Interbrand on behalf of Dresdner Kleinwort Benson shows that "whereas the world's top brands are valued at over 10x annual profits, the best mortgage and deposit-taking brands are valued at just 1x profits

"In contrast, Barclaycard — where a brand culture has been developed over many years — currently has a brand valued at over 5x annual profits."

Interbrand found that, in the UK, "banks and building societies, though high street names, have not developed brand values."

Bankers believe the same could not be said of SA. In the UK, says Interbrand, dominant market shares in banking "have evolved from factors such as geographical distribution, effective cartels and regulatory protection rather than the development of well established brands "

None of these factors is important in SA.

The small bankable population, dispersed over a wide area, does not allow geographical diversity except for relatively small institutions The big banking groups, Standard, Nedcor, FNB and Absa, have all had to compete throughout the country

Nor does the industry have the protection of a cartel. This was dismantled in 1983 And, since 1986, deregulation has allowed all deposit-taking institutions to enter any type of banking business.

So branding has played a much more significant role here than in the UK That is why Absa, which was formed by merging four separate entities, has retained them It trades as United Bank, Volkskas, TrustBank and Allied Bank

Head of brand marketing Cornie Victor says "each of the brands owns huge equity built up, in some cases, over more than 100 years Loyalty and personality make brands stronger "

Similarly, Nedcor Bank has kept the Perm operating because of its strong profile, built up over years as the second largest building society

"But in the financial services market you need to deliver to different segments of the market," says Nedcor Bank executive director Mike Leeming "So the Perm evolved into two brands, the Permanent Bank and Peoples Bank "

Standard Bank deputy GM Charles Chemel agrees "One strong brand is not appropriate in SA. One brand can't do everything " He says Standard has developed strongly branded products — Accessbond, Autobank and Achiever Plan

FNB, too, is reviewing its strategy, says San-Garde He stresses the need "to refocus branding strategies, as retailers are about to start financial services and plan to leverage their brands into this new category "

In the face of competition with exceptionally strong branding, banks will have to put even more effort into building up brands.

Ethel Hazelhurst

BRAND VALUE

Putting a price on client loyalty

Interbrand, which provides brand-related services internationally, believes competing on price harms the value of a brand. "When was the last time Coca-Cola, Nescafé, Heinz or Levi's presented their products as low price propositions?" it asks.

Interbrand opened in London in 1974 and now has 15 international offices. It has valued more than 1 500 of the world's leading brands, it says, worth more than US$50bn Clients include Ford, Nestlé, Nabisco, IBM, Gucci, Chanel and British Airways. Its research has revealed that the most highly valued brands in the world are typically those which have managed to protect their dominant market positions through means other than price

A case which illustrates the point, it says, is that of Marlboro cigarettes. The value of the brand fell from an estimated US$52bn to $33bn in 1993 as a short-term result of a price reduction in the product Subsequently it recovered to $44bn

By contrast, "Barclaycard has rarely competed for its market share on price. The main thrust of its marketing and product positioning has been memorable ads focused on add-on services. Through its decision to compete in nonprice areas — supported by innovative advertising — it has developed a brand estimated to be worth over £1,3bn "

Conventionally, brand value is not reflected on the balance sheet but is widely recognised as a part of goodwill.

Following debate on new accounting standards, it may find its way on to the balance sheet in future — though there may be some debate over how to value it.

Ethel Hazelhurst

Robbers grab R30-m in 164 hits this year

ARG 10/5/97

SA high on world list

(58)

Johannesburg – In 164 bank robberies committed this year, robbers have netted more than R30-million, statistics released by the Council of South African Banks reveal.

COSAB head Bob Tucker said yesterday this reflected a projected increase of 25 percent in robberies since last year.

In 1996, R105,3-million was stolen in bank robberies. A further R10,3-million was stolen from automatic teller machines and in after-hours thefts from banks. The total monetary loss increased by 38 percent from 1995 figures, said Mr Tucker.

'Bank robbery is not endemic, but a bubble on the surface of transformation'

Broken down according to provinces, the statistics revealed Gauteng as the crime king, leaving its relatively law-abiding cousins in its yellow dust.

Gauteng recorded the highest number of robberies with 100, followed by KwaZulu Natal with 27, the North-West Province with nine, Western Cape with eight, Free State with seven, Eastern Cape with five and Mpumalanga and Northern Province both recording four robberies this year.

South Africa's bank robbery statistics rank among the highest in world. Only R1,1-million was lost in branch robberies in Britain during 1996, Mr Tucker revealed.

'All of us should move towards the use of electronic banking services instead of cash'

He said he had met Safety and Security Minister Sydney Mufamadi on Thursday to discuss the growing crisis.

"Among the issues we will investigate is how the reward system could be significantly improved, and how the newly established units could be held accountable for rapid progress and monitored. It is also imperative that those teams are dedicated to this task alone – which I have been assured they will be," he said. Mr Tucker added that officers appointed to head up these teams should be above all suspicion.

Bank robbery was not endemic in South Africa, he said, describing the phenomenon rather as "a bubble on the surface of transformation".

He said information pooled by the banks and obtained from police indicated the robberies were the work of four or five syndicates involving about 100 robbers. It was possible that a breakthrough could be made in relation to these syndicates, he said. However, he could not supply details on the syndicates.

Mr Tucker said the public's money remained safe with the banks. Assets under the control of the nation's banks totalled R350-billion.

He did, however, indicate that the robberies had caused dramatic increases in the cost of supplying cash. The top four banks would spend an estimated R376,1-million on protecting cash supplies in 1997. This could be compared with the R297,9-million spent in 1995.

"The cost of providing cash is taking on extraordinary proportions, and this is likely to result in individual banks acting to recover that cost from clients actually withdrawing and depositing cash."

The long-term solution to the problem was a decreased dependence on cash in South Africa, said Mr Tucker.

"All of us should try to move towards the use of electronic banking services instead of cash. That method is cheaper, easier and much safer," he said.

Mr Tucker was not able to supply statistics on how many people had been killed or injured in bank robberies. – Sapa

Taxman after pyramid profiteers

Names of Rainbow members handed to authorities checking PAYE

(58) ARG 10/5/97

CHARLOTTE MATHEWS

The tax authorities are likely to be knocking on the doors of people who have joined the plethora of pyramid investment schemes which have been sweeping the country recently.

First on the list are the members of Rainbow, the multi-level marketing scheme which described itself as a "rhomboid parabola" rather than a pyramid scheme.

The names of all members have been handed to the South African Revenue Services. None of Rainbow's members paid any PAYE tax on commissions which amounted to R1 800 for the first two members introduced and accelerated after that.

Those who lost money in Rainbow cannot, however, claim a tax deduction because it was a capital loss, whereas commission made is classified as income.

Rainbow has now been closed down and 62 percent of those who put in their R10 000 investment have emerged with nothing.

> ‘People who lost money cannot claim a tax deduction for capital loss’

Robert Cameron-Ellis of Deloitte & Touche, who assisted the Reserve Bank in closing down the scheme, says it embraced about 3 900 members, each of whom contributed R10 000, so the whole scheme was worth R39 million.

Apart from those who lost their R10 000 investment, a further 28 percent emerged with less than R10 000, which means they suffered some capital loss. Another eight percent made between R10 000 and R50 000 and two percent made between R50 000 and R300 000. No further money can be recovered.

The police are investigating criminal charges against the five men who organised the scheme.

Cameron-Ellis points out that the extent of losses experienced in Rainbow is inevitable because of the structure of this type of scheme.

For example, one person has to introduce four others, so there is one person who has made money and four others who have not – until those four introduce four more members each. At that level you have five people who have made money and 16 who have made no money.

Moving to the next level, there will be 21 people who have made money and 64 who have not. It expands exponentially in this way.

Regarding the other two organisations similar to Rainbow, Millennium is apparently operating once more and Newport is under investigation in terms of Section 8(1)a of the Harmful Business Practices Act.

A notice was published in the Government Gazette on May 2, which said that Newport, Newport LLC, Newport Business Club (Pty) Ltd, Martin Bradley, Els Dijkstra, Richard King, Bob Mitchell, Robert Prichard and Steven Sweeney were suspended from canvassing people to join Newport Business Club from May 2 until September 13 this year.

However, it was reported last week that Newport intends to sue the Business Practices Committee and Alec Erwin, trade and industry minister, to explain the grounds of the investigation and to refrain from proceeding in the meantime.

Meanwhile, Personal Finance has been approached by readers and brokers enquiring about a United States multi-level marketing organisation, Amway Corporation, whose representatives have been holding seminars around the country recently.

Little is known locally about Amway Corporation. It has an Internet site at http://www.amway.com but this does not detail how it works.

A faxed enquiry to Peter Beaumont, who is described as Amway Corporation's general manager in South Africa but has a Michigan, US telephone number, elicited no response.

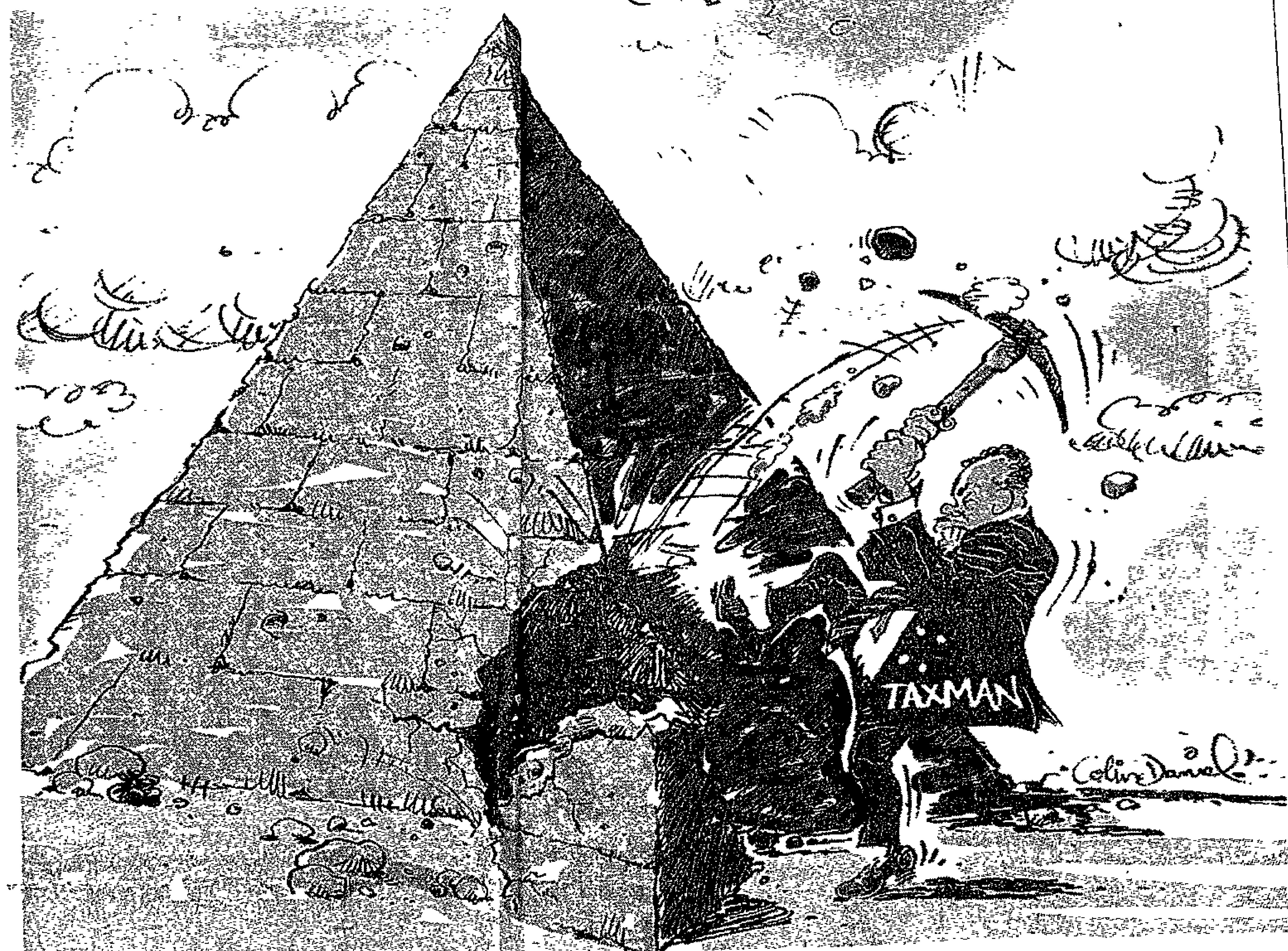
However, it emerges from other Internet sites that Amway sells consumer items, like water filters and household detergents. These products are sold through distributors, who rise through levels – Diamond, Platinum and so on – once they have achieved a certain level of sales. In turn, the distributors recruit other salespeople, for which they earn incentives.

It seems some distributors promise enormous wealth to their recruits.

Most of the commentators on the Internet, both those who are in favour and those who are against Amway, agree that more money is made out of selling motivational material – tapes, lectures and books – than actually selling Amway's consumer products.

Apparently the Federal Trade Commission of the US requires Amway to label its products with the message that 54 percent of Amway distributors make nothing and the rest earn on average $65 a month.

Several law suits have been brought against Amway, one of which raised the issue whether it was acting as an illegal pyramid in the US. However, the courts ruled that it is not an illegal pyramid under US law because it does not charge people either to join Amway or to recruit other distributors. Illegal pyramids and chain letters do not usually have a product, but Amway does.



Bank rules extended for greater control

A new regulation issued under the Banks Act which came into force on March 27, 1997 has broadened the definition of a bank.

It will bring into the net some of the savings and pyramid schemes which were previously unregulated.

Once an organisation is defined as a bank, it needs a banking licence and is subject to certain requirements like having to submit regular returns to the Registrar of Banks and hold reserves against deposits accepted from the public.

The definition of a bank now includes those organisations that accept money directly or indirectly from members of the public as a regular feature of their business practice with the prospect of members receiving payments or other money-related benefits by introducing new participating members.

This applies whether or not the new members are required to acquire moveable or immovable property, rights or services.

A business practice includes any method of marketing or distribution.

FNB set to restructure into market segments

(58)

ST 11/5/97

Competition is forcing FNB to reshape its operations so that each product reflects its market conditions, writes MARCIA KLEIN

FIRST National Bank Group is embarking on a restructure to take cognisance of its market segments, improve delivery and stop cross-subsidisation across its customer and product bases.

But no one is saying if it has, in the process, been priming itself as an attractive prospective suitor.

Rumours of the imminent sale of FNB have caused some volatility in the share price — it was at R31.75 this week, close to its year's high. The rumours arose out of discussions regarding the unbundling of Anglo American (FNB is in the Anglo stable) and whether Anglo would consider banking a core investment. The departure of FNB's former boss Barry Swart also fuelled take-over rumours.

Viv Bartlett, FNB's managing director, would not speculate on the sale of FNB: "We as management are not talking to other banks. We should not be bothered with who the owners are as long as they enable us to operate profitably and prudently."

Results for the six months to March, released this week, show headline earnings up 6.7% at 110.4c a share (103.5c). If one includes the profit on the sale of 22% of its share in FNB Namibia, then earnings grew 29.3% to 133.9c.

Bartlett says the results reflect a lower tax bill and good growth in non-interest income, offset by losses on furniture finance business Firstpref.

At end-March FNB sold the McCarthy Retail portion of FirstPref, where losses totalled R136.8-million. Profurn's book has since been sold back and related losses of R50-million will be reflected in second-half results.

Bartlett says the problem in FirstPref was in the partnership (with McCarthy Retail), which was vital because FirstPref needed to be of a critical size to function properly.

He explains that "margins of financing furniture are less than margins on the sale of furniture, and there was also some culpability on our part with the systems which were out in place initially".

The 5.5% rise in net interest income to R1.66-billion reflected an interest squeeze on the back of the high money market shortage.

The cost to income ratio has been reduced to 64.6% from 65.7% and is on track in terms of the four-year objective of bringing it down to a globally acceptable 60%.

Bartlett says to get cost-to-income ratios down, FNB could focus on costs or the revenue side. "The process we are looking at is a combination with a slight weighting towards looking at costs."

FNB increased bad and doubtful debt provisions by a hefty 64.5% to R363.9-million, an increase Bartlett describes as "disappointing, but not unexpected".

While the increase in the provision was high in percentage terms, Bartlett says this is a little misleading as it was only 11% up on the preceding six months. "The increase nevertheless reflects the strain the consumer is feeling, but we hope it has reached a plateau, although this depends to some extent on the interest rate policy."

He expects to see one interest rate cut later this year and another next year.

Offshore, Henry Ansbacher Group had a record year, but there are no immediate offshore expansion plans. "We are comfortable and have no aggressive internationalisation plans," he says.

FNB is embarking on a wide-ranging restructuring plan. "Historically, we said we can make available all our services through all our divisions, but competitive issues have forced us to reconsider our position. People are cherry-picking and aggregating things together exposes us. By restructuring into appropriate market segments, the price of each product reflects that market."

While he will not say how many staff may be affected, talk of wide-scale retrenchments seem unfounded. "We have had a staff freeze for the past year and hope the attrition process will enable us to handle the restructure with as little pain as possible." Most of the 4 700 FirstPref staff have moved to McCarthy and Profurn.

Responding to rumours of FNB entering the life business, Bartlett says it has been involved in short term insurance for three years through a company which mainly takes short-term premiums from Wesbank and home mortgages. "But the thing that taxes our mind is whether to go into life insurance."

Rumours aside, Bartlett is happy with the progress that has been made, and is confident the restructure will iron out some of the major outstanding problems. "All elements of the organisation are firing on all cylinders and most of the areas that needed fixing are fixed. The challenge is to get through the (new) transition."

IMMATERIAL WHO OWNS US . . . Viv Bartlett

Security: Banks dish out R600m

(58) ST (BT) 11/5/97

CRIME SPIRAL

By MARCIA KLEIN

BANKS will spend about R600-million on crime prevention and security measures this year after suffering losses of R115.6-million in robberies, burglaries and ATM thefts in 1996.

The four major banks' security expenditure in 1996 included over R170-million on securing branches and agencies — of which R80-million was spent on guards — and R156-million on protecting cash in transit.

So far, their 1997 security expenditure has had little impact — there has been a significant rise in the number of bank robberies in the first four months.

Figures released by the banking industry for the first time show the 1996 losses were the result of 620 robberies, burglaries and ATM thefts — nearly two for each day banks were open.

Robberies accounted for R105.3-million of the total, ATM thefts R7.3-million and burglaries R3-million.

The 1996 figure was boosted by the R34-million netted from SBV, the cash-in-transit company owned jointly by the banks, in the Pinetown heist.

This year the number of robberies is estimated to go up dramatically (to about 777 based on first-quarter trends), but the value of the takings could decline to R97.2-million because of the 1996 aberration.

The Council of South African Banks said ATM thefts of R7.3-million did not include the cost to individuals mugged at ATMs.

Nor did they include the R7-million or so to replace or fix damaged machines. There were also 8 000 recorded cases of vandalism costing over R9-million.

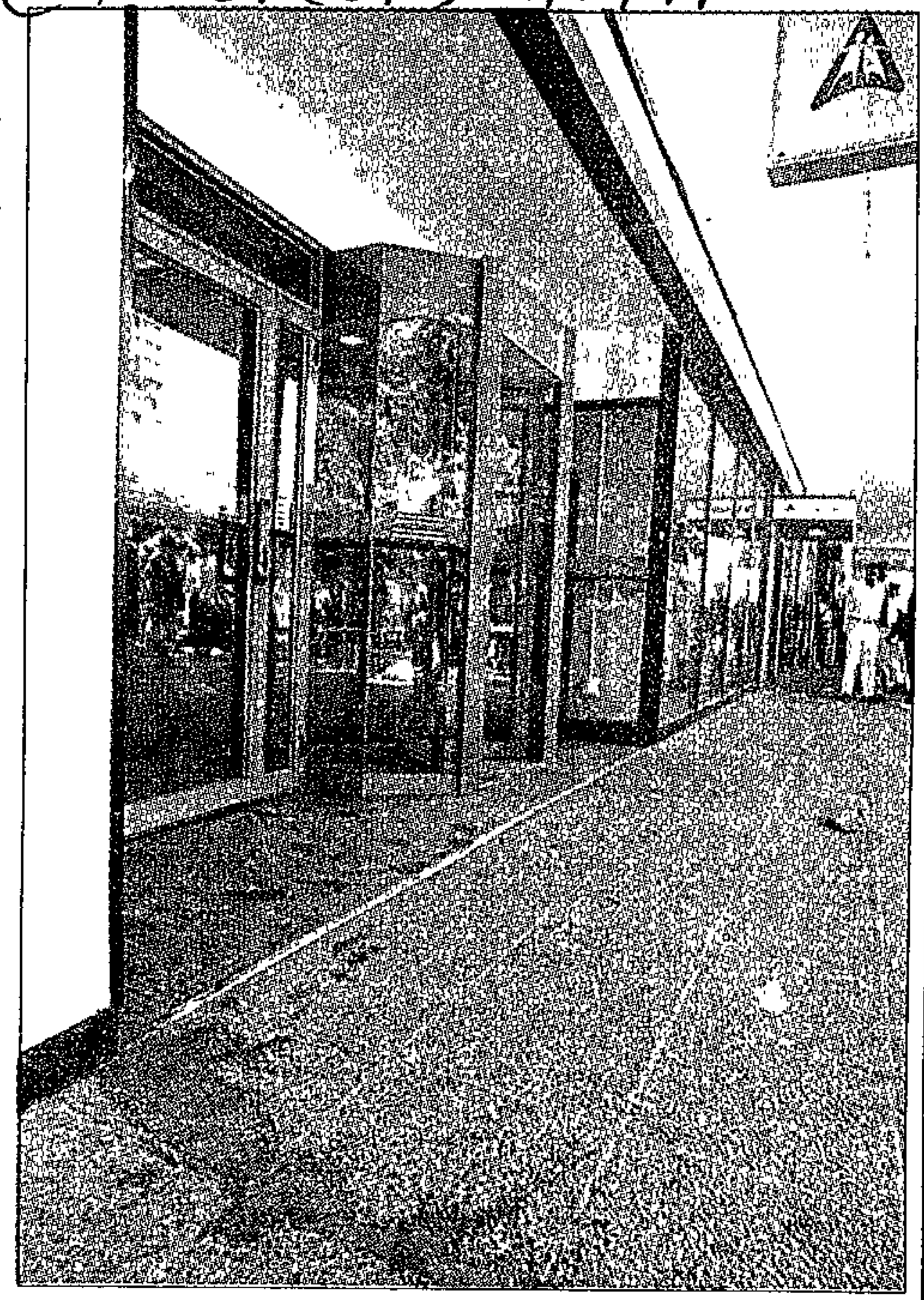
There were 400 incidents of armed hold-ups of private security vans, resulting in 40 deaths among security personnel and the loss of R45-million cash. About R41.6-million was lost in armed robberies by SBV alone.

The banks did not furnish details on fraud and white-collar crime, but said these were also on the increase.

Cosab said robberies were among the highest in the world. Only R1.1-million was lost in Britain in 1996, for example.

It warned that the cost of cash was increasing so much that banks "are likely to take steps to recoup some of the costs of providing cash". But while they have been promoting card-based options, demand for cash was increasing at about 20% a year compared with international trends of 2% to 3%.

Cosab chief executive Bob Tucker said there was a marked increase in the number of robberies in the first four months of this year There were 164 bank robberies, 34 ATM attacks and 60 burglaries. None of the 14 most wanted bank robbers or the Pinetown robbers have been convicted, although some have been arrested.



COST IN BLOOD . . . bank robberies are taking a severe toll

Banks suffer heavy losses

(58)
~~(57)~~

Sowetan 12/5/97

By Coudjoe Amankwaa

FOUR major South African banks have spent R1 billion on crime prevention and security to curb heavy losses resulting from bank robberies.

Council of South African Banks (Cosab) chief executive Bob Tucker revealed on Friday that banks lost a staggering R113 million last year alone.

Bank robberies increased from 268 in 1995 to 316 last year, a 38 percent increase in money stolen. The banks believe most robberies are organised by crime syndicates.

The Absa group, First National Bank, Nedcor and Standard Bank have since 1995 spent R1 billion in an attempt to stem the ever-growing tide of violent robberies in South African banks.

"Cash in transit is an area where millions of rands in additional security have already been spent. Securing the movement of large amounts of cash to branches, government pension pay-points and other destinations cost R165 million during 1996. This year R200 million has been budgeted for this," Tucker said.

He said expensive high-tech security amounting to R90 million had already been installed to ensure that banking halls were safe

Board warns banks not to collude on illegal levy

CT 13/5/97 (58)

OWN CORRESPONDENT

JOHANNESBURG: The Competition Board has demanded that banks and the National Home Builders Registration Council (NHBRC) reply to its warning that their collusion had led to an illegal levy of millions of rands.

The board's warning to the Council of South African Bankers and the NHBRC came after 17 of Gauteng's 20 major residential developers complained that they were being forced to act as tax collectors.

They said the banks would only approve loans for clients of developers if the developer was registered with the NHBRC and had paid over a levy that equalled 1,3% of the home's selling price — even if the loans were more than R65 000, the maximum loan amount on which the levy may be charged.

The developers told the board that about R85-million would have been levied unlawfully by the end of this year if the banks and the NHBRC continued to collude and levy clients with home loans over R65 000 and up to R250 000.

After investigating the complaints the board issued a stern warning to Cosab and the NHRBC.

Yesterday however, in defiance of the warning that the practice was in contravention of the 1979 Competition Act, Cosab and the NHBRC said they would continue with the levy system because legislation was about to be passed to enforce it.

The developers said they were seeking legal opinion on "this gentleman's way of extortion".

The board gave Cosab and the NHRBC permission to collude in April 1995 to encourage the financing of small housing loans.

Developers had to be registered with the NHBRC and have paid the levy before the bank approved home loans under R65 000.

Levies, handed over to the NHBRC, would act as a warranty to protect consumers against defectively built homes.

But, without further reference to the board, the colluding partners raised the levy ceiling in February last year to include loans up to R250 000.

Banks warned on home levies

By Trove Lund

The Competition Board has demanded banks and the National Home Builders Registration Council reply to its warning that their collusion had led to millions of rands being illegally levied on homeowners.

The board's warning to the Council of South African Banks (Cosab) and the NHBRC came after 17 of Gauteng's 20 major residential developers complained that they were being forced to act as tax collectors.

They said the banks would approve the loans of developers' clients only if the developer was registered with the NHBRC and had paid over a levy that equalled 1,3% of the home's selling price – even if the loans were more than R65 000, which is the maximum loan amount on which the levy may be charged.

The developers told the board that about R85-million would have been levied on homeowners unlawfully by the end of this year if the banks and the NHBRC continued to collude and levy clients with home loans over R65 000 and up to R250 000.

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Star 13/5/97

Insurance companies urged to abandon first-world models

(68) BD 14/5/97

Nicola Jenvey

PORT EDWARD — SA insurance companies would be forced away from traditional first-world sales models towards the more personal face-to-face approach successfully used in South America, Mexico and India when attempting to capture market share among black consumers, MarketMap insurance sector manager Pila Rulashe said yesterday.

He told the Insurance Institute of SA's annual congress that statistically SA had about R35bn invested in total recurring life premiums and R12bn in short-term insurance. Per capita investment in life insurance amounted to $444 compared with $667 in the US, but only $213 in Namibia, $73 in Swaziland and $29 in Zimbabwe.

Local per capita figures showed $1 000 for whites, $650 for Asians, $200 for coloureds and $175 for blacks while 86% of employed whites had at least one long-term insurance policy compared with only 50% of blacks.

Rulashe said the insurance industry "clearly" had to adjust to the reality of a multiracial core market. However, strategies could not "simply be repackaged with a black face" and the distinct values and experiences of black consumers had to be better understood.

The 1996 All Media and Products Survey indicated that four times as many blacks as whites had entered the A-income group bracket since the election, meaning this sector would be dominated by blacks within two years.

Session chairman Paul Heinemann asked delegates whether any SA insurance company was "planning for and accepting the challenges" facing the industry.

During his presentation, Labour Minister Tito Mboweni defended the proposed 1,5% training levy for industry, claiming that raising the skills base in SA "was not a free lunch … someone must pay".

"SA urgently requires a skills development strategy and organisations must motivate themselves into generating a skills revolution to ensure people have adequate training," he said.

Mboweni said the national training initiative would be driven by industry demands. Industrial sectors would identify their needs and invest accordingly. Government would restructure the education base towards more appropriate training facilities such as technical colleges and technikons.

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Stricter control over institutions planned

BD 14/5/97

(58)

Linda Ensor

CAPE TOWN — Stricter controls over the operations of financial institutions were in the pipeline, Deputy Finance Minister Gill Marcus warned in Parliament yesterday.

Measures to improve the regulatory and supervisory framework would include more onerous penalties for noncompliance and abuse, with the most extreme sanction possibly being a total ban on illegal operators from the industry.

Introducing the Financial Institutions Amendment Bill, Marcus said there "is an urgent need to improve the overall regulatory framework within which the financial services industry operates".

"The penalties for abuse and noncompliance must be significant. Failure to act in accordance with the determined principles governing conduct should carry severe penalties that can range from a public reprimand, personal and corporate fines, the disgorgement of illicit profits and even banning from the industry.

"These issues inform the ongoing discussions that are taking place through the auspices of (the) Financial Services Policy Board."

A comprehensive review of the fragmented supervisory and regulatory framework was imperative, Marcus said. She stressed the need for full disclosure with regard to financial products sold, commissions paid and the ultimate benefit the consumer would receive.

The first step in this legislative programme was the bill, which passed unanimously through its second reading. The bill proposed to enhance the powers of the Registrar of Financial Institutions by enabling him to institute civil action. Historically only criminal sanctions had been imposed.

"By allowing civil enforcement, supervisors will be able to deal more effectively and speedily with transgressions and introduce flexibility into their enforcement actions. At the same time, civil enforcement does not preclude criminal prosecutions, which will continue," Marcus said.

The bill also broadened the definition of "financial institution" and empowered the registrar to act against unregistered enterprises, banks and medical schemes.

Land Bank a key to reform — Hanekom

Louise Cook (58) BD 14/5/97

WARMBATHS — Improved access to finance for black farmers through the Land Bank was a key to effective land reform, Land and Agriculture Minister Derek Hanekom said yesterday.

Speaking at the annual meeting of the SA Society for Agricultural Extension, Hanekom said the bank — with an interest rate below market-related rates — was a vital component of government's revised institutional support system to farmers.

He said: "Unlike housing, land is a finite resource. It will take years to satisfy the huge demand for land and to redress the inequalities in ownership.

"The restructuring of the Land Bank to enable it to expand its client base to emerging farmers, proves government's commitment to creating an effective mode to alleviate financial constraints suffered by farmers."

The bank traditionally reported to the finance department but now falls under the agriculture department and was taken over by new management last month.

Following recommendations by the Strauss commission on rural financial services, the bank said it would broaden its client base to black farmers while at the same time retain its strong client base among commercial farmers.

Hanekom declined to say how many black farmers government hoped to finance through the bank. "This is not about numbers — what is important is that we are devising policies and setting up effective institutional structures to upgrade access to resources without compromising on proper risk management."

But Deputy Agriculture Minister Thoko Didiza said black farmers' access to finance was often jeopardised by outstanding debt to various development corporations of the former homelands.

"We need to demystify black farmers' finances and recognise that many of them still owe money to the development corporations. Besides improved access to credit being an important challenge, government will also have to decide on how to deal with the question of outstanding debt."

Didiza said the provinces were looking into the farmers' debt problem.

"Before government knows the extent of the problem, it can make no commitments," she said.

The National African Farmers' Union, which claims to represent 500 000 emerging black farmers, was known to criticise Hanekom for "failing to deliver on land and credit".

However, the minister dismissed the allegations, saying that land reform and agricultural programmes were all on track.

'Prudent' Nedcor pushes up profit

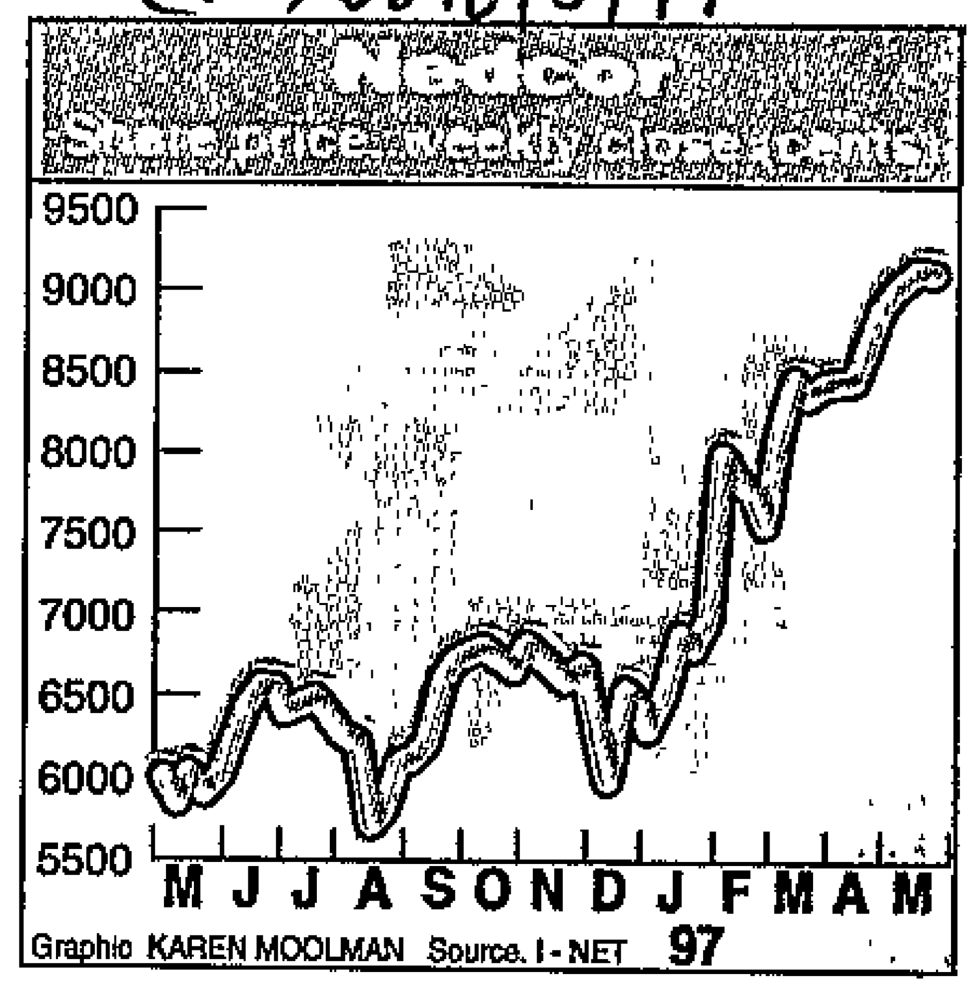
(58) BD 16/5/97

Belinda Beresford

FINANCIAL services group Nedcor reported a solid 28% increase in attributable earnings to R575m for the six months to March on the back of consistent growth across the group.

Earnings increased 24% to 261c a share from 210c for the same period last year. An interim dividend of 56c a share was declared, up from 45c. Shareholders can accept a capitalisation award instead. Debt provisions rose 26% to R187m from R149m.

Nedcor MD Richard Laubscher said this reflected prudence rather than concern about bad debts. The company had shown strong growth in credit cards and instalment credit, and was taking account of the higher risk presented by this expansion. He said provisioning levels were expected to improve towards the end of the year.



Non-interest revenue rose 20% to R1,13bn after an 18% increase in commission and a 30% increase in trading volumes. Laubscher said the group in-

Continued on Page 2

Nedcor

(58) BD 16/5/97

Continued from Page 1

tended to push this area to 45% of total income from its present 40%.

Net interest income rose 16%, fuelled by credit advances. Reported margins were marginally down to 3,89, compared with 3,98 the previous year.

The cost-to-income ratio fell to 61,9% from 62,8%. Laubscher said he expected the ratio to slide under 60% —viewed as the international benchmark of efficiency — by the end of the year. Expenses rose 16% to R1,7bn, including a R27m investment in information technology research and development. Crime was adding to costs — on average all the company's ATM machines were vandalised every month.

He was "happy" with the group's performance, particularly given the difficult environment in the industry. He expected the present rate of earnings growth to continue over the remainder of the financial year.

Analysts said the results were expected and reflected a good performance. One said he felt the results had been "achieved with ease. I believe they've kept something back, aiming for long-term sustainable growth. Their reserves allow them the strategic expenditure to place them in a favourable position going forward."

He felt the results from Syfrets were "moderately disappointing" and UAL had done better than expected. UAL showed a 21% increase in net income while Syfrets group income rose 15%.

Of the other operating companies Cape of Good Hope Bank produced a 29% net income rise while Nedcor Bank, including group operations, showed a 30% increase.

Laubscher said Nedcor had suffered from foreign competition and was looking for an international partner. Talks were continuing with large foreign companies, especially in Europe and the US. He said strategic partnerships were part of a trend — internationally big banks were getting larger, small banks were getting more focused and medium-sized banks were suffering.

Chairman Chris Liebenberg dismissed rumours that Nedcor would merge with First National Bank. He said the management of Nedcor had not held talks with the management of any other bank. Mergers and acquisitions were a shareholder issue, which he could not presume on. However, he said, given the international competition, there were going to be significant changes in the banking industry.

SA NEWS DIGEST

☐ BANKING

CT (BR) 19/6/97

Reserve Bank plans to regulate non-bank micro-finance lenders (58)

The bank supervision department of the Reserve Bank and the micro-finance sector are working on rules to regulate the fast-growing micro-finance sector for the better protection of the consumer and to distinguish it from the mainstream banking sector, the Bank said yesterday.

"We want self-regulation for the sector and may establish a regulatory panel for non-bank micro-lenders to set standards for the sector, accredit practitioners, enforce compliance with the rules and discredit those who break the rules," said Christo Wiese, the registrar of banks. The micro-finance sector has grown rapidly in recent years, with some 15 non-bank institutions making over 175 000 micro-loans worth R450 million every year. These loans are mainly for improvements to houses, to finance micro-enterprises and education. Another 650 operators provide 500 000 micro-loans worth R250 million every year for emergency or consumption expenditure. Wiese said micro-lenders who are non-bank legal entities in the business of providing loans not bigger than R20 000 will be eligible for accreditation. The ceiling would enable a clear distinction between the sector and mainstream banking, he said. — *Christo Volschenk, Cape Town*

No sparkle likely from Southern

(58)

CT (BR) 20/5/97

NANCY MYBURGH

FINANCIAL SERVICES EDITOR

Johannesburg — Analysts expect so-so earnings growth from Southern Life, the country's second-largest listed assurer, when it reports results for the year to March 31 tomorrow.

Andrew Cuffe, a financial stocks analyst at Investec Securities, forecast about 21 percent growth in earnings a share for Southern Life yesterday. Another analyst was slightly more optimistic with a forecast of 24 percent, which would lift the year-end earnings a share to 268c.

Southern has been bedevilled by poor investment performance over the past year, which Cuffe said had just begun to turn around in the first quarter of 1997. "It may be too late to benefit (this year's results)," he said.

The second analyst said last year's poor JSE performance — particularly that of First National Bank, in which Southern has a 24,4 percent interest — would tend to limit increases in Southern's actuarial surplus, or the company's excess of assets over actuarial liabilities.

However, given the pick-up in the JSE so far this year, the surplus was likely to increase for Southern's full year, the analyst said: "If there isn't (an increase) ... it would suggest there were underlying factors we were not aware of."

When it reported interim results last November, Southern forecast no increase in the surplus for the full year unless there was a significant JSE recovery.

Cuffe said large insurers like Southern, typically with high-income clients, were finding business made tougher by a new trend of consumerism. "Investors are becoming more sophisticated. They are no longer prepared to tolerate the high costs built into (many) of their products."

Southern had also faced stiff competition from Liberty Life, the other analyst said.

"Industry growth figures were also down for the first four months of this year, so new business growth (at Southern) is likely to be 10-12 percent."

Shares in Southern Life have risen by 13 percent on the JSE so far this year. The share closed unchanged at R45 yesterday.

Cops meet on bank robberies

(58) Sowetan 20/5/97

Fivaz, Mufamadi tell bankers of their planned strategies to end the crisis

POLICE Commissioner George Fivaz, Safety and Security Minister Sydney Mufamadi, other safety and security officials and members of the Council of SA Banks met yesterday to discuss the problem of bank robberies, Cosab chief executive officer Mr Bob Tucker said.

Tucker said banking representatives were satisfied with the direction of police initiatives to fight the crime, but were "very anxious that real substance was given to those initiatives and that the initiatives are driven to produce results very quickly".

Mufamadi and Fivaz yesterday advised Cosab of actions the police had already taken, notably the establishment of rapid response units and a central investigation function.

"There is clearly a very high level of commitment on their part to addressing the bank robbery crisis. The rapid response units are backed by two helicopters and various other resources. Nine bank robbery suspects were apprehended on Saturday," Tucker said.

Police also believed they were making significant progress towards the identification of four syndicates involved in bank robberies, he said.

At the meeting some issues were identified for urgent consideration. One of these was that foreign experts in the areas of rapid response, investigation of bank robberies, and investigation of crime syndicates be recruited to help South Africa's police service.

Another was that a significant, well-organised reward system was established to induce people to give information about bank robberies, both executed and planned.

Special units investigating bank robberies needed better resources. – *Sapa.*

Insurance Act amendment to protect policy holders

(58) BD 21/5/97

Linda Ensor

CAPE TOWN — Stricter regulation of short-term insurance brokers to protect the interests of policy holders and stamp out widespread malpractice has been proposed in a legislative amendment to the Insurance Act.

In terms of the amendment, approved unanimously by Parliament's finance committee yesterday, brokers who failed to put up security or who did business on behalf of an insurance company without its written authorisation, would be guilty of a criminal offence and liable to a fine not exceeding R20 000 or one year in prison, or both.

The urgent measure was intended to close a loophole in section 20 of the act to give investors greater protection, Financial Services Board (FSB) research director Franso van Zyl said.

He said that it had been prompted by numerous complaints about malpractice against brokers who were getting away "with murder" by not paying premiums to insurance companies timeously and assuring clients that they were covered when they were not.

"Bad brokers are tainting the image of the industry," he said.

"We have to create a mechanism for them to toe the line."

Under the existing act, no obligations were placed on brokers.

Only insurance companies were obliged to ensure that they transacted with registered brokers.

The memorandum to the bill said the present act contained no provision prohibiting the collection of premiums by unauthorised intermediaries.

Van Zyl said this made it difficult for the FSB to act against offending brokers, with the result that it had recently lost two costly court cases.

The amendment prohibited brokers from dealing with clients' money unless they had security worth 30% of the annual premiums collected — the current figure is 20% — and were authorised to do so by insurance companies.

Van Zyl noted that the increase in the security required was a quid quo pro by brokers. In terms of the amendment, insurers would provide policy holders with cover even when premiums were not paid to them by brokers.

"As soon as money has been paid by a policy holder to an agent, this will be deemed to be payment in terms of the policy even if the agent hasn't complied with the act as regards security," Van Zyl said.

Insurance companies would then be entitled to claim damages from the broker.

The bill also prohibits the widesprea[d] use by brokers of subagents to collect pre[]miums, which made it difficult for insurer[s] to administer their receipt of premium income.

Van Zyl said that the Financial Inter[]mediaries Federation of SA and the SA In[]surance Association had approved th[e] amendment.

He said that the amendment was intend[]ed as an interim measure pending promul[]gation of the new Long and Short Term In[]surance Bill, currently being studied by the state law advisers.

Also under consideration was a requirement that all intermediaries register.

Protection for policyholders

Changes to Act will check unscrupulous brokers

(58) ARG 21/5/97

ALIDE DASNOIS
BUSINESS EDITOR

Parliament is to be asked to take urgent steps to protect the public against unscrupulous insurance brokers.

Yesterday the Finance Committee approved draft amendments to the Insurance Act which will cover policyholders who have paid their short-term premiums to a broker even if the broker has not passed the money on to the insurance company.

Briefing the committee on the amendments, the Financial Services Board's Franso van Zyl said this was part of a wider reform of both short-term and long-term insurance.

Comprehensive new bills would be presented to Parliament later this year, but in the meantime the board considered it necessary to deal with some urgent problems immediately.

Two recent court cases where the board had tried unsuccessfully to intervene on behalf of policyholders had pinpointed loopholes in the law, Dr Van Zyl said.

> ***'The client will be deemed to be covered irrespective of whether the money has been handed over or not'***

If the amendments are passed:

- Agents, brokers and other intermediaries will not be able to deal with clients on behalf of an insurance company unless authorised by the insurance company itself;
- Only one agent or sub-agent will be allowed to collect a premium from each policyholder;
- The amount of security put up by each broker will be raised from 20 percent of premiums collected the previous year, to 30 percent; and
- Policyholders who have paid their premiums to an authorised broker will be covered by the insurance company whether or not the money has been handed over to the company.

"At the moment," Dr Van Zyl said, "the man in the street is the victim of the behaviour of some insurance brokers."

The reforms had been approved by the SA Insurance Association, the Financial Intermediaries Association of SA, the Ombudsman for Short-term Insurance and the Advisory Committee on Short-term Insurance, he said.

"We have the support of the industry because there are a few culprits who are giving it a bad name."

Insurers would no longer be able to deny liability on the grounds that the broker had not paid the policyholder's money over, he said.

"The client will be deemed to be covered irrespective of whether the money has been handed over or not."

At present the law said that an insurer must not allow an intermediary to collect premiums on its behalf unless the intermediary complied with the requirements of the Act, mostly on the provision of security. But there was nothing in the Act to prevent unauthorised intermediaries to collect premiums, Dr Van Zyl said.

This meant that it was difficult for the board to act against unscrupulous or fraudulent brokers.

Banks to stage protest against violent robbery

(58) (224)

By Melanie-Ann Feris

Star 21/5/97

Banks will close for two hours tomorrow during their peak lunch-hour trading period to protest against the spate of violent bank robberies.

They will stop trading at noon. Bank employees have asked the public to observe one minute's silence at 1pm to remember those killed in the robberies.

Motorists have been requested to switch on their headlights between noon and 2pm to show solidarity.

Banks have lost R30-million in 184 robberies in the past four months. About R20-million was stolen in Gauteng.

The four major banks – Absa, First National, Nedcor and Standard Bank – have spent about R1-billion on security over the past three years.

They predict that another R376-million will be spent by the end of the year.

Bob Tucker, chief executive officer of the Council of South African Banks, said yesterday all four major bank groups had been hit "pretty badly" and that there was no pattern to the robberies. No particular banking group was being targeted.

Real power is economic

SA micro-finance sector growing

(58)

Sowetan 2/6/97

Non-bank institutions offering loans have mushroomed in the country

By Business Correspondent

SOUTH AFRICA'S micro-finance sector had grown significantly in recent years following the political changes in the country, the South African Reserve Bank reported this week.

Non-bank institutions offering small-scale finance for a variety of purposes to individuals, especially from disadvantaged communities, have mushroomed, the bank's supervision department general manager, Christo Wiese, says.

Wiese is also the Registrar of Banks in the country.

According to available statistics on the sector, some 15 non-bank institutions currently grant more than 175 000 micro-loans worth about R450 million annually, especially for purposes such as housing, micro-enterprise and education.

Another estimated 650 operators provide about 500 000 loans worth about R250 million a month for emergency and consumption credit, Wiese says.

He says: "The rapid growth in the micro-finance sector has ostensibly largely been driven by the innovation of practitioners in developing products and their capacity to fulfil the large demand for small loans."

International recognition

According to him, the banking industry in South Africa has not engaged the micro-finance sector on a significant scale.

"International recognition has been given to the fact that micro-lenders are effective credit providers to people with limited or no access to credit sources other than informal channels.

"By creating a more appropriate tier between large formal financial institutions and informal moneylenders in the financial system, these micro-financiers may fulfil a valuable role in the inter-mediation process of a developing economy such as South Africa's."

Wiese says his department, in consultation with other interested parties, is currently considering legal options that would regulate and set standards for the activities of the micro-finance sector.

One of the options under discussion seeks to allow an interim regulatory dispensation, which will ensure the protection of consumers without discounting productive business practices.

Liberty Life poised to take dynamic path under new CE

(58)

Under its new CE, there is a growing mood of optimism about Liberty Life, writes Hilary Joffe

BD 27/5/97

WHEN Johannesburg Stock Exchange (JSE) trading opened the morning after Liberty Life's presentation to the Investment Analysts' Society last week, the Liberty share gained R2,25 and the Liberty Holdings share R10 within an hour. There were no major revelations in the presentation, the first by the group to the society in three years and its first under new CE Roy Andersen.

However it sent out some important signals, chief of which was that the group was to be revitalised under a new management team, with a renewed focus on its SA life business. Even though Liberty Life's share price slipped later, positive sentiment remains.

Despite its huge financial strength, compound earnings growth of 35% a year over 35 years, and strong offshore operations, Liberty has been steadily losing ground on the JSE over the past couple of years.

As chairman Donald Gordon noted, the share — which used to trade at ratings double those of its nearest competitor — is now down to half the rating of the insurance sector leader.

The market has tended to see prospects for Liberty's core SA business as unexciting, particularly relative to insurance sector high-fliers such as African Life, in the fast-growing lower income market, and Momentum, at the top end.

Liberty's positioning in the relatively saturated A/B income market was seen as a problem: slow growth last year in its new recurring premium business was seen by many observers as evidence that the group had gone "ex-growth". Management was seen as "tired". The fact that almost all group senior executives reach retirement age within three to four years had not escaped notice.

Yet chairman Donald Gordon's unexpectedly early appointment of Andersen to succeed him as executive head of the group could help to change those perceptions quite quickly. Andersen, former JSE CE and before that of Ernst & Young, emphasises he is part of a team. But his style is more energetic and upfront than the market has been accustomed to from Liberty in the past.

Gordon told the society the group aimed by the next millennium to be the dominant player in SA's financial services industry — he wants it to top JSE rankings on market capitalisation and assets — and to be strongly established as a world player. This, he suggested, was Andersen's mandate.

In the short term, Andersen has set more modest goals. These, he says, are production innovation, to ensure group competitiveness in a changing marketplace; customer service; unlocking value in the group's portfolio; a search for black empowerment partners to widen distribution channels for Liberty products; and identifying, giving incentive to and "stretching" a new generation of managers.

ANDERSEN

There is no intention to go downmarket: Liberty clearly intends to remain at the top end, but Andersen sees plenty of growth potential in this "emerging market".

There will also be new opportunities when exchange controls go — the group's offshore asset management operations have developed products to take advantage of the latest exchange control changes, in effect on July 1, and will allow SA residents and corporates to hold some funds abroad.

And there is scope for Liberty to gain market share (Sanlam and Old Mutual have two thirds of the market — Andersen sees that as a challenge).

Its new Blueprint technology gives it a competitive advantage which it can sustain for some time, Andersen believes.

Blueprint is a laptop computer-based system which enables brokers and agents to generate instant financial needs analyses for clients, speeding up sales and processing of new policies. Its introduction has helped Liberty's new recurring premium business increase by a sharp 25% in the first quarter of this year: the group's target is to grow new business by 27%, up from 18% last year.

One avenue into a broader market is Liberty subsidiary Charter Life. The intention is to unlock Charter's value: a listing may be on the cards — and it seems likely the group would try to bring a black empowerment group in as an equity partner. Charter is in the group's books at R115m but with a similar financial profile to listed African Life which has a market capitalisation of R2,5bn.

Not that Charter Life is quite an African Life — it is essentially the vehicle via which Liberty sells life products through Standard Bank branches. But Andersen notes it has a large proportion of credit guarantee business, much of it sold to black clients.

One criticism of the group has been that it is overcapitalised: with capital resources of R32bn, Gordon believes it is the most strongly capitalised life company in the western world. However others make good profits on far less capital.

Andersen suggests Liberty's resources could come in useful when the group looks at US acquisitions, as it still intends to do. Gordon said some time ago Liberty wanted to go into the life industry in the US. Plans have been put on hold, for the moment, because most prospects are too expensive.

Andersen says there is no hurry: the group could be much better placed as exchange control goes, once it can draw on the strength of its SA balance sheet as well as the £450m in cash it is holding in UK subsidiary Liberty International.

He says an acquisition might not necessarily be a life company — there are other options, such as the property investment route followed in the UK, where Liberty International is developing a pensions business which will take advantage of the marketing opportunities presented by the millions of customers who go through its UK shopping centres each year.

Call on insurance for R25bn

(58) BD 27/5/97

Nicola Jenvey

DURBAN — The R500bn insurance industry must be encouraged to invest 5%, or about R25bn, in socially responsible projects, including water sanitation, roads and electrification, and ease the pressure on government to supply these services, Johnnic director and National Union of Mineworkers head of services pillar Irene Charnley said yesterday.

Addressing an Institute of Retirement Funds of Southern Africa conference, she fell short of calling for legislative social development spending, but said the private sector had significant responsibilities for infrastructure development.

High return investments in factories became meaningless when workers employed in them lived in socially unacceptable conditions.

However, the Institute of Retirement Funds legal subcommittee spokesman Gary Hughes said the call was "unrealistic" given that pension and provident fund members demanded the maximum return for their investments to guarantee the largest possible pension.

"Socially responsible projects should only be one variable in the equation that already includes levies and legislative cover against fraud and corruption within the fund," Hughes said. Another legislative move would only raise premiums out of proportion.

NEWS

Financial services need more regulation

(58) CT(BR) 27/5/97

SHIRLEY JONES
KWAZULU NATAL EDITOR

Durban — There was an urgent need to improve the overall regulatory framework within which the financial services industry operated, Gill Marcus, the deputy minister of finance, said at the Institute of Retirement Funds annual conference in Durban yesterday.

"The penalties for abuse and non-compliance must be significant. Failure to act in accordance with the determined principles governing conduct should carry severe penalties that can range from a public reprimand, personal and corporate fines, the disgorgement of illicit profits and even to banning from the industry."

Marcus said the legal framework needed to govern the industry had to be practical, enforceable, cost-effective and should focus on the real issues.

Historically, only criminal sanctions had been imposed, leaving industry supervisors with no direct responsibilities or powers. They needed greater authority to deal with a number of issues, she said.

These issues included the proliferation of unregistered concerns, the inadequacy of criminal prosecutions of these, the fact that registered concerns also flouted the law and supervisors were unable to act effectively against them, and the need to ensure supervisory practices were up to international standard. Marcus said the objectives of expanded enforcement were to improve investor protection and to protect the integrity of the financial system, including the interests of law-abiding institutions.

Policy recipients 'not traced'

BD 28/5/97

(300)

(58)

Nicola Jenvey

DURBAN — Nearly one-third of life assurance product beneficiaries never received their inheritances as the deaths were not reported or the recipients could not be traced, Wits University actuarial studies director and pensions advisory committee member Anthony Asher said yesterday.

Participating in the panel debate on the future for retirement provision at the annual Institute of Retirement Funds (of Southern Africa) conference, Asher challenged his colleagues to provide evidence of "less abysmal" statistics.

Johnnic director and National Union of Mineworkers services head Irene Charnley believed retirement fund administrators were "not interested" in tracing pension and life assurance product beneficiaries, particularly in the rural areas where people did not have physical addresses.

She challenged the industry to develop mechanisms which dealt with rural pensioners and beneficiaries to ensure people were traced. One advantage of the post office's reconstruction and development programme initiative was that every South African would be guaranteed a postal box number.

One delegate suggested that the short-term costs of tracing beneficiaries be factored into the product. He said finding someone had become "a grey area" as nobody wanted to assume responsibility.

Charnley said the industry should also consider introducing a minimum monthly pension payment equivalent to the state pension. She said this would defer previously employed, but lowly paid people from refusing a private sector pension in preference to the higher government subsidy, and allow capital to be used for the unemployed.

Looking to international investment opportunities following the relaxation of exchange controls, Orbis Mutual Funds chairman Allan Gray said UK pension funds held 25% of total assets overseas, of which 90% was in equities. He said without restrictions SA would be wise to invest about the same amount in the overseas markets.

Micro-lenders meet a booming demand

CT (BR) 28/5/97 (58)

JABULANI SIKHAKHANE

Joseph Khuboni is a messenger at a Johannesburg branch of First National Bank, the country's third-largest bank. But Khuboni is also a part-banker. In between running errands for his bosses at First National, and after working hours, Khuboni runs a thriving money lending operation.

Though at the bottom end of it, Khuboni is part of the fast-growing micro-lending sector. The bank supervision department of the Reserve Bank said there were about 15 non-banking institutions that make more than 175 000 micro loans worth R450 million a year. These loans are used to finance education, housing and small businesses.

Another 650 operators provide 500 000 loans worth more than R3 billion a year to finance emergency or consumption expenditure.

"The rapid growth in the micro-finance sector has ostensibly been driven largely by the innovativeness of practitioners in developing products and their capacity to fulfil the large demand for small loans," the bank's supervision department said in its 1996 annual report.

Despite that growth, the country's main banks have shied away from lending to the low-income segment of the market because the small size of the loans involved made it an unprofitable business for them.

Nevertheless, South Africa's leading insurance groups are showing keen interest in micro-lending institutions.

This month, Theta Securities, a specialist investment house, led a consortium of institutions, including Momentum Life, Old Mutual, Sanlam, Southern Life and Baobab Solid Growth, that bought Alternative Finance, a micro-lender, for R175 million from the Independent Development Trust, a development organisation.

Last year, Baobab, a listed investment trust, bought into King Finance and, in the process, also introduced Sanlam, Norwich and Metropolitan Life as shareholders.

Michael Leeman, who runs Southern Life's Futuregrowth fund, says micro-lenders provide a service for which there is growing demand and "this makes them profitable investments". Leeman, whose fund invests in reconstruction and development projects, said micro-lenders have gone through tough times in recent years.

Phillip Vermeulen, the managing director of King Finance, said the key to successful micro-lending operation was keeping the loan product simple and understandable to the client.

He said the majority of his clients did not want long-term loans. Therefore King Finance's loan term is about 12 months and the average loan is about R6 000. The other feature was that the cost of borrowing must be capitalised upfront so the borrower knew how much he owed.

Vermeulen, a former auditor, said the nature of micro-lending was such that one had to move large volumes of small-size loans just to cover overhead costs.

The image of the micro-lending industry has also been tainted by unscrupulous operators, who have fleeced many a client. Partly to clean up its image, the industry is working together with the bank supervision department of the Reserve Bank to establish a regulatory panel for the industry. It would set standards, accredit practitioners and enforce compliance, or else not accredit those that do not comply.

The Bank would also draft an exemption notice under the provisions of the Banks Act, which would allow accredited micro-lenders to raise wholesale deposits, say in excess of R1 million from large investors, who are able to access the risks involved. That would enable micro-lenders to raise funds in the market, which should eventually help reduce the cost of borrowing both to micro-lenders and their clients.

Investment body to close tomorrow

BD 29/5/97 (SEF) (58) (2008)

Belinda Beresford

THE Investment Development Unit (IDU), formed to provide large-scale investment by the life insurance and pensions industries to socially responsible projects, will close tomorrow after the board decided market changes made it unnecessary

MD Errol Benvie said the IDU had always been intended to be transitional, and it had "done itself out of a job".

He said it had provided a forum for dialogue between shareholders and the government and had acted as a merchant bank in finding potential investments and guiding them to market.

However, the normalisation of the merchant banking commercial industry meant there was no longer any need for the IDU, Benvie said.

"The key to transitional organisations is to know when to stop. It was never envisaged as a permanent situation", he said.

He had proposed the closure in March, and received "unanimous acceptance" from the nine board members, he said.

The IDU provided investment funding, not grants or soft loans. Benvie said it had been directly involved in three projects.

The largest was a R1,2bn investment with Eskom in low income housing.

The National Housing Finance Corporation was given R100m and in March R500m was raised for the newly launched Infrastructure Finance Corporation. Benvie said it was ironic that he had recommended closing down the organisation when a number of investment opportunities presented themselves.

The IDU was initially founded by the Life Offices Association (LOA). Both the Institute of Retirement Funds and the Fund Managers Association then became 25% shareholders. This meant the "entire contractual private savings sector was involved", Benvie said.

Arnold Pronto

next few weeks

streak

bank

Bank could do more.

The rights issue of R100m went ahead early in 1993, but it was expensive money Convertible prefs were issued at a high nominal rate of 9,25%.

Wiese was ready to start the banking coup of the Nineties.

November 1993: Jean du Plessis, of brokers Senekal, Mouton & Kitshoff, called Wiese to say that Sechold, facing big losses in the futures market, was a seller of Boland shares. Within a day it was clear Momentum would also sell. Momentum had just been taken over by Rand Merchant Bank Holdings (RMBH). Its chairman, Laurie Dippenaar, sat briefly on the Boland board and was appalled at the lack of accountability by management to the board. Within days, Wiese had about 30% of Boland's ordinary shares

At the time it was accepted that shareholders would act in concert, so by the end of the month Wiese had 62% of the ordinary shares in the bag, with Sanlam, Rembrandt, Absa and the Mines Pension Fund selling their stakes to him He paid market-related prices, R75m-R80m in all But that was only a start

If conversion of the convertible prefs (which Wiese had not yet bought) was brought into the equation, his interest would dilute to 34% At that stage his holding, because it was bigger than 15%, had to be approved by the Registrar of Banks But even at 34%, control was not assured, so Wiese had either to buy control or bring in a partner

December 1993: Wiese had always been close to the adventurous Board of Executors in Cape Town For a bank, Boland's high-yielding prefs were attractive BOE bought 7,6m for R9,60 each, at a cost of R73m

Wiese says he and BOE were never formally partners "I never believed in that We are partners with someone in a relationship of trust If it doesn't work out, we call it a day"

November 1994: The "partnership" came to a brief end. BOE was probably not yet ready for a big investment in a retail bank Wiese bought back 5m of the pref shares at R14,27 each for a total of R71m — a profitable deal for BOE as the 5m shares fetched as much as it had paid for all 7,6m a year earlier

By now the cost of Wiese's investment in banking stood at close on R150m The *FM*'s 1994 annual *Super Rich* special issue valued his public assets at R931m That included his interest in Pepgro, the pyramid of Pepkor, holding company of his retail interests

Wiese says numbers like these reflect only one side of an individual's balance sheet He says he had to borrow to buy and retain the controlling interest in Boland. It's impossible to know by how much One private company used to house his banking interests is Monex Securities

February 1995: By now Wiese controlled Boland, but the bank still needed capital and the problem was how to raise it without losing that control Part of the answer was, once again, to draw in a partner, but without diluting his own holding So when the Malaysian company Landmarks Berhad invested in Boland Bank, it did so through a company later to be renamed Samgro

Wiese exchanged an interest of 55% in Boland for a controlling interest in Samgro in a paper deal worth R350m. He was geared for a rights issue

May 1995: Boland Bank raised capital of R383m — 2,5 times its capital base Samgro followed its rights and raised R253m in a rights issue of its own

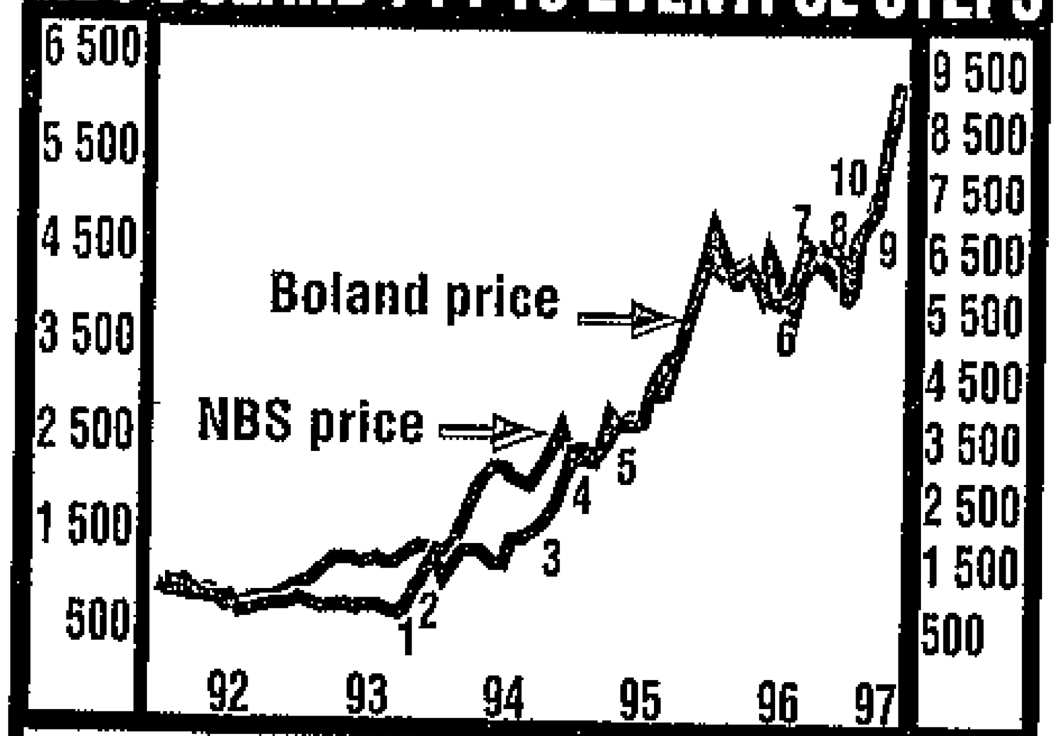
But a special resolution at a general meeting paved the way to secure Wiese's control more tightly. Low-voting N shares were created and the voting rights of ordinary shares amended so that they would in future carry 100 votes as opposed to just one per N share

Wiese had secured control over Boland Bank, and ensured he would be a major player in what was to follow. On the thorny issue of the rights carried by N shares, Wiese is blunt. "It's very simple," he says. "If investors don't like the company or controlling shareholder, they don't need to invest in it."

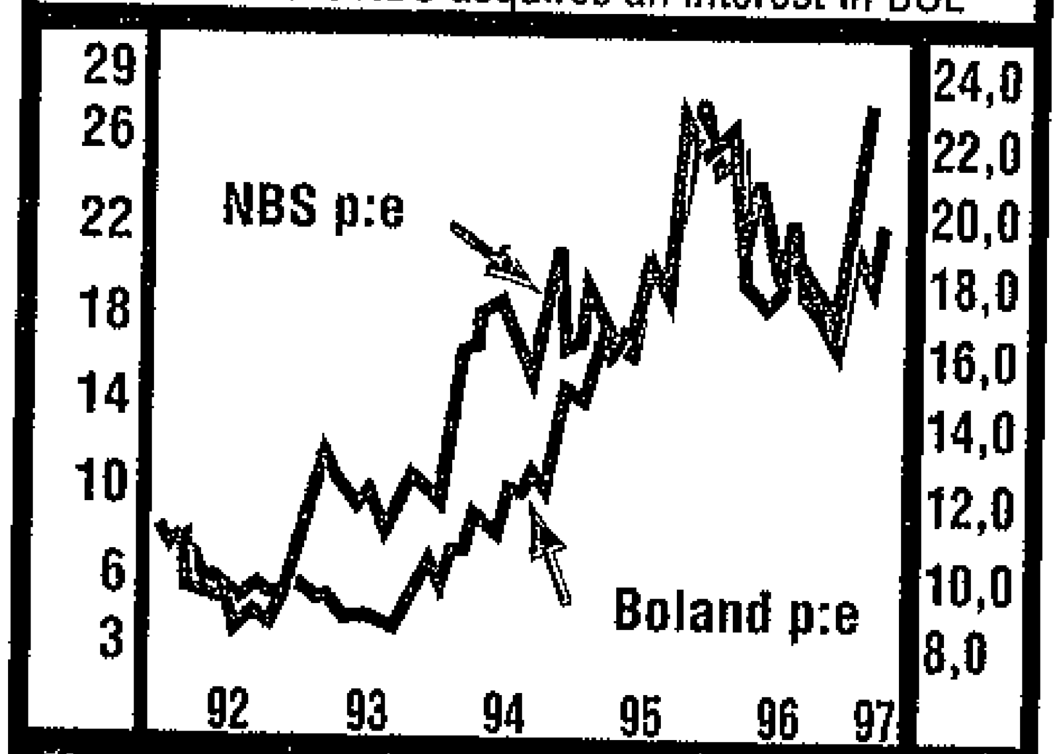
August 1996: By now everything seemed to be in place for bigger deals. Wiese held 50,3% of Samgro, and Landmarks Berhad 39,6%. Samgro had 66,5% in Boland Bank

Wiese had much higher voting power, close on 90%, because

NBS BOLAND . . . 10 EVENTFUL STEPS



1. Nov '93: Christo Wiese buys an interest of 50% in Boland Bank from Sechold, Momentum, Sanlam, Rembrandt & The Mines Pension Funds.
2. Dec '93: BOE buys 7,6m pref shares in Boland at 960c each.
3. Nov '94: Christo Wiese buys 5m pref shares in Boland at R14,27 each from BOE.
4. Feb '95: Samgro becomes pyramid of Boland Bank
5. May '95: Boland Bank rights issue of R383m & Samgro rights issue of R253m. Samgro "N" share created. Landmarks Berhad invests in Samgro.
6. Aug '96: Christo Wiese buys the interest of Landmarks Berhad in Samgro.
7. Dec '96: Boland Bank acquires 25% in NBS.
8. Dec '96: NBS acquires the business of Boland Bank
9. March/Apr '97: NBS sells interest in Norwich – Norwich sells interest in NBS.
10. March '97: NBS acquires an interest in BOE



SOURCE: I-NET

of the N shares But Landmarks had internal problems in Malaysia and its local representative, Dato Samsudin Abyo Hassan, had invested heavily in New Republic Bank in Durban. Conflicts of interest might have arisen. Wiese says· "I said to him, 'Sam, I think we should end this.' So I bought him out." The *FM*'s calculations show Wiese could have paid more than R300m — he had had to gear up again.

❑ **December 1996:** By the middle of 1995, once-tiny Boland Bank had matched the ratings and the rest of the market, making it easier to make acquisitions by issuing Boland share.

It had expanded into the corporate market and also bought 50% of SMK Securities

But Wiese had broader visions for banking. In Pepkor he controlled a giant with a turnover of R16bn, including supermarket chain Shoprite with a turnover of R10bn or more. Shoprite, he knew, was a base from which to market banking products.

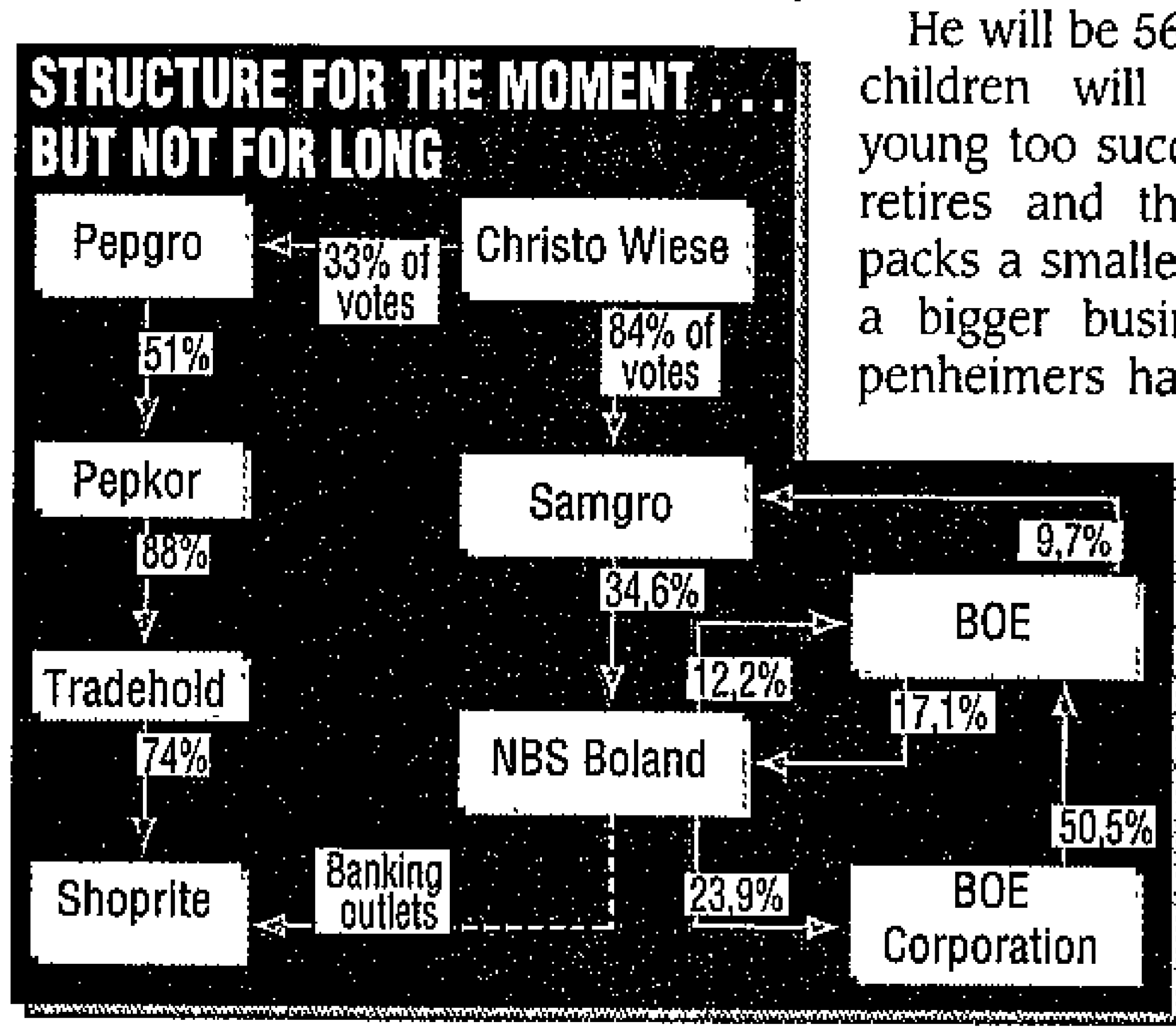
This was not up-market RMBH's kind of banking. It had bought 20% of NBS at a good price in 1993 and Wiese, attracted by NBS's size and its retail market, had begun talking to them about this stake.

Now was the time to take profits and Boland was prepared to pay a demanding price of about R1,3bn for the stake. The deal was done and Boland Bank picked up another 5,6%.

❑ **December 1996:** But NBS was the bigger and more established of the two banks, and it was no surprise when NBS bought the business of Boland Bank for R1,8bn, leaving Boland, a shell, holding only the 25,6% stake in NBS. But Wiese's control in Samgro was so well entrenched that this financial engineering would not make any material difference to his position. Eventually this would lead to the liquidation of Boland Bank and a new name for NBS as NBS Boland

❑ **March/April 1997:** It was almost inevitable that NBS would sell its interest in Norwich. Norwich didn't fit into Wiese's vision and its managers felt threatened by the giant growing around them.

Norwich, at the same time, sold its stake in NBS on the market. NBS by now had also sold its stake in short-term insurer Aegis (to Momentum) and had R800m in cash available BOE bought some of the NBS shares.



❑ **March 1997:** Wiese's empire reached its zenith when NBS used the R800m to acquire 12,2% of BOE and 23,9% of BOE Corporation, the BOE controlling pyramid In just over three years, Wiese had created the fifth-largest banking group in the country, and he obviously hasn't stopped yet.

It would be foolish to speculate on the outcome of a cautionary published last week by Pepgro, BOE, BOE Corporation and NBS Boland But Wiese wants to institutionalise his business. His three children are only 16, 14 and 11

He will be 56 in September. His children will probably be too young too succeed him when he retires and this may mean he packs a smaller family stake into a bigger business, as the Oppenheimers have done with Anglo American. "I want to be involved because I like business, not because I am forced to," he says. The next few weeks will be revealing

Deon Basson

CHRISTO WIESE

A man for all seasons

One evening, while dining with Rand Merchant Bank executive chairman G T Ferreira, Christo Wiese bet him a bottle of wine that he could do a deal with NBS.

Little knowing that Wiese had already spoken to NBS, Ferreira agreed on a wager of a bottle of the winner's choice. Wiese was about to launch his first wine, a 1996 Lanzerac Chardonnay made from his first crop and in his new wine cellar. If he won, he wanted a bottle of his latest creation and promised to charge Ferreira cost price rather than the R39 retail price. The bet was made and a few weeks later, Wiese did the deal with NBS resulting in the merged NBS Boland group.

He quickly reminded Ferreira about his debt. Being the first vintage produced from the replanted vines, new wine cellar and new winemaker, the cost price was higher than Ferreira had anticipated — R10 400 a bottle.

Ferreira got his own back at the opening of the Lanzerac cellar He handed Wiese a cheque for R10 400, but had made it out to Wiese's wife, Caro.

Wiese's eye for a good deal is what friends and colleagues speak about. The fact that he persuaded fiercely independent NBS to allow him to become its major shareholder speaks volumes for his negotiating skills. "No-one ever felt he was taking over," says executive director Paul Leaf-Wright. "He was always willing to listen and negotiate."

He's rarely on the bad side of a deal "Before you know it, you're in for another million," one, obviously squeezed, businessman says. "He's tough and is usually strides ahead of the rest of the meeting."

"He has immense courage," says Board of Executors executive chairman Bill McAdam, who has worked with Wiese for years. "He has taken some enormous chances in his life."

"He's not afraid of risk and gearing," adds Ferreira.

Wiese is one of those people who remembers everyone's name whether it be doorman, waiter or chairman He is a remarkable story teller.

But Wiese hasn't got where he is by being nice to people all the time. Property developers Ilco Homes had its debt facilities withdrawn by Wiese's Boland Bank and Wiese's unlisted property company, Monex, acquired property held by Ilco. When Jeff Liebesman reneged on a deal in which Wiese was to take over the beleaguered W&A and chose Trencor in preference, Wiese won a cancellation fee of over R1m

Wiese's rise from a worker in his father's Pep Stores in Upington, through his diamond mining escapades on the Orange River and his return to Pep has been well documented.

But he doesn't win all the time. The Lord of Lanzerac still lives in a modest bungalow in Clifton Apparently his wife refuses to move to the manor house in the winelands; she prefers the informality of the beachhouse. **Heather Formby**

FM 30/5/97 (58)

Christo Wiese . . . all geared up with more to come? Cautionaries will play themselves out over the

BANKING

Wiese's winning

From regional retailer to banking mogul in control of SA's fifth-biggest

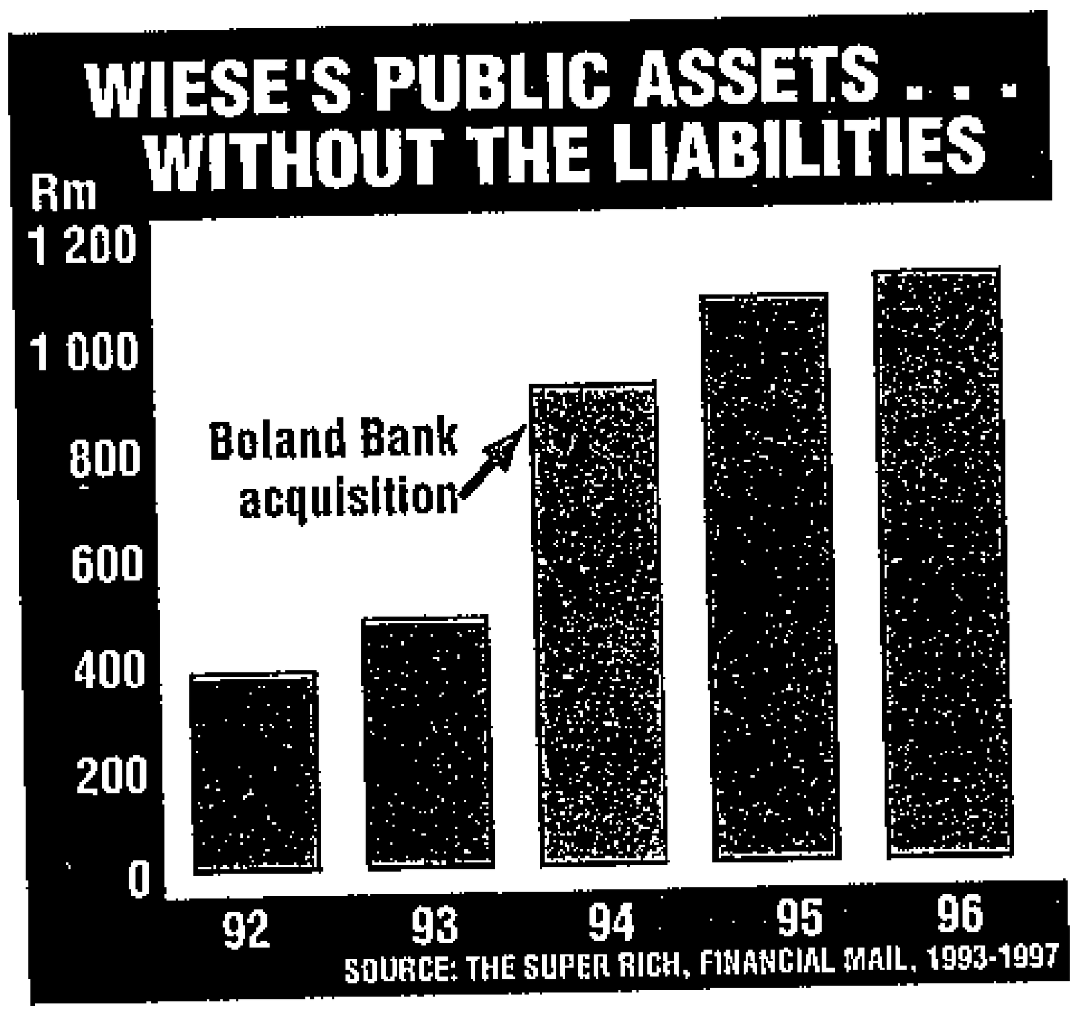
May 26 1948 The National Party wins the general election May 26 1997, 49 years later The acquisition of the banking business of Boland Bank by the NBS becomes effective

In 1948 most of the clients of a company known as Paarl Trust (later Boland Bank) rejoiced in the victory of the Nats in the general election And the clients of the ever-so-English Natal Building Society (NBS) were appalled The men running both institutions then would not have dreamed of the deal which would be done nearly half a century later. Even five years ago, a deal between two mostly regional institutions would not have been possible

At that stage the NBS was preparing to dump its status as a mutual building society and become a fully fledged bank It had one major shareholder, Norwich Life. It guarded its independence fiercely.

In Paarl, Boland Bank was equally independent. It was profitable, though the market frowned upon mediocre returns on assets and equity And though the board knew it had severe capital constraints, this was never publicly acknowledged

Perhaps 1992 was the turning point, when a rights issue of about R100m was announced. Boland Bank had seven closely knit shareholders, each with a holding of 10%. Down in Bellville was Sanlam, which earlier that year acquired a 25% holding in



Absa, the recently formed banking giant In Stellenbosch was Rembrandt, another major shareholder of Absa But Rembrandt was also, and still is, a partner of the KWV in Distillers and Stellenbosch Farmers' Wineries. The KWV and Boland shared the same chairman, Pietman Hugo

It all meant that anyone wanting to take a shot at Boland would not be able to do so surreptitiously.

Other shareholders were Momentum, Sechold and the Mines Pension Fund (a partner of Rembrandt in Absa and Sage). And, of course, Absa — whose CE at the time, Piet Badenhorst, hated Boland's voting arrangements, whereby no shareholder could vote more than one percent of the issued stock. Badenhorst felt so strongly about this he took Boland to court in mid-1992

Christo Wiese, retail tycoon of the Western Cape, who had served on the board of Boland Bank for some time, watched all this like a hawk He was well aware of the problems Boland Bank faced.

The capital constraint was one A lack of direction was another Absa and Sechold were competitors of a sort Management found the situation almost impossible

But Wiese also spotted some contingent assets, not being exploited to the full One was information technology As early as 1983 Boland Bank was ahead of some major banks in the issuing of ATM cards

Wiese also saw how well younger banks like Rand Merchant Bank and Investec Bank were doing. He was convinced Boland

THE CROSSDIRECTORSHIP PUZZLE

	Director of NBS Boland	BOE	BOE Corp	Pepgro
Biden, Phil	†	†	*†	
Du Pre Le Roux, MS	†•	†		
Leaf-Wright, Paul	†	†		
McAdam, Bill		†**	†**	
Napier, Ronnie	†			
Norton, Tony	†*			
Savage, Cedric	†**			
Swain, WJ		†	†	
Wiese, Christo	†	†		†**

† Only chairmen, CEOs, Deputy CEOs &/or people serving on more than one board included
• CEO or MD
** Chairman
* Deputy CEO

Govt set to revamp financial services laws

BD 30/5/97 (58)

Belinda Beresford

THE government planned a revamp of financial services legislation as part of a drive to integrate with the world economy, Deputy Finance Minister Gill Marcus said this week.

She spoke at the first meeting of the emerging markets committee of the International Organisation of Securities Commissions (Iosco).

Marcus said rapid technological development posed an especially great challenge to regulators. Although SA had sophisticated financial markets, it still had a great deal of catching up to do in some areas.

SA had been a deeply polarised country and one challenge was to bring black South Africans into the mainstream of economic activity, Marcus said.

It was necessary to create a secure financial environment that sought to protect and inform investors. To this end the government was trying to move from an environment essentially constrained and controlled, to one which was liberated, with a few exceptions.

Government was planning a number of legislative changes to bring SA's markets in line with international standards, Marcus said.

This would involve changing regulations for collective investment schemes and the regulation of investment services. This would mainly affect the wholesale market and dealers trading in securities. Laws regarding insider trading would be strengthened.

The government intended also to revise legislation regarding pensions and insurance funds, and to examine regulatory differences between banks, insurance companies, securities firms and collective investment schemes.

Other changes to improve market integrity and enhance competitiveness would include shorter settlement periods for bonds and equities and a central deposit for equities. Government was considering supervision of conglomerates and examining the role of banks in securities trading, Marcus said.

Marcus said Iosco was helping to realise the goals of globalisation and the introduction of best practice behaviour in southern Africa.

This week has been the first time Iosco committee meetings have been held in SA. They were jointly sponsored by Deloitte & Touche and the Financial Services Board.

Deloitte & Touche financial institutions team partner Tim Store said it was especially encouraging that Iosco had chosen to have its conference in SA. "It underlines the fact that we are moving into the big wide world and out of our previous isolation," he said.

Suspension looms for Liberty Life

Action due in July over 'commission' payment row

ARGUS 2/6/97 (58)

BUSINESS EDITOR

The next round in the fight between Liberty Life and the other members of the powerful Life Offices Association has been postponed to July when a special meeting will decide on action against Liberty, accused of breaking the rules on payment of commissions.

The LOA's management committee has decided to recommend Liberty be suspended until the end of August.

Liberty's payment of fees to brokers who use its new Blueprint system has drawn the fire of fellow assurers, who accuse the group of breaching the commission regulations under the Insurance Act as well as the association's code.

Competitors claim the R120 payment for entering information on clients in the company's computerised Blueprint financial needs analysis programme is an extra commission.

Liberty says the fee is not a commission but a payment to sales staff for work previously done by administrative staff, whose numbers were cut when the programme was introduced.

In a statement after Friday's management committee meeting, the LOA said a panel had found that Liberty was in breach of the code.

The issue of a possible contravention of regulations under the Insurance Act should be dealt with by the Registrar of Insurance, the LOA said.

The association has appointed a sub-committee, headed by Marius Smith of Metropolitan Life, to investigate the question of commission payable to intermediaries and to decide whether or not the regulations and the code should be amended.

At the July meeting the management committee will recommend that Liberty be "strongly reprimanded" for breaching the code of conduct and that it should be suspended from the association until the Marius Smith committee reports on August 27.

The committee hoped Liberty would change its mind and adhere to the code until it was "properly amended".

Rival insurance watchdog is born

(58) CT(BR) 3/6/97

ROY COKAYNE

Pretoria — Concerned businessmen have established the Short Term Insurance Action Group (Stiag), an independent and rival organisation to the short-term insurance ombudsman.

Dan Rousseau, the project co-ordinator, said yesterday that Stiag had been established in response to short-term insurance companies issuing policies telephonically, but requesting only the minimum information from the "soon to be insured".

He claimed the insured parties were fraudulently led to believe they enjoyed adequate insurance on their belongings.

"However, at the time a claim is submitted, myriad questions and clauses which were not pertinent, nor requested at the outset, are then used as a basis for the repudiation of the claim. Certain of these questions and actions are a direct infringement of the individual's constitutional rights," Rousseau said.

The only recourse the insured had until now was civil litigation or, if both parties agreed, to refer the matter to the short-term insurance ombudsman, he said.

He said Stiag "seriously questions the impartiality of the ombudsman and his offices, given the fact that he is directly employed by the insurance industry".

He said Stiag had no connection to the insurance industry and was prepared to handle old as well as new claims that had not been settled.

"There will be no cost to claimants as I will fund the organisation myself," he said.

Suspension of Liberty Life called stupid

ARG 5/6/97 (68)

BUSINESS REPORTER

The decision to suspend Liberty Life from the Life Offices Association was "stupid", vice chairman of Liberty Life Dorian Wharton-Hood said.

The Life Offices Association (LOA) last week called for a special general meeting to approve the suspension of Liberty Life.

The dispute revolves around Liberty Life's payment – over and above normal commissions – to life assurance brokers for administering its Blueprint system.

Mr Wharton-Hood said it was irresponsible to exclude Liberty Life from the LOA's investigations into the regulation of commissions.

The LOA has appointed a committee under Marius Smith, the chief executive of Metropolitan Life, to inestigate the matter. It will report back on August 27.

idea of a new state entity, but was looking at restructuring state

an oil refinery designed specifically for exports.

Crossed lines for insurance body

(58) CT (BR) 5/6/97

ROY COKAYNE

Pretoria — The Short Term Insurance Action Group (Stiag), an independent organisation and a rival of the short-term insurance ombudsman, received more than 200 telephone calls in the first day after its establishment, Dan Rousseau, the project co-ordinator, said yesterday. The telephone calls included three threats, Rousseau said.

Rousseau said the telephone calls came from people countrywide, and "80 percent involved complaints against one specific company".

He had "not heard a word" from Michael Bennett, the short-term insurance ombudsman.

Rousseau said this was despite faxing documents about Stiag to Bennett for his information and despite Stiag questioning his impartiality.

Attempts to obtain comment from Bennett yesterday were unsuccessful.

Stiag was launched earlier this week by Rousseau and a group of concerned businessmen as a direct response to short-term insurance companies which issue insurance policies by telephone.

Insurance watchdog 'not biased'

(58)

ROY COKAYNE

CT(BR) 6/6/97

Pretoria – Michael Bennett, the short-term insurance ombudsman, yesterday refuted suggestions by the newly established Short Term Insurance Action Group (Stiag), an independent and rival organisation, that his decisions were in any way influenced by insurance companies.

Dan Rousseau, the project coordinator of Stiag, said earlier this week Stiag seriously questioned the impartiality of the ombudsman and his offices because the ombudsman was directly employed by the insurance industry.

Bennett confirmed yesterday that the office of the ombudsman was established and financed by South African Insurance Association. But he stressed the ombudsman was appointed from outside the insurance industry and was usually taken from the legal profession.

Bennett gave several examples of the office of the ombudsman's "independence".

"When I took over, only two out of 40 short-term insurance companies accepted the recommendations of the ombudsman compared to 95 percent now."

Bennett added that, as ombudsman, he had also improved the position of all people with short-term insurance by getting all insurance companies to agree that once a dispute had been referred to the ombudsman "all the time clocks stop, provided the matter is not already prescribed".

In 1996 more than 26 percent of claims referred to the ombudsman were either wholly or partially successful in favour of the claimant.

Bennett said Stiag was also incorrect in stating a dispute could only be referred with the consent of the insurance company. "Any insured claimant can apply to the ombudsman without even informing their insurance company," he said.

and Shoprite. The environment is familiar for many and the brands are ones they trust. NBS Boland is poised to make inroads in these markets with its traditional banking products, unit trusts and growing life products through its connection with retail group Pepkor

To make things even more difficult for local assurers, they have to compete with international players coming into our market offering global products And they have to become global players themselves in the face of the removal of exchange controls. By July 1, they will be able to sell internationally based financial services products to South Africans

Many have already formed offshore arms Those which are well established, like Old Mutual, will probably have an initial advantage over others like Sanlam, which has only recently opened an office in London and will be relying on alliances at first.

Investors will also be looking at these industry changes with interest

They will discover that life companies aren't the stable forces they were perceived to be when they were able to hide their reserves and post a regular earnings growth of 25%-30% Share prices will probably be more volatile

Consistent results will be possible only for those that have realised the consumer is now king and have reacted in anticipation of changes under way Innovation in line with consumer needs will bring about new, uncomplicated products, greater disclosure and new distribution networks. Those that get there first will benefit.

In five years' time, life companies probably won't exist as we know them today They'll be broadly based financial services companies selling a range of simplified products

Life companies mostly have strong capital bases and infrastructures so it's unlikely any will collapse, but mergers, takeovers and closer alliances are highly possible in the near term Watch this space Heather Formby

OLYMPIC GAMES (288)

FM 6/6/97

Ball running tight ship

Not all downhill as Cape Town's Bid Committee does its sums

The fighting fund for Cape Town's Olympic bid now stands at R86m — leaving a shortfall of R8m The kitty of R94m is earmarked for marketing, entertaining over 100 IOC members, lobbying and operating costs The R86m has been raised through local sponsorships.

Bid Committee CE Chris Ball admits a "tight ship" is being run. But, he says, funds have been promised "Cape Town is the only bid city outside the US which has been financed by the private sector," he says

Figures presented by the committee show an operating surplus of R1,4bn which includes revenue of R5,6bn and costs of R4,9bn Once certain costs have been deducted such as maintaining the facilities after the games, paying a portion of the costs of building venues and a transfer from operating surplus to invest in facilities, the surplus of R94m will go into a fund for sports development.

But how set are these figures and what is the risk of them changing should Cape Town win the bid battle? Ball says the risk is low though the figures could change. Set income will come from television contracts of R2,4bn which have already been negotiated and sponsorships of R453m from international sponsors

Local sponsorships will be negotiated only if Cape Town wins the bid and income from ticket sales could vary None of the expenses is set but Ball says the budget is conservative

Capital expenditure of R7,3bn prior to the games will be incurred Eight new sports venues costing R86m will be built whether the bid is won or not These will be paid for by a grant from the central government, Ball says, and the private sector, especially by the group which gets the Western Cape casino licence The building and renovation of all sports venues will cost R1,8bn in total — R610m from the public sector; R415m from the private sector and R775m from the cash flow of the games The second largest capex cost of R1,1bn will be spent on the Olympic Village which will be used afterwards for housing.

Ball says budgets have been audited by Price Waterhouse and there will be no surprises Heather Formby

SASOL (183)

Hunt on for mastermind

FM 6/6/97

Amid great secrecy, petrochemical giant Sasol is scouring the world for a main board director to mastermind the group's globalisation programme.

So discreet is the search that this week there were rumours that the skids were under new chairman Paul Kruger.

The company refused official comment. Market rumours indicated that the group was looking for a substitute chairman, but a top source says this is not the case. "This is a sensitive issue and why his name has been dragged into it I have no idea."

In view of Sasol's globalisation programme it is said to be looking at the possibility of appointing a director on its board from abroad — a prominent foreign businessman. No-one has been lined up, but he will be based abroad, possibly in London Says a Sasol source: "Our globalisation effort is not only directed at Europe, but the US and Asia, among others."

The job will command a substantial salary as befits a company which last year boosted profits attributable to shareholders by 25,5% to R2,3bn.

The group estimates capital spending between now and 2000 at more than R10bn to sustain the strong growth of the past. A key part of this growth strategy is increased globalisation

Already 25% of Sasol's R13,5bn turnover comes from foreign sales But the main thrust in the globalisation programme is identifying and "transplanting" Sasol-type industries and plants closer to foreign markets.

The group has approached institutions to investigate joint venture possibilities abroad to supplement its technology base, through downstream technology or market opportunities for Sasol products.

In Qatar the company is talking to the Qatar Petroleum Company about plans to establish Sasol technology for the conversion of natural gas into diesel fuel This would be the first time that Sasol has applied its technology outside SA

In April the group formed an alliance with Statoil of Norway to convert natural gas to synthetic fuels using Fischer-Tropsch technology developed in SA This will utilise Statoil's large gas reserves in northern Europe Jack Lundin

Liberty Life's Donald Gordon . . see-through look was too much for him

LONG-TERM INSURANCE

Is the life industry its death throes?

Exodus to new financial products as investors see the light

Donald Gordon must surely feel that the ghosts of his past are following him as the life industry in SA gears up for maturity For the coming of age will almost certainly result in legislated disclosure and regulation.

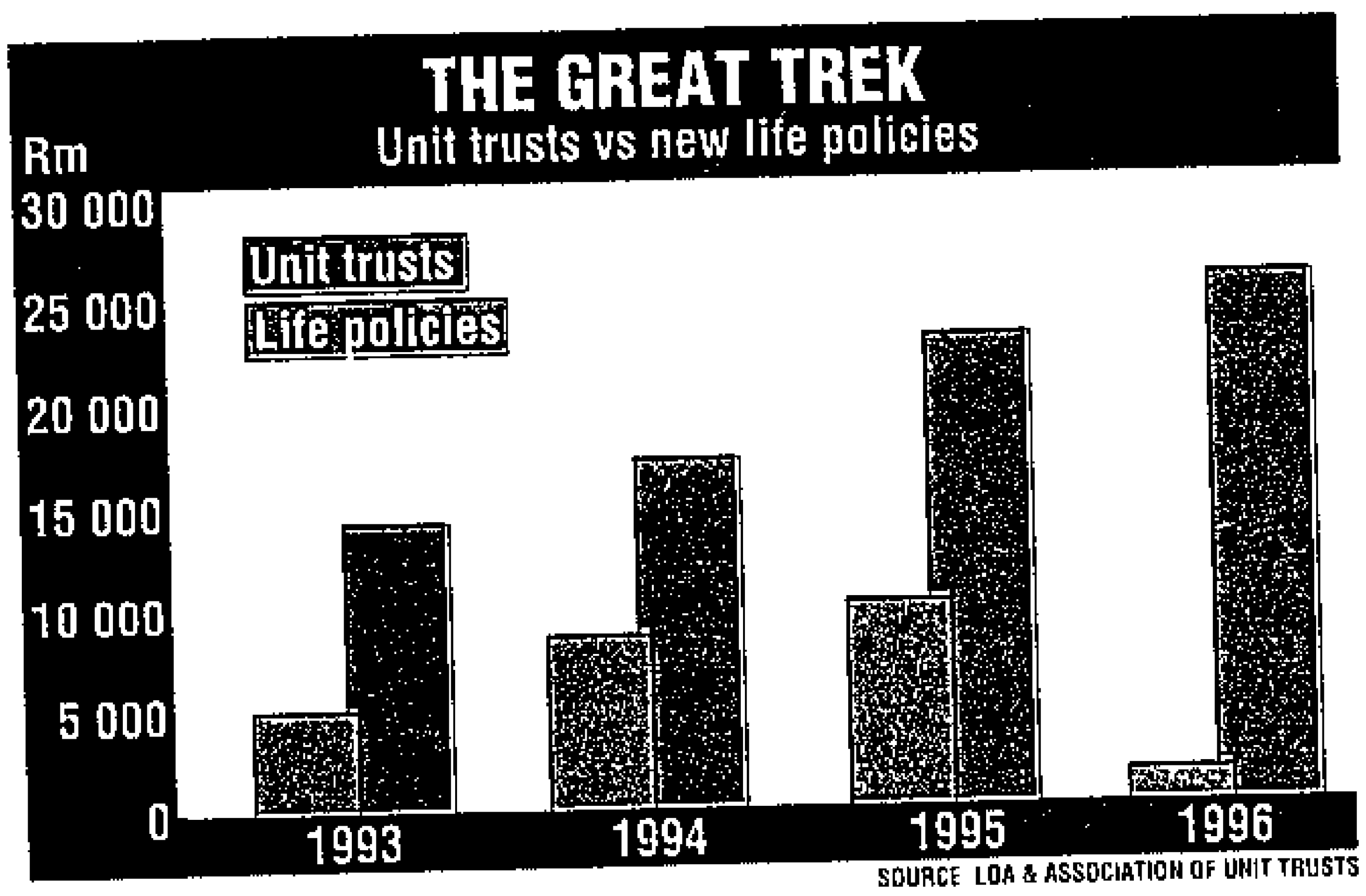
Strongly criticising the turmoil in the UK life industry in 1995, Gordon sold his 50% stake, held through TransAtlantic, in UK assurer Sun Life. He deplored the growing "disarray" in the British life industry, especially the increased regulation and disclosure requirements and "the complex and burdensome regulatory environment involving vast retrospective compensation claims for perceived misselling of pension and other products" *The Sunday Telegraph* quoted him as saying. "The British life industry . . has caved in against excessive regulation and the burden of provisioning for alleged misselling."

Sales of UK life assurance products plummeted by 16,7% in 1995 A major shake-out was experienced, leading to old, established groups falling in the ranks and new companies emerging as leaders The main reasons for the changes were growing consumerism and technological innovations. Some of the established groups were either too slow or too complacent to acknowledge that change was taking place.

In the UK, the deregulation of commissions in 1989 was probably the catalyst for what became an industry in turmoil.

At first, deregulation caused a hike in commissions paid to intermediaries, leading to inappropriate products being sold by money-hungry salesmen — and consequent bad publicity.

Then disclosure of commission was legislated, shocking consumers who could then see how much of their premiums landed in salesmen's pockets This led to a range of new, lower-cost products, the retraining of sales forces and declines in new business sales. Churning became an acceptable practice to generate commission, and lapse rates increased.



Then new competition attacked the life offices' traditional market.

In 1996, the Building Societies Act enabled building societies to provide other financial services and the Financial Services Act of the same year created a more liberal environment for unit trusts. The advent of the European Community encouraged foreign capital to enter the UK

Today, the UK life industry is suffering decreasing margins and limited capital, increasing costs, falling new business, the decimation of traditional sales forces and lower productivity. Sales force compensation has been restructured.

Bancassurers have a market share of about 15% and the public is favouring brands they trust like Marks & Spencer and Virgin, which are successfully selling financial services products Electronic distribution networks have exploded Only 10% of life assurers are cost competitive while the remaining 90% are vulnerable to new low-cost products.

Can this happen here? Norwich marketing head James Murray says many UK life assurers failed to recognise fundamental changes and thought the ways of the past were good enough for the future. It sounds familiar

Some here say cries of change are unwarranted "We all know what happened in

Businessman forms new insurance watchdog

Star 7/6/97

ESANN DE KOCK

(58)

A businessman in the jewellery trade has formed a new short-term insurance watchdog.

Dan Rousseau says his motivation for forming the Short-Term Insurance Action Group (STIAG) is the direct result of his own experience of short-term insurance.

Rousseau says he was asked insufficient questions when he telephonically took out a short-term insurance policy. When he submitted a claim, it was repudiated on the basis that he had not disclosed the necessary information.

Rousseau says his group wants to:

◆ Ensure good business practice by short-term insurers;

◆ Provide the public with advice on short-term insurance; and

◆ Take on insurers it believes are engaging in suspect business practices.

He believes STIAG can offer a better service than the short-term insurance ombudsman "who is directly employed by the insurance industry and whose impartiality cannot be guaranteed".

Short-term ombudsman Michael Bennett agrees he is financed by the SA Insurance Association, but says his impartiality and independence are in no way affected.

Bennett says the ombudsman is always appointed from the senior ranks of the legal profession. He says he has the undertaking of over 90 percent of insurers in South Africa that they will abide by his decisions and follow his recommendations.

Rousseau has the right to form STIAG although he questions to what extent it is a personal crusade. This will be up to the public to decide, Bennett says.

One of Rousseau's main concerns is the telephonic issuing of policies which, he says, often leads people to believe that they're adequately insured when, in fact, they're not.

He feels insufficient questions are asked over the phone and says people often find that when they submit a claim, a myriad of questions are suddenly asked and used as a basis to repudiate the claim.

◆ STIAG can be reached on (012) 3339 499. The number for the short-term insurance ombudsman is (011) 339 6525.

Life assurance industry spat over commissions heats up

Star 7/6/97 (58)

BRUCE CAMERON

A major fight is underway within the ranks of life assurance companies which could have a major impact on the commissions you pay on financial services in the future and how much you will be told about commissions and costs.

Investigations into the issue of regulating commissions have been stepped as a result of a spat between the Life Offices Association (LOA), which represents most life assurance companies, and Liberty Life.

The quarrel, in which both are claiming that they are protecting your interests, started when Liberty Life began paying its representatives R125 every time they completed a financial needs analysis, using its now well-publicised BluePrint computer programme.

The fight so far has seen Dorian Wharton-Hood, deputy chairman of Liberty Life, step down as chairman of LOA and last week the company was suspended from its membership of the LOA until the investigation into commissions is completed.

The LOA management committee has accused Liberty Life of working against your interests because the R125 paid is, in its view, contrary to commission regulations.

An unrepentant Wharton-Hood told Personal Finance this week that Liberty's sales force had taken over an administrative function and were being paid for this. The use of the programme ensured that individuals were receiving the best advice based on a proper analysis of their financial situation, Wharton-Hood said.

It was the LOA that was working against your best interests, he said.

The spat has, however, resulted in a wider LOA investigation of commission payments being stepped up. A committee under Marius Smith, the head of Metropolitan Life, has been appointed by the LOA to deal with the whole issue.

Smith did not want to be drawn on the rights and wrongs of Liberty Life's position when Personal Finance spoke to him this week but he did concede that on one important point Liberty Life had a very strong argument, namely it is only in the life assurance industry that there are strict controls on commissions.

It appears unlikely that the authorities will expand commission controls to the rest of the financial services industry, leaving the life industry at a disadvantage as other sectors will be able "steal" business by paying higher commissions.

Smith said other issues that affected his investigation included greater regulation of the marketing of financial services and the legal enforcement of commission disclosure to investors.

Whether investors should be told the total costs of making an investment through a life company appears to have been excluded from the investigation.

In recent weeks a number of prominent brokers have warned that the life industry is running into trouble because the majority do not disclose all costs nor investment performance to investors.

As a result investors are swapping to more transparent forms of investment such as unit trusts.

There is, however, concern in the life assurance industry that if commission regulation goes, particularly if adequate disclosure regulations are not in place first, investors could be placed at a serious disadvantage.

A&G lodges complaint against watchdog group

ET (BR) 10/6/97 (158)

Roy Cokayne

Pretoria — Auto & General Insurance (A&G), the short-term insurer, lodged a complaint yesterday to the short-term insurance ombudsman against the Short Term Insurance Action Group (Stiag), the newly established independent rival organisation.

This follows a demonstration outside A&G's Johannesburg head office which Dan Rousseau, the project co-ordinator of Stiag, said numbered about 60 people, "every single one of whom had a gripe against Auto & General".

However, Angelo Haggiyannes, an A&G director, said only 13 of the protestors were either present or past A&G clients.

Rousseau said forms had been handed to the protesters requesting their name, policy number and telephone number, but many declined to fill them in because they had long-outstanding claims and "did not see the point of it".

Haggiyannes stressed that A&G welcomed any group that assisted consumers to make well-informed decisions and enforce valid claims.

He said to ensure this occurred, A&G had taken the names and telephone numbers of all 13 protesting clients and had undertaken to respond personally to all of them within 48 hours.

"However," he said, "current investigations by A&G regarding the claims of these 13 members of Stiag have revealed the following: seven of the 13 cases are prima facie or admittedly fraudulent; one case was repudiated after the claimant refused to answer questions relating to inconsistencies in the client's version of the alleged loss; three cases were repudiated where the clients had provided incorrect information which materially affected the risk; and one case had already been settled and payment had already been made in the ordinary course."

He sketched in detail the 13th case, which involved Rousseau, and what A&G had done in an attempt to settle the claim.

A&G said Rousseau was a "34-year-old, unrehabilitated insolvent" who failed to disclose relevant information and later refused to take three lie detector tests.

Haggiyannes said A&G, together with the industry as a whole and the general public, were concerned about fraudulent claims that were made upon insurers.

"These claims unfairly prejudice the honest public in the form of escalating premiums. In the interests of honest policyholders and to ensure its premiums remain competitive, A&G does not recognise fraudulent claims," he said.

(58)

CT (BR) 12/6/97

BANKING

Small-scale savers accumulate R250m

Small-scale savers in KwaZulu Natal, most of whom had never before operated banking accounts, had accumulated almost R250 million last year, the KwaZulu Finance and Investment Corporation said yesterday.

James Mason, the savings and loans executive at the corporation, said the development body's savings facility, Ithala, had opened more than 63 000 new accounts during the 1996/7 financial year, bringing to 527 240 the number of savings clients serviced through Ithala. — *Ravin Maharaj, Durban*

Doubt over pyramid

(58) Sowetan 13/6/97

Special investigation

By Morgan Naidu

THOUSANDS of Gauteng investors could be taken for a ride after investing money in a popular pyramid scheme, which financial institutions say might be a "pyramid scam" that will collapse and leave many high and dry.

The group running the scheme operates under the name Gold Dust and claims to be a division of the Masakhane Sizwe project whose close corporation (CC) registration number it has adopted as its own.

Although a Gold Dust administrator, Mr Charles Ngobeni, says the corporation is nothing more than a stokvel, financial institutions have condemned it as a "classic pyramid".

In its registration forms for new members, Gold Dust says potential investors have to acquire "a membership certificate" from an existing member for a one-off fee of R300.

"You deposit a non-refundable amount of R50 into the accounts of of five existing members listed on the certificate and R50 into the (Gold Dust) corporation account," the form declares.

The money deposited into the scheme's account is apparently a "management fee".

As more new members are introduced to the scheme each one deposits R50 into existing member's accounts. The members then move up a ladder of names, which Gold Dust controls, and according to the membership certificate stand to earn a "total possible harvest" of R68 000.

Ngobeni said that close to a million investors had joined the Gold Dust scheme, including celebrities, government officials and at least one provincial premier. Gold Dust has offices in Yeoville and Soweto and claims to have 20 other offices countrywide.

Ngobeni said the scheme was involved in several projects including "the building of music recording studios and property investments".

However, the Council of South African Banks (Cosab), the Reserve Bank and First National Bank have all condemned Gold Dust.

Potential Gold Dust investors at the corporation's Soweto office said yesterday that FNB was no longer recognising the savings account of the scheme operator.

General manager of Cosab, Mr Stuart Grobler said Gold Dust appeared to be "a classic pyramid where one's returns (profits) are dependent on more people joining the scheme".

A critical question, Grobler said, was "who controls the five names that appear on the membership certificates? It could be a scam where they issue the certificates with their own names on it," Mr Grobler warned.

He said that Gold Dust was not a stokvel as the traditional stokvel was a common bond or association of people who pooled their money together as a deposit.

"The basic warning when it comes to money is one gets nothing for nothing. Money is collected from investors to repay other investors. The only thing being sold is a piece of paper worth R300 but which actually is of false value," Grobler said.

"Unfortunately, people are greedy and everyone wants to be at the top of that scheme."

FNB general manager of communications Mr Alec Grant said the bank disclaimed any association with or financial backing of the Gold Dust scheme

"It has come to our attention that these schemes are claiming to be underwritten by, or operating 'in association' with FNB. The bank has no such relation with these schemes and where possible will not conduct business with persons running such schemes," Mr Grant said.

According to Mr Jerry Holtzhausen of the supervision division at the SA Reserve Bank, Gold Dust is a typical pyramid scheme which will eventually have an overgrown membership and collapse, with "the people at the bottom set to suffer".

He warned investors to exercise caution, adding that in Albania this year civil war had erupted after a government pyramid scheme collapsed.

However, Ngobeni said Gold Dust investors were safeguarded by the fact that the scheme did not handle the cash invested – it goes directly into member accounts, which are "compiled on a computer database".

"There is no way that people will lose their monies or the scheme become overcrowded.

"The profits depend on how quick a member sells the certificates," Ngobeni said.

He said that the lists of members could never end and that some members had earned as much as R200 000 in profit.

● See page 2

Golden handshake chief is rejected

(56)

Tender Board says no to Johan Neethling

ST (CM) 15/6/97

CHARL DE VILLIERS

THE Western Cape Tender Board has turned down an application to hire former provincial conservation chief Dr Johan Neethling as a consultant to the department he headed until recently.

Neethling, who retired at the end of last month with a R2,2-million golden handshake, was recently appointed vice-chairman of the Western Cape Tourism Board.

"Neethling applied to be hired as a consultant to Cape Nature Conservation in May. We asked for permission to depart from tender prescriptions, but this was turned down by the Tender Board which said the post had to be advertised," acting chief director of Environment and Cultural Affairs Rossouw Lubbe confirmed on Friday.

The Tender Board referred the application back to Finance and Environment MEC Kobus Meiring's department on June 3, a Tender Board spokesman confirmed.

Lubbe's admission follows persistent rumours that Neethling was working as a consultant, despite Meiring's statement on May 22 that his department did not have posts for contract employees.

Senior nature conservation officials this week confirmed that Neethling was working as a non-paid adviser. He was allegedly concentrating on the administrative aspects of turning Cape Nature Conservation into a statutory board by April next year, as well as advising the CNC on handling development applications at Britannia Bay on the West Coast.

According to Lubbe, former civil servants who had opted for early retirement could be reappointed in "deserving cases" where departments did not have the required skills for specific issues.

Neethling, who has not re-applied, would have been hired as "the only person with the requisite skills" to advise the nature conservation's department on its transition to a statutory board.

The appointment would have been on an hourly rate and for as long as it took to get the board in place.

"Meanwhile, he has been offering his services free-of-charge to the department," Lubbe added.

Neethling could not be reached for comment yesterday.

Police, troops to guard inner-city banks

Star 16/6/97 (58) (38)

Minister promises aid so hundreds of people will not be affected by weekend closure of financial institutions

By Rodney Victor and Tefo Mothibeli

The police and defence force have put in place measures to curb the spate of Saturday bank robberies in the Johannesburg CBD, police said yesterday.

This follows Minister of Safety and Security Sydney Mufamadi's announcement on Friday that police and army personnel would protect inner-city banks that have been hit by Saturday-morning robberies.

Asked when the programme would be implemented and what shape it would take, National Crime Prevention and Reaction Services spokesman Captain Martin Aylward told The Star last night: "We have certain things in place already, but prefer not to make them public as it would also alert the robbers of what we are up to."

Nine Nedbank branches no longer operate in the CBD on Saturdays because robbers have been taking advantage of congestion to escape after hold-ups.

Mufamadi told a media briefing in Pretoria on Friday that the Government could not allow criminals to force banks in CBDs to close on Saturdays.

"Many people can only go to banks on a Saturday, and I am ... able to announce that the Minister of Defence and I have agreed that police and army personnel will protect affected branches," he said. Operational details would be worked out shortly with the Council of SA Banks (Cosab), he said.

Cosab chairman Bob Tucker has welcomed the minister's announcement. "The statement is consistent with what the SAPS has promised to do in their efforts to deal with the crime situation," he said yesterday. Tucker said the police efforts were receiving a good response and more bank robbery attempts were being thwarted and suspects arrested.

"There is no doubt there is a drop in the robberies. Hopefully, we are on the right track," he said.

Mufamadi said on Friday that a quick-response unit using police and military helicopters had been established.

Sapa reports there were at least two bank robberies in Johannesburg on Saturday.

Security guards delivering cash to the First National Bank in High Street, Brixton, were overpowered by two men at about 9am. The robbers shot one guard in the back and escaped with a bag of money.

Number of ringleaders arrested

They then fled with two other men in a white BMW.

Police from the Johannesburg Robbery Reaction Unit traced the vehicle to Auckland Park and arrested two suspects.

The stolen money was not recovered, but police confiscated two pistols with the serial numbers filed off.

The second robbery was at the Trust Bank at the corner of Bree and Rissik streets in Johannesburg at 9.45am. Four armed men entered the bank and held up customers and employees, while two others waited outside.

Police arrived and arrested the two outside. They recovered a bag containing money and confiscated two Toyota Corollas and two firearms.

Police, army to protect banks

(58) CT 16/6/97

JOHANNESBURG: Bank robberies in the CBD have became so bad that a major bank closes its branches on Saturdays, and security forces are taking drastic action.

THE POLICE and army have put in place measures to curb the spate of Saturday bank robberies in the Johannesburg CBD, police said yesterday.

This follows an announcement by Minister of Safety and Security Mr Sydney Mufamadi that police and army personnel will protect inner-city banks.

Asked when the programme would be implemented and what shape it would take, National Crime Prevention and Reaction Services spokesman Captain Martin Aylward said last night: "We have certain things in place already, but prefer not to make it public as that would also alert the robbers of what we are up to."

Nine Nedbank branches no longer operate in the CBD on Saturdays because criminals have been taking advantage of congestion in the area to escape after daring hold-ups.

Mufamadi told a media briefing in Pretoria that the government could not allow criminals to force banks in CBDs to close on Saturdays.

"Many people only get a chance to go the banks on Saturday, and I am therefore able to announce that the Minister of Defence and I have agreed that police and army personnel will protect the affected branches," he said.

Operational details would be worked out with the Council of South African Banks (Cosab), he added.

Cosab chairman Mr Bob Tucker has welcomed the minister's announcement. "The statement is consistent with what the SAPS has promised to do," he said yesterday.

Tucker added that the efforts were paying off. More bank robbery attempts were being thwarted and suspects arrested. "There is no doubt that there is a drop in the robberies. Hopefully we are on the right track," he said.

Mufamadi said that a quick-response unit using police and military helicopters had been established to counter bank robbers.

"We have arrested a number of suspected ringleaders of the latest spate of robberies, and believe we have begun to make significant progress," he said.

Sapa reports there were at least two bank robberies in Johannesburg on Saturday.

Security guards delivering cash to the First National Bank in High Street, Brixton, were overpowered by two men at about 9am. The robbers shot one guard in the back and escaped with a bag of money. They then fled with two others in a white BMW.

Police from the Johannesburg Robbery Reaction Unit traced the vehicle to Auckland Park and arrested two suspects. Both were aged about 25 and were from Soweto.

The stolen money was not recovered, but police confiscated two pistols with the serial numbers filed off.

The second robbery was at the Trust Bank at the corner of Bree and Rissik streets in Johannesburg at 9.45am. Four armed men entered the bank and held up customers and employees, while two others waited outside.

Police arrived and arrested the two outside. They recovered a bag containing money which the four dropped while making their escape on foot. Two cars and two firearms were confiscated.

Equity outlook for Community Bank

Patrick Wadula (58) BD 18/6/97

UNIBANK is planning to convert Community Bank into an equity-based bank from a mutual bank, once the sale agreement has been finalised by the curator.

Unibank division GM Johan Havenga said yesterday Community Bank, which had become a wholly owned subsidiary after it was sold for R50m to Unibank in December, was still under curatorship.

In terms of the agreement the price was subject to an adjustment account to be determined by November 2001 which would deal with differences arising on the realisation of assets and settlement of contractual obligations.

He said the curator was looking into the conversion of Community Bank to an equity bank. This would enable Community Bank to operate as a niche bank focusing on particular market segments within which it has expertise and can add value.

"The curator is well down the line in closing the deal and we've reached a sensitive stage in the agreement where we wouldn't like to disclose any further detail," he said.

However, Havenga said Unibank was managing the day to day running of Community Bank's business and its branches.

According to the agreement, Unibank would not change the name or identity of Community Bank, nor its focus of providing credit to the subsidised lending market.

Five of the 17 branches would be retained, and two other branches would remain open pending an assessment of their viability. The remaining branches would close down.

Foreign banks will create 800 local jobs

CT (BR) 18/6/97 (58)

NANCY MYBURGH
FINANCIAL SERVICES EDITOR

Johannesburg — Foreign banks operating in South Africa expected employment in their ranks to rise by 73 percent in the next five years, creating nearly 800 new jobs, according to a survey released yesterday by accounting firm Price Waterhouse.

But these banks would have trouble finding what they deemed suitable staff in South Africa, they said, and would probably have higher percentages of expatriate employees than most banks operating away from their own shores.

The survey, "Foreign Banking in South Africa", was compiled by Brian Metcalfe, an associate professor of management and marketing at Canada's Brock University, and was Price Waterhouse's second survey on the subject.

Brock interviewed 31 banks, and he estimated the number of foreign banks operating in South Africa now stood at 70.

That was also the average number of foreign banks respondents believed would still be in the country in five years' time, although their individual responses ranged from forecasts of just 30 foreign banks left in the country by 2002 to more than 100.

Foreign banks' South African loan portfolio now totalled \$5,45 billion and would rise by 63 percent to \$8,9 billion by 2001, respondents said. They now employed 1 101 people.

They also had a very high percentage of expatriate employees, with the average at 6,8 percent, but the British, Japanese and Swiss banks reported more than 25 percent.

Despite staff search troubles, however, foreign banks were bullish on South Africa, with 12 respondents forecasting 300 percent profit growth over the next five years.

That was despite very narrow lending margins to their favoured market, the top 100 South African corporates, Metcalfe said.

"They are using (low prices) almost like a loss-leader to break into certain areas and make relationships. But they can't do that for very long," he said, adding that the widening of margins, or the diversifying into other areas to earn wider margins, had already started.

BANKING

(58)

FM 20/6/97

Foreign sharks cruise for prey

New arrivals swell the ranks, prompting fears of shake-out

Foreign bankers in SA are speculating about the possible acquisition of one of the large domestic banks by an overseas institution.

The most frequently cited possibilities are the acquisition of First National Bank by HSBC and the re-establishment and realignment of ownership in Standard Bank by Standard Chartered Bank. Both foreign banks are UK-based.

The source of this information is a survey of 31 foreign banks carried out in April by Brock University Ontario academic Brian Metcalfe. He has compiled two reports on foreign banks in Canada, six on foreign banks in Australia, and an earlier survey in SA, carried out in February 1996 Both SA surveys were commissioned by Price Waterhouse.

Metcalfe says that, between the first and second survey, 10 more foreign institutions entered SA. Among the new arrivals were Bank of Tokyo-Mitsubishi, Sumitomo Bank, Korea Exchange Bank, Banque Nationale de Paris, JP Morgan and DG Bank — all with a strong home country and global presence This brought the total of foreign banks in SA to 70.

Despite the increased competition and expectations of a shake-out in the industry, the bankers interviewed are optimistic about growth.

They look to the lifting of exchange control, privatisation of State-owned enterprises and a share in the break-up and realignment of the major corporates to provide opportunities.

However, they complain loan spreads (the margin between lending and deposit rates) are "unrealistically low." And they talk of difficulty in finding suitable personnel.

They identify the most important market segments over the next five years as international banking services (including trade finance), the top 100 companies, corporate advisory services, treasury, funds management and high net worth individuals.

The survey was based on interviews with senior executives of 31 banks which employ 1 101 people, have a combined loan portfolio of US$5,45bn and depend on trade finance, corporate lending and correspondent banking for their major sources of profit. Their portfolios are dominated by mining (19,5%), manufacturing (25%), finance (26,5%) and oil (7,8%)

The banks are divided into eight groups· six American, three British, three Dutch, four German, two Japanese, three Swiss and four from other countries. Included in the survey are two SA joint ventures with UK-based entities· Robert Fleming SA (with stockbrokers Martin & Co), a brokerage, and BOE NatWest (with NatWest Markets) They are also divided into subsidiaries, branches and representative offices.

Metcalfe predicts that within a year there will be a dozen more branches in SA as representative offices convert to branch status

Ethel Hazelhurst

African Development bank invests R113m in SA fund

(297) (58)

ST (BT) 22/6/97

INFRASTRUCTURE FUND

By SVEN LUNSCHE

AFRICA's major multilateral lending agency, the African Development Bank (AfDB), has invested R113-million with the Standard Bank-sponsored SA Infrastructure Fund. This is the first South African investment by the AfDB since the country resumed membership of the bank two years ago.

The AfDB deal looks likely to be followed by a $25-million investment from the World Bank's International Finance Corporation (IFC) in July.

The two investments — if the IFC backs it at its July 10 meeting — bring the capital of the SA Infrastructure Fund to R930-million. The fund, the country's first private sector infrastructure financing initiative, looks likely to announce its first investment soon — a R100-million equity stake in the company building the N4 toll road between Witbank and Maputo.

The fund, which is structured as a trust with a 15-year life span, is committed to investing up to 80% of its capital in local environmental, telecommunications and transport projects, including privatisation. The remaining 20% will be channelled to similar projects in the Southern African Development Community.

The fund was launched last year by Standard Bank, Old Mutual, Metropolitan Life, Transnet and others with a capital of just over R500-million.

The AfDB board backed the SA investment at its recent annual meeting in Abidjan, Ivory Coast.

The bank is also negotiating a $168-million concessionary loan with the SA government.

Foreign banks branch out as profits beckon in corporate lending market

CT (BR) 27/6/97 (58)

In a year's time a dozen foreign banks will have fully-fledged branches in South Africa, according to predictions by Price Waterhouse.

The group's survey of foreign banks found that three representative offices intended to convert into branches in the next year and four more within three years.

Others would be forced by the Reserve Bank to become branches because of the scale of their activities.

The survey found that lifting of exchange controls was still the most important change taking place in the South African market in the eyes of the foreign banks.

The proliferation of competitors and the possibility of a shake-out also exercised top executives' minds.

Many were hoping to share in the opportunities in the privatisation programme.

The bankers said the hardest part of their task was finding good staff.

Some mentioned the threat of losing key personnel to domestic banks.

Most of the 31 bankers surveyed said they were satisfied with current levels of profitability: 16 said profits were up to expectations and 12 said they were better than expected.

Corporate lending, including syndicated, loans was an important source of profits.

Four sectors of the economy dominate the banks' loan portfolios: mining, manufacturing, finance and oil.

The American banks are most dominant in the mining sector, while the German banks have over 35 percent of their loans in mining. The French banks placed about 40 percent of their loans in the finance sector, the survey found.

Loan portfolios were concentrated in Gauteng. Four of the 16 banks which provided information on this point said all their loans were in Gauteng and all but two of the banks had at least half of their loan books in the province.

The Swiss banks currently generate about 70 percent of profits from fees and predict that this figure will grow to more than 80 percent by the year 2000.

Pricing is still critical in marketing corporate loans, the banks said. British, German and Dutch banks attributed particular importance to loan pricing.

"It is apparent that a number of foreign banks have chosen to collaborate and exploit joint opportunities with the larger domestic and merchant banks," the survey found.

"Several sub-groups appear to be emerging within the foreign bank community.

"The larger foreign bank branches and subsidiaries (eight banks) have begun to develop themes of common interest.

"At the other extreme, a series of one person representative offices have unearthed attractive micro-markets which they can service profitably."

HANT BANKING – FACING THE CHALLENGE

Changes could prompt local commercial banks to seek major acquisitions in global market

SA's banking sector sets its sights on new horizons

(68)

CT(BE) 27/6/97

SWEEPING changes in the foreign merchant banking sector will have a major impact on South African players and could prompt local commercial banks to seek major acquisitions in the sector, warns Tony Dell, a consulting partner at Deloitte & Touche.

Dell points out that merchant banking in London died last year.

Every major merchant bank, he says, is now a subsidiary of a major retail bank.

"Household names like Warburgs, Kleinworts, and Morgan Grenfell were all swept away on a tide of money poured in by foreign banks."

Dell says there are two major international trends at the moment.

The first is the dominance of capital as increased regulation in the markets has meant traditional merchant banks simply could not put up the capital to be major players.

The second, he says, is the belated recognition by the retail banks that their merchant banks must have a different culture – including different people, rewards and business ethos.

"The successful banks have abandoned the rules of the retail game and are focused on becoming major players in the new global investment banking market."

Dell believes this will have a major impact on the South African merchant banking market, which was comparable to the UK in 1987.

"There are still major independents, and some very wealthy stockbrokers who have sold out to banks.

"But we are soon going to see significant consolidation."

He argues that the next bear market, combined with increased capital requirements from the regulator, will force the niche players to look for mergers.

Stockbrokers, says Dell, will find that their new homes are in the dealing rooms of big banks.

"I would expect at least one major merchant bank to become an acquisition target in 1998/99 for a local commercial bank.

There is a clear logic in linking the capital of a major bank with the talents of a merchant bank."

However, Dell warns that the future is likely to be less than rosy.

"When this happened in London, initially we saw huge rises in salary. But fairly soon there were mass resignations from banks that could not live up to the new expectations."

"In particular, the risk averse and punitive culture of the average commercial bank is going to face major challenges in the years ahead if they want to have a credible merchant banking arm."

TONY DELL *consulting partner at Deloitte & Touche*

LOA 'backs down' in dispute with Liberty

BD 2/7/97 (68)

Belinda Beresford

A DISPUTE between Liberty Life and other Life Offices' Association members has been settled in a move interpreted within the industry as being a climbdown by the LOA.

The association said yesterday Liberty had been cautioned for not following LOA procedures in paying brokers for administrative work. However, it would review its code of conduct "in the context of a changing environment surrounding commission regulation".

The LOA had threatened to suspend Liberty after the life assurer said it would continue to pay fees to brokers who put information into its data system. Other members said Liberty was breaching regulations on maximum commission due to intermediaries.

Liberty argued that since payments were made regardless of the outcome of the application, they constituted fee income, not commission. It said it would leave the LOA rather than change its procedure, and director Dorian Wharton-Hood resigned as LOA chairman.

Wharton-Hood said yesterday the LOA's new position was a "very satisfactory outcome. The LOA has demonstrated it is looking forward rather than backward."

He said a committee appointed to examine commission regulation would also look at the LOA's code of conduct.

Motor insurers fib, says BMW

(58)

Roy Cokayne

CT(BR) 3/7/97

Pretoria — All of South Africa's large motor manufacturers would offer their customers vehicle insurance within the next five to six years, Erich Papke, the re-engineering manager of BMW South Africa, said yesterday.

BMW SA introduced an insurance scheme for its customers in January last year because, it said, some insurance companies based premiums on exaggerated car theft and hijacking statistics. This was making it difficult for BMW to sell vehicles.

Mercedes-Benz South Africa and some Korean motor manufacturers are also offering their customers short-term insurance packages.

Papke said BMW SA had based its premiums on losing 100 vehicles, one-quarter of the number estimated by the police and insurance industry. He said they received 35 claims in the first year and had settled five. A small number of claims were fraudulent and the remaining vehicles were recovered.

Papke attributed the problems with vehicle insurance to bribery and corruption in the insurance industry and the police force, fraud, structural problems within the police service and a less efficient police service because of the number of experienced force members who had taken retrenchment and early retirement packages.

Papke said the South African short-term insurance industry operated on a cost-plus basis, with every cost passed on to the customer, so the industry did not have a vested interest in managing the risk and finding solutions to problems.

"Ordinary, law-abiding people are suffering because of unreasonable insurance premiums which do not reflect the risk," he said.

Now funeral insurance is just up your street

LLEWELLYN JONES ARG 3/7/97
Business Reporter (58)

After months of talking about it, Shoprite Checkers has become the first supermarket chain in South Africa to sell financial products through its cash registers.

The product, in this case, is a funeral policy which is aimed at "the consumer who is new to insurance".

Other more sophisticated products would follow soon, said Shoprite managing director Whitey Basson.

The move caught most market watchers – who believed some type of banking product or operation would lead the way – by surprise.

Both Shoprite and Pick 'n Pay had trumpeted their associations with banking groups NBS and Boland (now NBS Boland after their recent merger) for developing in-store banking.

Shoprite, however, has beaten Pick 'n Pay to the punch by marketing funeral policies – which will be available from today.

Mr Basson said Shoprite was "uniquely positioned" to provide insurance products conveniently and fast, on a cash basis, thereby saving the policyholder considerable money and time.

Shoprite's funeral policy was a world first, he said, in that no other supermarket group offered basic insurance policies for sale to its customers.

Mr Basson said Shoprite's no-frills funeral policy was 30% to 40% cheaper than the average market price for a conventional policy with similar cover and with guaranteed and speedy settlement.

"Shoprite Checkers achieved this by utilising existing financial systems and by cutting out the middleman," Mr Bassson said.

He said the supermarket group would act as a distribution and payment channel only, with the risk and claim management being handled by the insurers.

The next big move in in-store banking is expected to come from Pick 'n Pay when it launches its "product" next month.

The group has declined to expand on what this "product" will be.

These moves are in line with the worldwide trend towards offering banking and other financial services in supermarkets.

In the United States, banks have followed the route of putting banking halls in the supermarkets.

In the United Kingdom, however, most supermarkets have gone the route of offering the services themselves under their own brand, but managed in conjunction with a bank.

These include Marks & Spencer, Tesco, Sainsburys and Safeway.

Sainsburys went even further, starting a new bank, Sainsburys Bank, in a joint venture with the Bank of Scotland.

The Tesco group is expected to launch a health insurance product in the near future.

The insurance policy would provide policyholders with free groceries if they became unable to work.

BANKING AND THE RDP

(58)

Saving for themselves

FM 4/7/97

Ithala's homegrown savings scheme helps uplift rural communities

A rural KwaZulu-Natal bank is boosting personal savings in underdeveloped communities — and making a substantial contribution to the RDP in the process

The bank at Manguzi in northern KwaZulu-Natal could hardly be described as a hi-tech affair, but its innovative, down-to-earth business methods would put many a glitzy high-street bank to shame.

No automatic teller machines (ATMs) or credit cards here — business runs almost entirely on savings bank pass books. And its allure is twofold: high interest on savings (2% more than the mainstream banks offer on accounts of up to R500) and customers see tangible benefits of their savings by way of job-creating capital projects, schools, farming ventures and the like

This is because the bank at Manguzi is part of the KwaZulu Finance and Investment Corporation (KFC)'s Ithala banking operation — a programme geared towards reconstruction and development. Ithala savers currently contribute 22% of the KFC's R278,4m capital budget Their contribution may soon exceed that of the provincial government, which has declined to 26%.

Manguzi is the largest of Ithala's 45 branches which cater to small savers in mostly rural, disadvantaged communities

Many of its 527 000 clients have never had bank accounts, yet they accumulated nearly R250m last year (see graph) Some of the biggest branches are in areas of highest unemployment. The largest accounts are operated by hawkers, savings clubs and itinerant workers from the cities

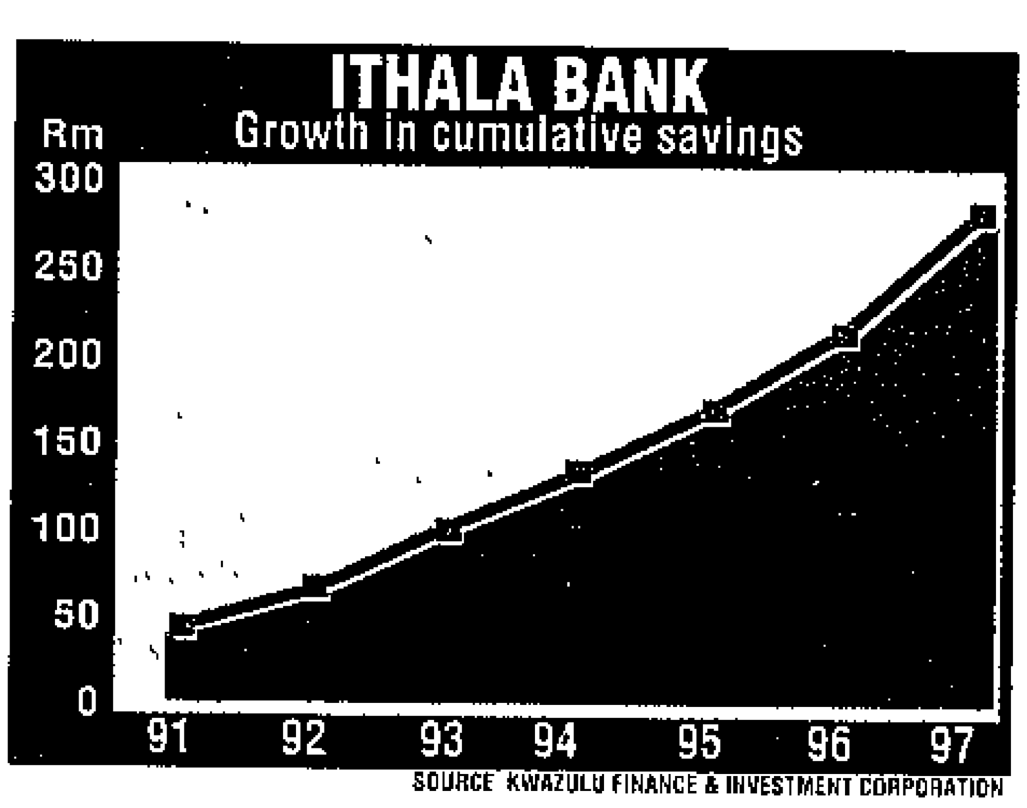
KFC savings and loans executive James Mason says Ithala grew by 63 240 clients last year That is 20 000 fewer than he'd hoped for. But he blames the popularity of illegal get-rich-quick pyramid schemes for the under-achievement.

Operations manager George Seboya says the KFC aims to drive empowerment through capital development programmes for sustained job and wealth creation and capacity building in the region

He believes there is still tremendous potential for growth of Ithala. While 2m of the province's 7m people patronise the mainstream banks, the remaining 5m, largely low-income people, are potential savings recruits In this light a 50% month-on-month growth in savings accounts is not unrealistic, he maintains.

The benefits are mutual while the KFC receives working capital through Ithala, it trains and employs people to run the Ithala branches. Its development programmes include agricultural projects, water schemes and the creation of small industries Housing projects are often financed directly from the savings.

People who know their savings contribute to their own development take pride and are more productive than if they depended on handouts, says Seboya **Herb Payne**



PE

LOA 'caution' suggests a commission rethink

By Charlotte Mathews

(58) Star 5/7/97

Liberty Life's dispute with the Life Offices Association about payments to brokers over and above regulated commissions illustrates the pressure the local life industry is under to deregulate commissions.

Last week's resolution of the dispute – a "formal caution" for Liberty Life rather than its expulsion from the association as feared – may even hint at an outcome to the LOA's present deliberations on this issue.

In a statement last week, the LOA said it "has decided to review the relevant provisions of its Code of Conduct".

Commission for selling life insurance products is currently capped at 3,25 percent for a recurring premium investment and 2,5 percent for a single premium investment.

The dispute with Liberty Life arose because brokers were paid R125 for any business placed with Liberty as a result of the broker undertaking a financial needs analysis and entering the business onto Liberty's mainframe via the BluePrint programme.

The LOA's decision this week merely to caution Liberty Life is believed to recognise the fact that one of its own internal committees is considering the issue of whether commissions should be regulated or not.

The committee is likely to make recommendations to the LOA in the near future.

Fuel levy may be raised to help Road Accident Fund (58)

Jacob Dlamini BD 10/7/97

TRANSPORT Minister Mac Maharaj has accepted wide-ranging recommendations which could result in an increase in the fuel levy to raise income to restrict the growing shortfall in the Road Accident Fund.

In terms of the recommendations, government may have to inject cash into the fund to ring-fence its R8bn deficit, which is expected to grow by a further R2bn a year if the system is not overhauled.

The recommendations form part of a report drawn up by UK-based insurance expert Joel Joffe as part of his brief as newly appointed adviser to Maharaj on the restructuring of the fund.

Joffe told a news briefing in Johannesburg yesterday that about R160m was added to the deficit each month. The fund faced depletion of its R1bn reserves in three years.

The premium paid by road users was inadequate, with drivers paying about R200 a year for a vehicle instead of the "more acceptable" R500.

He recommended that government increase the fuel levy as it did not bring in enough money for half the benefits provided by the fund.

He proposed cuts in expenditure through caps on all benefits; a limit on general damages claims to allow compensation to go to victims whose quality of life had been severely affected, and the simplification of the claims system to cut administrative costs.

The proposals call for the establishment of an independent tribunal to consider claims before permitting access to the courts.

Existing law would have to be amended to preclude victims from claiming damages in excess of the amount paid out by the fund.

Maharaj said he would extend the deadline for public submissions on the proposed new system to August 15.

The proposals for deficit reduction and raising the fuel levy would be discussed with the finance ministry and there would be talks with the legal and medical professions, which consumed 20% of claims settled by the fund.

TA BANK

Going for the middle order

(68)

Malaysians move ~~in~~ to take on major domestic institutions

FM 11/7/97

The strategy of TA Bank, a subsidiary of the Malaysian company TA Enterprise Berhad which opens for business next week, differs from those of other foreign banks in SA. Instead of targeting the top end of the market, says MD Henry Shaw, it has its sights set on the middle — companies with a turnover of R10m-R100m.

Shaw, who was finance GM of Standard Bank after the retirement of Andrew Fleming four years ago, says TA Bank has chosen this route "because it is where the big commercial banks make their profits The top end is highly competitive and margins are thin. The bottom end is costly because of the branch network it requires This has to be cross-subsidised by other operations.

"The reason the big banks achieve return on equity of 25%-30% — despite these costs — is that profits are derived from the middle of the market."

Other foreign banks, he explains, have made their choice because they "are tapping into an existing customer base — the big multinationals. And they have established international banking networks."

TA Bank does not have this advantage because its Kuala Lumpur-based parent has only recently entered the banking arena It established a subsidiary in the Philippines two months ago and has a minority stake in an Indian bank.

As foreign banks have not yet entered the top corporate market, TA Bank's main competitors are the major domestic banks. But Shaw has a significant competitive edge. He does not have to maintain a branch network for retail clients.

Finance for trade between SA and southeast Asia will be TA Bank's centrepiece. "Trade has increased exponentially since 1994. And having a Malaysian parent will give us access to that part of the world "

Listed in Kuala Lumpur, TA Enterprise Berhad has three legs to its business, says Shaw — stockbroking, property development and banking.

The parent company has a market capitalisation of about R4bn and its end-1996 pre-tax profits were R600m

TA Bank, now based in Dunkeld West, will move to what was formerly Thrupps Corner in about two years' time

The site was bought by the TA Group at the beginning of the year and is now being redeveloped. Another property development is the purchase two months ago of a property overlooking Table Bay. This, says Shaw, is being converted to a small hotel specialising in an upmarket clientele

Ethel Hazelhurst

***Henry Shaw** . . . feels he has significant competitive edge*

FINANCIAL MAIL · JULY 11 · 1997

Follow the flame . *(left) Gordon, (right) CE Andersen and caught in the middle Katsapas*

LIBERTY LIFE

Who is Katsapas is his silence so

Documents and tapes are worth R1m to Donny Gordon

On July 3, a bland 15-line item appeared on the front page of *The Star*'s *Business Report* announcing the settlement of a three-year legal dispute between Liberty Life and former employee Tony Katsapas.

It quoted a statement put out by Liberty Life saying the company and 37-year-old Katsapas had "reached an agreement settling the disputes between them, particularly the action arising from the termination of the employment of Katsapas in 1994."

What the statement did not contain was the terms of the settlement — a cool R1m

An unsigned draft of the settlement agreement contains a curious condition, to which Katsapas had to agree so that he could get the money He was to hand over to Liberty Life for destruction all documents and tape recordings relating to his claims of misconduct by Liberty Life executives And he was to give an undertaking that "no such document will be left in his possession or control or that of any third party."

However, the details of Katsapas' allegations are available for public scrutiny in the 15 files and tapes of case number 11/2/20706 at the Industrial Court, where Katsapas filed an application for unfair dismissal This action has been withdrawn.

The settlement draft, drawn up by law firm Edward Nathan & Friedland, says under Prohibition against Publicity: "It is expressly agreed that the provisions of this agreement are strictly confidential and neither party shall in any manner whatsoever convey to any other party, or publish, any of the provisions of this agreement."

Katsapas was required in the draft to undertake to refrain from "doing any acts and from making any statements" against any company in the Liberty Life Group or any of its directors, officers or employees. He was also required to undertake to refrain from harassing or threatening the above or their families.

In the lengthy negotiations that led to the settlement, Katsapas was advised by civil and criminal law expert Lionel Reichenberg. In Liberty's corner was its new CE, Roy Andersen. Andersen, former president of the JSE, was abroad when the matter was finally concluded just days ago with the handover of a cheque

The settlement was to be made by Liberty "without any admission that it has any liability of whatsoever nature." In the final days of negotiation before settlement was reached, it broke down the R1m as follows:

- R228 566,32 to discharge the Liberty Life bond and sign over to Katsapas his house in Pine Park, Linden, fully paid;
- R106 809,42 legal costs awarded against Katsapas; and
- R664 624,26 in cash.

The breakdown may have changed but it is unlikely that Katsapas would have settled for less. Should he breach the agreement, Liberty would be entitled to repayment of R500 000, the draft provided

The settlement was negotiated in May and is an attempt by Liberty to bring to an end a bitter battle between Katsapas and Liberty chairman and founder, Donald Gordon. At one stage, Katsapas laid a criminal charge of perjury against Gordon.

Katsapas, who initially sought a payout of R2,4m, holds shares in Liberty. He became a regular feature at the group's AGMs, where he barracked Gordon and demanded answers to what he perceived as wrongful actions by its executives. At the most recent, on May 14 — at which Andersen's appointment as CE was announced — Katsapas was lifted and carried screaming from the boardroom by two of Gordon's bodyguards who, he alleged to police, beat him up on a fourth floor fire escape.

Katsapas was examined by the district surgeon and filed a complaint (case number 902/5/97) at Hillbrow police station. Liberty MD Alan Romanis informed the media

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and why crucial?

Katsapas had not been assaulted.

Katsapas was employed by Liberty for more than eight years, finally as a regional development officer. His troubles started in 1990, when Liberty apparently allocated R5 000 to an executive to buy electronic equipment as Christmas gifts to "well performing managers."

Katsapas, who was instructed to buy the gifts, said he noticed the equipment when he visited his superior's home in Cape Town. He reported his discovery on his return to Johannesburg but claimed that no substantive action was taken.

The allegations were also aired in the Supreme Court in 1995, when Liberty applied but failed to obtain an order interdicting Katsapas from making "defamatory and untrue" claims Judge M S Navsa said: "Liberty supplies scant detail in respect of the alleged investigation into management misappropriation Liberty's assertion that the investigation was closed when the executive concerned resigned is not entirely convincing. There is no documentation or explanation to show what concrete steps, such as checking of vouchers and accounts, were taken"

Katsapas was dismissed in June 1992 for insubordination, reinstated months later and then fired again on June 29 1994 on what he has described as "petty charges, most of which were not even substantiated"

Allegations made by Katsapas were investigated by Mike Higgo, a chartered accountant who was divisional manager in Liberty's group operations audit department Higgo's report, dated December 10 1992, lists them:

- That a superior was conducting a short-term insurance business from his Libridge offices, with his brother-in-law;
- That the same superior had bought liquor and "expensive paintings" for his home. These items had also gone through the cost centre as gifts; and
- That he had paid staff members' fees to exclusive gyms, which again were debited to the cost centre as gifts.

Higgo said the allegations needed to be verified He concluded: "TK (Katsapas) came across as a controversial person, very ethically minded and loyal, but a person who questioned every process, which was not liked by many people

"We need to establish whether collusion existed between certain staff members and whether TK's evidence could have exposed certain malpractices and behaviour not deemed fit for Liberty Life's culture and public image"

Turning down Katsapas' internal company appeal against the 1994 sacking, Deryck van der Horst, the appeal chairman who was an assistant GM in Liberty's broker division, wrote to him. "Your constant and unsubstantiated criticism of Liberty Life management often bordered on defamation; your conduct at the annual general meeting served to estrange you from Liberty Life at the very highest level"

Before Katsapas was ejected from May's AGM, he had been attempting to question Gordon about Liberty's returns on behalf of its investors

His questions were based on claims made to him by Higgo in telephone conversations secretly recorded in November 1995. Higgo had left Liberty Life the previous year for Investec, where he is now chief operating officer at Investec Investment Management Services

In the tapes, they discuss the insurance industry, about which Higgo was deeply critical He says· "If you are going to invest at Liberty, be a shareholder, don't be a policy holder."

He describes how he worked for Liberty for three years, when his job involved auditing the group's investments.

But Higgo turns down Katsapas' request for help in the Industrial Court action. "They (Investec) don't want me to get involved, that's the problem. They don't want somebody from Investec splashed all over the papers.

"It's not that I don't want to get involved, I agree with you 120% One reason is the time, and the other reason is just what's going to happen. Because if I do get involved I know things will get splashed around and it's going to become messy."

Shown this report and invited to comment, Katsapas says· "I cannot, under the terms of the agreement I have signed with Liberty Life."

Andersen also declines to comment Nevertheless, Liberty Life is bound to be relieved that the long and acrimonious dispute has finally been resolved **Jack Lundin**

5. UNDERTAKING BY LIBERTY LIFE TO MAKE PAYMENT TO KATSAPAS

5.1. By way of resolution of the aforementioned disputes, and without any admission by LIBERTY LIFE that it has any liability of whatsoever nature to KATSAPAS, LIBERTY LIFE hereby undertakes to pay to KATSAPAS an amount of R1 000 000,00 (one million rand).

Extract from the confidential draft document agreeing to the payout

Govt must increase fuel levy, says report

(68)

Sowetan 11/7/97

THE Government should increase the fuel levy to clear the Road Accident Fund's present deficit of R8 billion, a report on the restructuring of the fund recommended yesterday.

The report by Mr Joel Joffe, the British-based assurance industry and health services adviser appointed by Transport Minister Mac Maharaj, also says a no-fault system cannot be implemented at this stage, adding that the matter should be further researched.

The present system is not affordable and will result in delays in implementation, the report says.

Among its important recommendations are that the Government should increase the fuel levy because the current 10,5c levy on petrol and 6,8c on diesel does not provide sufficient income for even half the benefits being provided by the fund.

"This, along with the high accident rate in this country, is why the RAF's deficit is currently R8 billion," the report says.

"The deficit at the end of April 1998 could be in the order of R10 billion. Unless the Government increases the fuel levy significantly or accident rates fall dramatically or all benefits are reduced, it is difficult to see how this deficit can be cleared in the medium-term.

"It is recommended that the Government should ring-fence and then guarantee this deficit and be willing to inject the funds necessary to pay the claims that arise from accidents taking place before April 1998."

The report also recommends cuts in expenditure through the introduction of caps on all benefits; a limit on general damages claims; simplification of the claims system to minimise costs and the reduction of the prescription period.

The report went further to say that an independent tribunal operating on an inquisitorial basis should be introduced before permitting access to the courts.

It proposes an amendment to the common law to preclude victims entitled to claim under the RAF from claiming damages in excess of the amount paid out by the fund.

According to a statement, the recommendations had earlier been adopted by Maharaj in consultation with the parliamentary transport portfolio committees from the National Assembly and the National Council of Provinces. – *Sapa.*

Banking may soon get a 'proper' ombudsman to protect you

(58) ARG 12/-7/97

ESANN DE KOCK

The Council of South African Banks (Cosab) has decided to appoint a "proper" ombudsman – but it is not saying when.

Bob Tucker, Cosab chief executive and current ombudsman for the banking industry, says the appointment of an independent ombudsman runs parallel with a fundamental review of the existing code of conduct of the banking industry. It is also directly linked with the government's plans to regulate the marketing and financial services industry.

The role of the banking ombudsman and banking code of conduct is currently under debate and Tucker says there is agreement that both these matters should be reviewed.

Acknowledging that it is unsatisfactory for the banking ombudsman to come from the industry itself, Tucker says it has been decided as a matter of principle to end the link between the ombudsman and the chief executive of Cosab.

He also intends to change the past policy of not publishing reports on public complaints about the banking industry so that the public can be informed of appeals and learn what are the issues.

But the lack of a clear time frame for the appointment of an independent ombudsman for the banking sector has squashed hopes of the timely release of a report.

The appointment of an independent ombudsman will be a process, Tucker says.

"We are working very closely with the consumer councils and the Registrar of Banks and we are looking at other examples such as that of the British banking ombudsman."

While the work of the banking ombudsman has been largely unknown, ombudsmen of the short and long-term insurance industries have been releasing annual reports for a number of years.

Cosab is an umbrella body for five organisations – the Clearing Bankers' Association, the Association of General Banks, the Merchant Bankers' Association, the Association of Mortgage Lenders and the Independent Bankers' Forum.

(68) ST(DT) 13/7/97

Accident fund needs major surgery

PETROL-LEVY INCREASE

By DON ROBERTSON

THE petrol levy would have to be increased to at least 60c a litre from the present 10.5c if the mounting deficit of the Road Accident Fund were to be wiped out in the next six years, according to Joel Joffe, special adviser to the Minister of Transport.

It is unlikely, however, that an increase of this magnitude would be implemented and a rise of between 3c-4c a litre is more likely, increasing annually with the rate of inflation, Joffe says.

Presenting what is, in effect, the third draft White Paper on the RAF, formerly the Multilateral Motor Vehicle Accidents Fund, Joffe has made a number of recommendations which are in complete contrast to those contained in the second draft White Paper.

His first recommendation is that while a no-fault system is socially desirable, it would be too costly to implement.

Joffe estimates that a no-fault system could be introduced only by the end of the century, by which time the RAF deficit would be R14-billion.

The second draft White Paper had proposed that a no-fault system be introduced, which the legal profession challenged as being unconstitutional.

The revised White Paper, however, suggests that the proposed caps on benefits remain.

The RAF has a current deficit of about R8-billion and, at the rate of income, expenditure and claims, it is rising by about R2-billion a year or R160-million a month.

Under the same circumstances, existing cash reserves of about R1-billion will be exhausted in three years.

The existing fuel levy, which includes 6.8c a litre on diesel, costs the motorist an average of about R200 a year instead of the required R500 a year or about 40% of what it should be, says Joffe.

In order to achieve an "affordable and stable system", Joffe proposes a "significant" increase in the fuel levy, that caps be introduced on benefits, general damages be limited to compensation for victims whose lives have been severely curtailed and a revised accident claims system be introduced.

He also recommends that settlement costs be reduced, and the passenger limit of R25 000 be removed from the earlier draft White Paper. Other proposals in the second draft should be implemented by not later than May next year.

Joffe suggests that unless there is either a massive hike in the fuel levy, the accident rate falls dramatically or benefits are slashed, the deficit will not be reduced significantly in the medium term.

Accordingly, he suggests government "ringfence and then guarantee this deficit and be willing to inject funds necessary to pay claims that arise from accidents taking place before April 1998".

Joffe, a UK-based assurance expert, has been involved in revising the draft White Paper for the past three weeks and insists he has consulted with all the necessary parties.

Transport Minister Mac Maharaj, the parliamentary transport portfolio committees of the National Assembly and the National Council of Provinces have adopted the recommendations.

Stakeholders have until August 15 to make submissions or comments although, at this stage, the amount of the increase in fuel price levies and the extent of caps on benefits are still uncertain.

Legislative changes may give growing practice another boost

Micro-lending in SA a booming business

(58)

CT(BR) 14/7/97

RONELLE BURGER

Cape Town — The practice of micro-lending, where small amounts up to R1 000 are lent at interest rates of up to 30 percent a month, is mushrooming in South Africa, the Association of Micro Lenders (MLA) said last week.

The MLA estimates that the number of operators in the micro-loan industry has tripled in the past 20 months from 1 500 to between 4 500 and 5 000, with even students on campuses grabbing the opportunity to make healthy profits in this as yet unregulated industry.

The Reserve Bank said micro-lending amounted to about R3 billion a year but the MLA put the figure for annual formal micro-lending closer to R5 billion.

Legislative changes being prepared in the trade and industry department could give the industry another boost.

In 1992 the government amended the Usury Act to exempt micro-lenders. Since then lenders could charge any interest rate they wanted on loans smaller than R6 000 and repayable within 36 months.

Legislation on the table could see the maximum loan amount rising to R25 000 and the loan period extended to 60 months.

The legislative changes were initiated by the MLA in co-operation with government and a group of non-government organisations, major banks and companies called the Alliance of Micro Enterprise Development Practitioners.

Should the planned amendments pass into law, borrowers would be able to get money immediately from micro-lenders, even though they would retain the right to terminate the contract within three working days after it was signed.

Until now borrowers had to wait three days before they could get the money they borrowed.

FSB squares up to unlawful insurers

(58) BD 14/7/97

Janet Parker

THE Financial Services Board would intensify its investigations into unregistered, and therefore illegal, long-term life assurers operating in SA, FSB and Registrar of Insurance executive officer Rick Cottrell said.

On Friday the FSB issued a warning to the public to be wary of illegal life assurers in SA who might be operating against consumers' interests. It said since the partial lifting of exchange control regulations on July 1 there had been a sharp rise in complaints that unregistered life assurers were carrying out insurance business in SA.

Cottrell said the FSB had been inundated by complaints from registered industry players against the marketing of products — particularly single premium life products — by local and overseas insurance companies which were not registered with the FSB. The Insurance Act required all assurance companies to register with the FSB.

"Persons who induce or attempt to induce others to enter into an insurance contract with an insurer which is not registered as an insurer with the FSB are operating illegally," Cottrell said. "With the minister's approval, we have the authority to investigate any such activity, the result of which can lead to criminal prosecutions being brought against the offending party, and which ultimately may result in the offending company being closed down."

The Financial Institutions Amendment Act, due to be signed into law by the president shortly, would give the FSB increased civil powers "which will expedite and enhance the effectiveness of the enforcement procedures".

The short-term insurance industry had been plagued by unregistered operators, but with the relaxation of foreign exchange controls for individuals there had been a proliferation of unregistered assurers in the long-term insurance industry, he said.

"For this reason we urge the public to make sure that they approach an FSB-registered company before investing in a policy. The sad fact is that very often, according to the long-term na-

Continued on Page 2

FSB

BD 14/7/97 (58)

Continued from Page 1

ture of life assurance products, it is only after some years that the insured finds out that their investment is not as secure, or has not performed, as they might have expected," Cottrell said.

"With many first-time insurance buyers in SA, there are many who may not be aware of possible pitfalls of foreign and local unregistered insurers."

He said the position governing some issues — such as whether an SA insurance company could issue a foreign currency-denominated life assurance policy — had to be finalised by the Reserve Bank. "While this is legal under the Insurance Act, the exchange control requirements forbid it. We urge the public to safeguard against infringing exchange control regulations until these have been clarified."

Cottrell said requiring assurers to comply with regulation by proper incorporation and registration was not protectionism. "The local industry is not frightened of foreign competition, but the playing field must be equalised."

The new Insurance Act, which is expected to be effective from the beginning of next year, would bring regulations governing SA's insurance industry closer to the requirements of the 21st century, he said.

Law boosts Financial Services Board powers

(58) BD 15/7/97

Belinda Beresford

THE metamorphosis under way in the life industry was likely to be stimulated by recent legislation giving the Financial Services Board sharper teeth to deal with unregistered life assurance companies, analysts said yesterday.

It is already illegal to sell the products of a life assurance company which is not registered in SA. The new legislation, gazetted on Friday, clarifies the board's legal powers to deal with such sales.

Analysts said it also formed part of a strategy to harmonise sections of the Unit Trust Act and Insurance Act to give competing products as level a playing field as possible.

Industry sources said the new legislation could encourage closer tie-ups between SA companies and overseas institutions. This could help the latter gain access to SA markets without having to register.

Life Offices chairman Charles Davies said the legislation had given the board "more teeth".

"They have just been given some new powers so that they can discipline the financial services better, and they are now going out and saying it also applies to SA companies with overseas subsidiaries unless registered in their own right."

Registrar of Insurers Rick Cottrell, who is also Financial Services Board executive officer, said the legislation would primarily be felt by intermediaries rather than overseas life companies. The primary aim was to protect the public, especially given SA's limited exposure to international markets.

Policing the legislation would probably be "largely a complaints-driven process". Intermediaries who gained market share by ignoring the law would be reported by law-abiding competitors.

However, Hewitson and Kontominas Financial Consultants partner George Kontominas said that a major problem with the legislation was that it limited investor choice in SA. However, the reasoning behind the legislation was "understandable".

Kontominas felt comments about the riskiness of unregistered institutions were "a bit overdone" since the unregistered insurers tended to be large institutions in their own environments.

'Lift fuel levy to fund huge deficit'

CT(BR) 10/7/97 (58)

Duma Gqubule

Johannesburg — The fuel levy should be significantly increased by next April to bring the R8 billion Road Accident Fund deficit under control, Joel Joffe, a special adviser to Mac Maharaj, the minister of transport, said yesterday.

"Every month that passes without changing the system adds R160 million to the deficit. Existing reserves, of about R1 billion, will be exhausted within three years, at which stage the fund will be unable to meet all its claims," he said.

Joffe, an insurance expert who was appointed to consider the viability of proposals in the ministry's recent white paper, said the government should ringfence and guarantee the deficit, and be willing to inject funds to pay claims arising from accidents taking place before April next year.

He said a higher levy should be supplemented by other measures to cut expenditure, including caps on benefits and a limit on general damages, so that compensation would only go to victims whose quality of life had been severely affected.

"In practice, the higher the fuel levy is, the lower the caps will be and vice versa. A 3c to 4c a litre increase in the levy will still result in a 30 percent to 40 percent cut in benefits. More work needs to be done to determine the level at which the levy should be set.

"The current levy of 10,5c/litre on petrol and 6,8c/litre on diesel does not provide income for even half the benefits being provided by the fund. The current levy based on average petrol consumption, which amounts to about R200 a year for each car, is totally inadequate. It should be about R500 a year."

A core recommendation made by Joffe was that government should maintain the current "fault system" — where benefits are paid out according to a claimant's level of responsibility during an accident.

The white paper had recommended a "no-fault" system. But Joffe said: "Such a system would take another two-and-a-half years to design and implement. By April 2000, the fund's deficit would have increased to about R14 billion."

However, Joffe believed a "no-fault" system was socially desirable. "A longer-term objective should be to investigate the viability of such a system."

SA banking boosted by TA Bank launch

(58) (83) Sowetan 16/7/97

By Maxwell Pirikisi

SOUTH Africa's financial services industry received a major boost with the launch in Johannesburg yesterday of TA Bank, a subsidiary of a leading Malaysian-based securities holding company, TA Enterprise.

TA Bank executive chairman Datuk Tony Tiah said the initial capital invested by the bank was R150 million, three times more than the minimum capital required to start banking operations in South Africa.

The organisation first came into the country early last year when it bought stockbroking firm Kilroe Whitehead, now called TA Securities. It also owns TA Properties, which is fast becoming one of the leading players in the local property market.

Tiah said his group decided to set up banking operations in South Africa because the country was emerging as a regional centre for investment and economic growth in Southern Africa.

"We already have a presence in South Africa through TA Securities and TA Properties. With TA Bank, we will now be able to play a complete role as a financial group offering a wide spectrum of financial services not only in South Africa but across our entire network," said Tiah.

He said TA Group was optimistic about future prospects for growth and development in sub-Saharan Africa, especially in South Africa.

"The close political and economic ties between Malaysia and South Africa provide a strong foundation for investment in South Africa," he said.

Banking licence

TA Bank, which secured a full banking licence in February this year and expected to start operating today, will initially provide a range of core banking products to medium-sized corporate and commercial clients, said TA Bank South Africa (Tabsa) managing director, Henry Shaw.

He said: "We will provide services related to loan and deposit facilities, foreign exchange, and imports and exports."

The bank will also link up with a number of international banks to facilitate investment and international trade between Africa and East Asia.

It intends to open offices in major centres around South Africa and is exploring representation in neighbouring African countries.

Malaysian, SA duo intent on a banking break-through

A new bank is based on Malaysian drive and SA conservatism, senior assistant editor Michael Acott reports

(58) BD 16/7/97

DATUK Tony Tiah is an aggressive Malaysian entrepreneur who has built up an international financial services empire. Henry Shaw is a conservative SA banker. It is a combination they believe will turn a fledgling operation into one of SA's largest banking groups within a decade.

There is some way to go. The TA Bank, of which Tiah is executive chairman and Shaw MD, was granted a banking licence in February. It was officially launched yesterday by Finance Minister Trevor Manuel and has fewer than 50 employees.

However, Tiah is used to rapid growth — his TA Enterprise group mushroomed from a small Kuala Lumpur stockbroking firm in 1987 to an Asian financial giant. He has picked SA as a market with similar potential and wants a banking group here because he believes his countrymen have come to the same conclusion.

Tiah says the R13bn of investment which has rocketed Malaysia to third on SA's foreign investor list is only the beginning, and represents only a handful of Malaysian businessmen. He maintains that the real investment wave is still to come, and with it will come a demand for banking, investment, advisory and trade-related services.

Shaw is the man whose job it will be to exploit the growth in Malaysian and other business, and possibly to curb Tiah's entrepreneurial instincts, although Tiah himself insists that is not necessary.

Tiah — Datuk is a civic title awarded for a combination of corporate success and social responsibility — describes himself as a humble person and a committed Christian leading an organisation based on Christian principles. But he does not deny the drive that has produced remarkable growth in his operations.

He started off as a merchant banker and after 15 years in banking and leasing management decided to go it alone.

Merchant banking, he said, was just the place where he learned about business.

"I always wanted to be an entrepreneur. I wanted to lead, I do not like to be led."

The formation of TA Securities was the beginning. Within six or seven years he had built it into the largest stockbroker in Malaysia. It is now part of the TA Enterprise group, which has shareholders' funds of \$500m and for the past five years has made an average profit of \$150m annually.

TA Enterprise was one of Asia's fastest growing companies in the early 1990s and was described by the Business Times of Asia last year as the most profitable finance and securities company in the Asia-Pacific region outside Japan.

Tiah says modestly that the group was able to capitalise on nine years of economic growth in Malaysia. Asked for the secret of his success, he says the "burning fire in the heart" must be inbuilt in the individual.

"Entrepreneurs are born; it is very difficult to make an entrepreneur. I always like to be the first in everything that I do. I work very hard at it. I am not especially intelligent, but I work harder than most people and I am more meticulous than most people. Success comes with hard work."

The other qualities of an entrepreneur, he says, are risk assessment, a gut feeling for a project, foresight, decisiveness and perseverance.

"We take little calculated risks, but we are bolder than most people. When we decide we are very decisive. When we go ahead we go ahead full blast We have a very strong sense of perseverance. We never take no for an answer and we never give up."

Datuk Tony Tiah and Henry Shaw of TA Bank. Pictures ROBERT BOTHA

Tiah sees SA as the next region likely to have the sort of growth Malaysia has had.

TA Bank has an initial capital investment of R150m, but Tiah said the group had a substantial cash "war chest" with which to back the rapid expansion of the SA operation, and would double that capital when needed.

His aim is to make it one of the leading banks in the region within five to 10 years.

Shaw, until recently chief financial officer of a major banking group, says he and Tiah will form a balanced team.

"I am a conservative banker and I will see that our operations here are run on very conservative lines. We are not here for a quick buck but to grow steadily."

Shaw is aiming for the lucrative middle of the banking market, businesses with a turnover of between R10m and R100m, and wealthy individuals.

And, while he will be trying to take market share from well established banks, he sees advantages in setting up from scratch.

"If you try to go toe to toe with the big banks, they will give you a pounding. You have to choose a strategy they can do very little to counter."

He says the major banks have an entrenched disadvantage in elaborate infrastructure which gives them a high cost structure.

"The future of banking is not in branch networks but through smart cards and the Internet.

"We will have a low cost to revenue ratio which gives us a pricing advantage, and we will have a fairly sharp range of products."

The bank, presently in Dunkeld, Johannesburg, is building new premises in Rosebank.

Shaw says expansion to other centres will follow once the growth formula has been tested.

The bank will also look for growth in other countries in southern Africa, particularly those to which Malaysian money is starting to flow.

BANKING ON SA *Tony Tiah, TA Enterprise's executive chairman, and Henry Shaw, TA Bank South Africa's managing director* PHOTO JOHN WOODROOF

Malaysian TA Bank launches SA operation

CT (BR) 16/7/97

RICHARD STOVIN-BRADFORD

Johannesburg — TA Bank, a subsidiary of the Malaysian-based securities holding company TA Enterprise Berhad, was launched in Johannesburg yesterday.

TA Enterprise, which is listed on the Kuala Lumpur stock exchange, first entered the South African market early last year through the acquisition of stockbroker Kilroe Whitehead, now known as TA Securities.

The company is also active in the property market through TA Properties.

Tony Tiah, the executive chairman, said the close relationship between the Malaysian and South African presidents had led his company to invest here.

He said international media coverage of South Africa had in the past created a negative impression of the country, but he now saw that South Africa was "quite advanced".

"The TA Group is optimistic about the prospects for growth and development in sub-Saharan Africa, especially South Africa," Tiah said. "Our plan is to use South Africa as a base."

Henry Shaw, the bank's South African managing director, said: "TA Bank has a full banking licence and foreign exchange capabilities."

Shaw said that TA Bank would track trade finance flows between South East Asia and South Africa and also concentrate on banking corporates, development agencies and parastatals.

Tiah, who said that South Africa was not well known to Malaysian companies, said: "We will also be providing information to investors from Malaysia; our corporate finance division can play a very pivotal role."

A Business Map survey shows that Malaysia ranks second in terms of foreign direct investment in South Africa, contributing 20,7 percent of the estimated R30 billion foreign direct investment commitments that have entered the country since 1994.

Tiah hoped that South African companies would also look at projects in Malaysia where his group would be willing to participate in joint ventures.

TA Enterprise had shareholders' funds of $500 million, and was one of the top 10 financial institutions in Malaysia in profitability terms, he said.

TA Bank has been launched with an initial capital base of R150 million.

(78)(58)

Document to regulate development financial institutions rejected

BD 16/7/97

John Dludlu

A DOCUMENT proposing to put development finance institutions under the control of a new central organisation was "unanimously" rejected by government and parastatals' management, the finance ministry said last night.

The document, drafted by government's legal advisers, suggested that a co-ordinating body — the council for co-ordinating the provision of development finance — be established. It would aim to ensure development finance was provided in accordance with principles laid down in the document, including accountability and transparency in the operations of development finance institutions.

The council would have had both executive and advisory functions and the power to establish other institutions, or require existing ones to change their structure or focus.

Finance ministry spokesman Jennifer Wilson said the document had been rejected at a meeting attended by the parastatals and several state departments. The meeting concluded the document — titled the Development Finance Act — was not the right way to implement co-ordination among the institutions. These include the Industrial Development Corporation (IDC), Development Bank of Southern Africa, National Housing Finance Corporation and Khula Finance Corporation.

Wilson said a new process had been agreed upon. Workshops involving provincial governments and development corporations would be held, culminating in a national conference from which legislation would flow.

The objective was to establish an enabling environment through which development finance parastatals could co-operate in a transparent manner.

The document, which was strongly opposed by managements of the development institutions, had upheld reporting arrangements — the IDC would still report to the trade and industry department and the Development Bank of Southern Africa would remain under the finance ministry.

However, it would have brought the institutions closer to the finance ministry's control — which would also chair the mooted council.

Government sources admitted stakeholders had not been consulted properly on the document. Despite this, it was titled an "act" and written in legislative format.

The rejected "act" called for the formulation of dividends and surplus equity policies — which sources said sparked fears among profitable parastatals that dividends would be used to shore up less profitable institutions.

formance of on balance sheet assurance portfolios remains impossible, though Liberty shows returns in its bonus statements to policyholders.

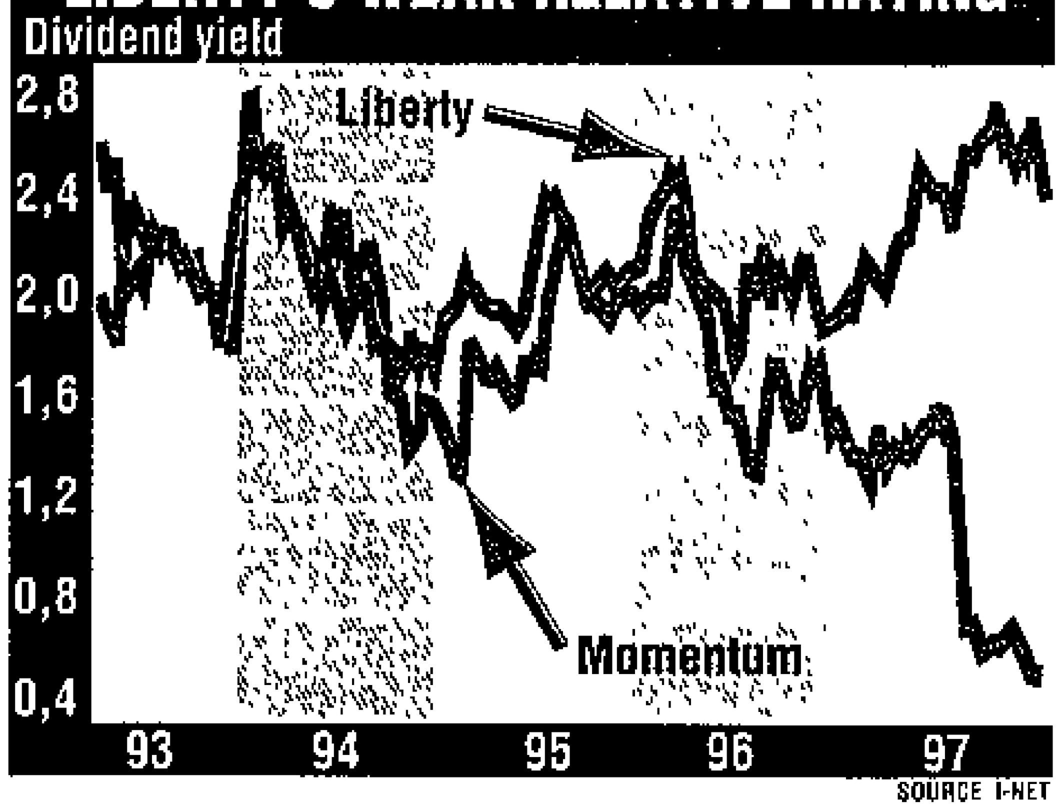
As a result, the investing public has had to turn to the more transparent unit trust portfolios to form its opinion of assurers' investment performance. Often it is the same asset manager who will run both the unit trust and insurance premium investment portfolios in a large assurance group.

This line of investigation uncovers some uncomfortable possibilities, suggesting that returns on the less-transparent portfolios may mirror mediocre returns recorded lately in unit trust funds.

Liberty Life itself doesn't run a unit trust scheme. GuardBank Management Corporation performs that duty. Liberty Holdings, Liberty's immediate holding company, has an interest of 50% in GuardBank, the other 50% being held by First National Bank.

Investments of GuardBank are managed by Libam, a wholly owned subsidiary of Liberty Holdings. Libam also manages the portfolios of Liberty Life. It is therefore fair to conclude that the same investment philosophies driving GuardBank prevail at Liberty Life.

LIBERTY'S WEAK RELATIVE RATING



Until the early Nineties Guardbank was undisputed king of the unit trust market. It now manages assets of R5,3bn, the biggest being the Guard Bank Growth Fund of R3,4bn.

This fund is delivering the best results for periods of all general equity funds over 10, 15 and 20 years, reflecting well on the conservative investment strategies of Gordon and McAlpine and proving the Scotsman's theory that short-term blips are usually ironed out in the long run.

But in the shorter term the fund has been overtaken by younger rivals. On a seven-year performance rating it has slipped back to seventh position, over five years to eight, over three years to 13th and over two and one years to 10th position, according to Profile Media's 1997 *Unit Trust Handbook*.

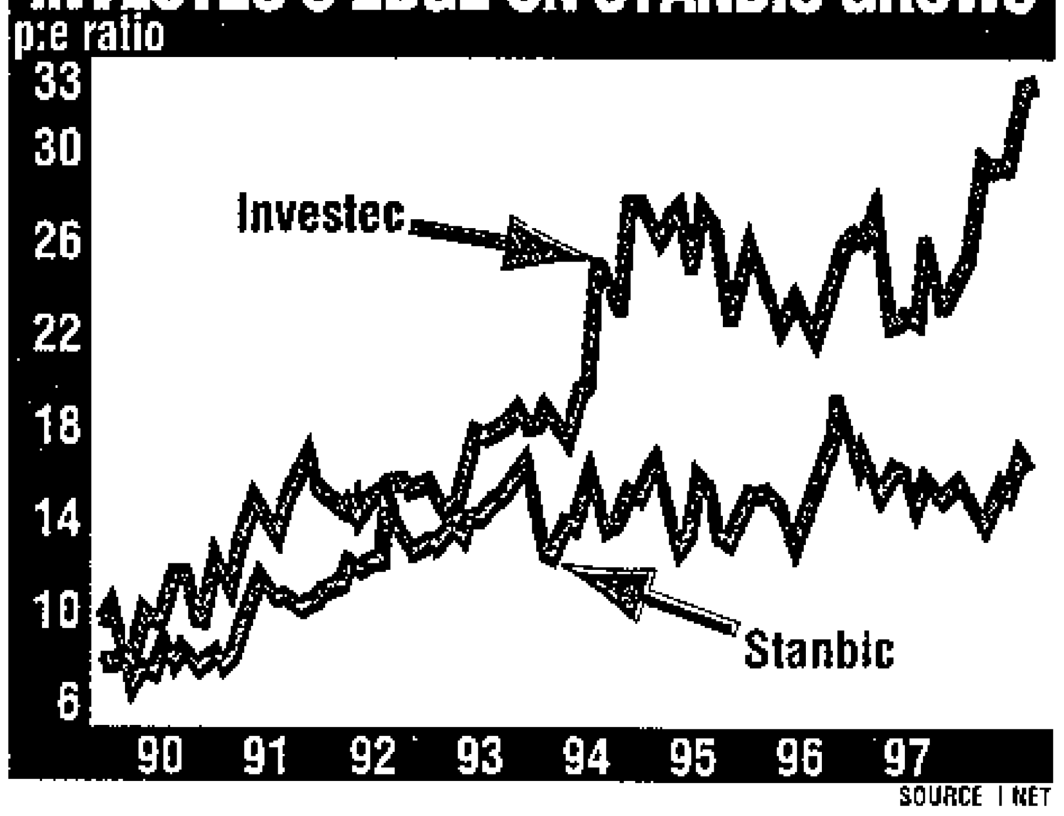
Some of the exciting new performers on the market are Norwich, BOE, Coronation, Metfund and Metlife.

One thing needs to be understood — life assurers invest on behalf of shareholders on the one hand and policyholders on the other. If portfolios perform badly, it has a negative effect on the fees policyholders can be charged. In the long run, it would make an assurer a less attractive option for the investing public.

With funds invested on behalf of shareholders, the risk profile can rise by being more heavily invested in specific individual shares like Standard Bank and SAB, rather than in a more widely spread equity basket.

Liberty went the way of investing more heavily in individual counters, but upheld its basic conservatism by investing in blue chips.

INVESTEC'S EDGE ON STANBIC GROWS



Liberty's stake of 81% in Libsil, Liberty's strategic investment arm, represents about 50% of Liberty's capital of R18,3bn. It includes stakes in Stanbic, SAB and Premier. The rest is represented by a stake of 32% in Liberty International and mainly local blue chips, such as Anglo American, De Beers, Rembrandt and Gencor.

But Fedsure's top investments including Investec Bank, Saambou and Fidelity Bank, on balance, enjoy a higher rating than Liberty's. It is striking that Fedsure's strategic investment in Investec Bank's rating far outstrips Liberty's in Stanbic.

But if one pages through the full list of all Liberty's investments, the absence of Investec is notable.

The play is far from over. The nagging doubt in the minds of Liberty's rivals must be that, after the winds of a bear market have blown the froth off current ratings in the JSE, Gordon and McAlpine will still be standing on stage taking the bows again.

The fact is that Stanbic has historically been an excellent investment for Liberty, and not for nothing do senior Momentum executives privately confess they have been adding Liberty stocks to their private portfolios recently.

But it is equally clear that for now the smaller and focused merchant and private banking operations, like Investec, are viewed more favourably. Momentum's wholly owned unlisted subsidiary, Rand Merchant Bank plays a huge part in the superior rating Momentum enjoys.

Stanbic is one of the four older generation big banks in SA struggling to contain costs and fighting the ever-present danger of big bureaucracies. The returns on such huge investments in banking have a big impact on growing the capital base of a group like Liberty.

Capital is, after all, Liberty's biggest strength in times, like now, when earning a huge margin on selling its assurance policies has become difficult. It seems Liberty must now redeploy its capital base. Selling a portion of the stake in Stanbic may be an option, or trimming its investments in SAB or Premier.

These are tough, even emotional, decisions, because selling Stanbic could have an impact on the very nature of Liberty's control structure should Stanbic decide to sell its 50% stake in Liblife Controlling Corp. (LCC). Libvest, controlled by Gordon, holds the other 50% in LCC. LCC controls Liberty Holdings which in turn controls Liberty.

Gordon and Stanbic have been partners since 1978. If Stanbic disappears from the control scene, the existence of pyramids Liberty Holdings and Libvest may also be in jeopardy.

It may also imply that Liberty would have to seek a new partner in the financial services sector to help it set new standards in the industry once again. Doing that, presumably, is why Andersen was hired.

Andersen may prove to be just the ingredient Liberty has been needing to turn market perceptions around. Young, cool and clever, he also embodies the conservative investment values Liberty and Gordon hold dear.

Certainly, Gordon was lucky to get him late last year — at least one big UK retail bank tried to hire him, possibly to spearhead an acquisition in SA.

But it should also be remembered that the flip side of the soft but improving rating coin is a buying opportunity.

If astute asset managers such as those at Momentum have been buying Liberty for some time now, all can't be wrong in Braamfontein.

Nor is there any evidence yet on how some of the JSE's hot stocks with a high risk profile would perform in a bear market.

As in Western politics, the pendulum in equity markets also swings between the conservatives and the liberals. Now is the liberals' finest hour. Gordon's hour may arrive sooner than expected.

Deon Basson

gap? (58)

is to be defeated FM 18/7/97

***Roy Andersen** . . . embodies Gordon's conservative investment philosophies*

compare Liberty's rating with its peers

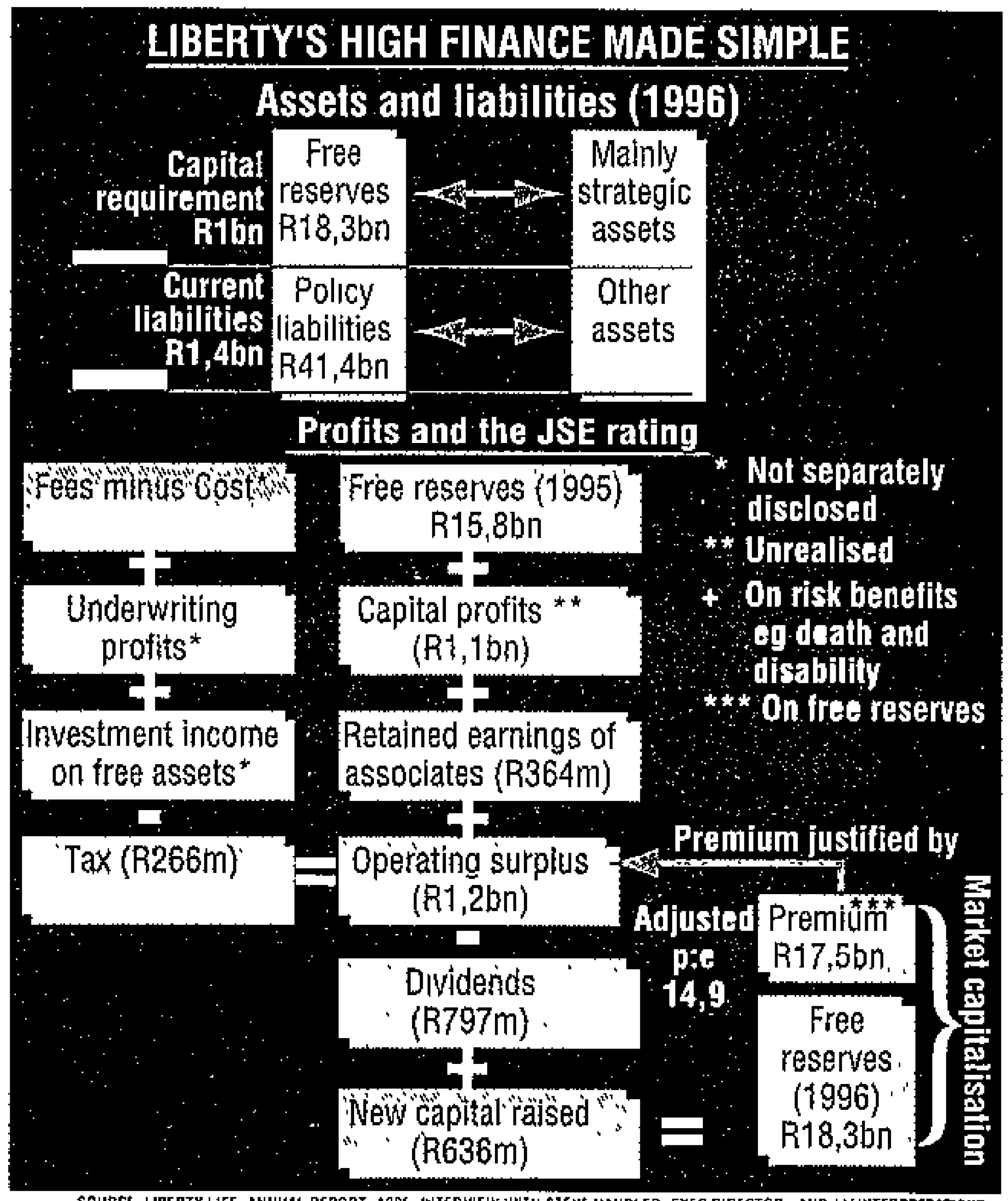
However, by isolating one or more of these items, it is possible to make a variety of judgments about the current rating of Liberty.

The *FM* calculates an alternative so-called adjusted p:e. The premise in using this method is that a portion of the market capitalisation is backed by capital or free reserves The remainder of the market cap has then to be "justified" by the operating surplus Unfortunately, free reserves are only published once a year, but the free reserves can with some degree of accuracy be adjusted to current market values if you know what assets back the free reserves

As the data makes clear, it is possible to arrive at completely different ratings, depending on whether a bullish or bearish approach is taken

However, it would be difficult to escape the conclusion that Liberty, on a comparative basis, still enjoys a lower rating despite a recent surge in its share price.

Fedsure, a second-tier and much smaller competitor, with the same financial year-end (December), is an interesting, if potentially controversial, yardstick confirming this view.



SOURCE LIBERTY LIFE ANNUAL REPORT 1996 INTERVIEW WITH STEVE HANDLER EXEC DIRECTOR AND FM INTERPRETATIONS

Liberty is, after all, a much bigger company than Fedsure with a market cap 5,6 times Fedsure's. And it has built up quality assets in SA and overseas But for now the market rating is in Fedsure's favour

All this seems to point to market sentiment shifting away from Liberty even though the price shot up from R125 to around R142 in the past fortnight

No-one, least of all Gordon, will have been surprised by the turn of events Life assurance may seem a staid and conservative business but worldwide established heavyweights like Liberty constantly come under pressure from younger, smaller and perhaps even hungrier rivals Gordon would recognise the cycle — he did it to Old Mutual and Sanlam Their good fortune was that they are not listed companies and thus beyond the ratings game played by an often fickle market.

Against this backdrop former JSE president Roy Andersen (48), newly ensconced as CE and Gordon's heir at Liberty, is settling in at the famous headquarters in Braamfontein. Some tough decisions await him and Gordon

Though Gordon will no longer have executive duties relating to Liberty's SA operations — he will be primarily responsible for international operations from London — it is unthinkable that Andersen will not consult him on important matters

It should also not be forgotten that Gordon, in partnership with Standard Bank Investment Corp (Stanbic), controls Liberty.

One of Andersen's biggest challenges is to revitalise Liberty's image in the financial markets His top management team, all executive directors, are aged between 55-58 Each is wealthy, thanks to share options issued in earlier years

The market believes that the directors have an excellent track record but that they may lack the drive to take Liberty into the 21st Century

FEDSURE'S ALTERNATIVE RATING

	With reserves as at 12/96 (Rm)	With est current reserves (Rm)
Market capitalisation	6 372	6 372
Less: Free reserves	(2 188)	*(3 035)
Premium on free reserves (1)	4 184	3 337
Operating surplus (2)	121,8	121,8
Adj p·e (1)÷(2)	34,4	27,4

* Based on premise that 75% of interest of 33% in Investec has been revalued in free reserves.

Sources Annual report, Fedsure, 1996 and FSB return, statement N

Andersen's inherited confidants are vice-chairman of Liberty Life Dorian Wharton-Hood (58), managing director of Liberty Life Alan Romanis (57), chairman of Liberty Asset Management (Libam) Roy McAlpine (56), executive director in charge of finance and technology Steve Handler (56), executive director in charge of life operations Yves D'Halluin (58), and chairman of Liberty Life Properties Wolf Cesman (55)

The most frequently asked question of the team that grew Liberty alongside Gordon is whether they should now consider giving way to a younger and perhaps more ambitious generation Andersen, however, is known to be pleased with the depth of management he found at Liberty.

But life assurance in SA, as in most sophisticated financial services markets, has come under threat. Consumers have demanded greater disclosure of the commissions and costs behind the products they are sold, mirroring demands in the UK and Australia where tougher disclosure was forced on the industry by official regulation.

In SA, where assurers have resisted pressure for greater disclosure, there has been an exceptional boom in the unit trust industry. The clear message is that consumers prefer the greater disclosure of the unit trust industry. In the past three years this mood has been reflected in slower growth in premium income of some life assurers, though Andersen says that Liberty has more recently gained market share.

He says it primarily arose from the benefits of the blueprint technology which makes Liberty more attractive to individual brokers and clients. Liberty will also introduce a black partner in wholly owned subsidiary, Charter Life.

By the same token savings ratios in SA have deteriorated, putting pressure on the fundamental factors that enable life assurers to write new business. South Africans are probably borrowing money to fund investments

In addition, smaller listed assurance players in the market, notably Momentum, Fedsure Life and Norwich Life, started gaining a high profile

New and exciting asset managers outside the industry, such as Coronation, have also made their presence felt

This trend, common in financial services, has been accentuated in part by a new generation of fund managers who brought with them more aggressive ideas to challenge Liberty's longstanding conservative strategies.

Investment of premium income is the single force that determines the success or failure of a life assurer Gordon has played a distinct role in shaping Liberty's risk-averse philosophy since 1958.

Perhaps it can best be illustrated by two stories

When Liberty's overseas subsidiary, Liberty International (previously TransAtlantic), bought its first block of 9,7% in UK assurer Sun Life in 1980, the seller was prepared to accept 270p per share Gordon was not satisfied as this price was 10% higher than net asset value He sent the broker back and got the shares for 240p

It shows Gordon's iron belief that investments must be backed by assets.

A few years ago a journalist jokingly asked him why he did not buy Bill Gates' Microsoft. "I don't pay US$30bn for one man's brains," he answered curtly

The most ardent and loyal proponent of Gordon's conservative philosophies is McAlpine, a good-humoured Scottish chartered accountant, who has worked side by side with Gordon in concluding almost all important deals over the past 25 years

In May this year a passionate McAlpine told the Investment Analysts' Society "We are unashamedly conservative" What he meant was that Libam concentrates on the fundamentals driving a company's performance, including macro-economic factors and peculiar qualities within a company

As a result Libam is more orientated to blue chips with a high market cap than some of the high-flying and fast-growing second liners. A glance at Liberty's portfolio clearly demonstrates this, showing huge investments in Stanbic, SAB, Premier and Anglo — all recognisable in SA and internationally as the cream of SA's equity markets and Gordon is proud of them

However, McAlpine insists Libam does select both growth and value stocks Above all though, it will continue to seek a low risk profile.

McAlpine is no great chartist Though he allows his staff to play with technical analysis, he shows no interest in it himself. He invests for the long term In the long run, he believes, the short-term hiccups will be eliminated

He likes to recall the stock market crash of 1969, warning that many young portfolio managers currently investing with great enthusiasm in hot stocks with high p:e ratios were not around at the time of the crash and would have learnt none of the lessons it offered

Though Libam is well known for recruiting young and bright-eyed CAs from among the top students, they are obliged to work alongside seasoned portfolio managers for several years before they are allowed to manage portfolios.

It seems to work, despite the glitter elsewhere in the industry. McAlpine prides himself on the low turnover among senior staff, a symbol of the stability, he believes, Libam provides for its clients

However, the assurance industry has suffered because of poor disclosure Since coming into the market, life assurers have never detailed the exact investment content of their serious policyholders' many portfolios Measurement of the investment per-

STRATEGIC INVESTMENTS

	Rm 12/96	Rm Now
Held through Libsil		
— Stanbic	4 621	6 110
— SAB	3 035	3 567
— Premier	1 086	1 245
— SFSA	212	253
Other		
— TAI Invest** and FIT	3 612	*4 700
— Undisclosed	5 717	*6 074
Free reserves	18 283	*21 949

* FM estimate
** Wholly-owned subsidiary of Liberty Life, holding Liberty shareholders' stake of 32,5% in Liberty International Holdings PLC

THE BIG LOCAL ASSURANCE LEAGUE

Free reserves	Rm	Date
1 Old Mutual	24 786	Jun 1996
2 Liberty	18 283	Dec 1996
3 Sanlam	9 304	Dec 1996
4 Southern	3 973	Mar 1997
5 Metlife	2 645	Sep 1996
6 Fedsure Life	2 188	Dec 1996
7 Momentum	1 342	Jun 1996
8 Norwich Life	867	Dec 1996
9 Sage Life	728	Mar 1997
10 African Life	638	Mar 1997

Free reserves: Market cap	%
1 Liberty	51
2 Southern	45
3 Metlife	44
4 Norwich*	35
5 Fedsure*	34
6 Sage*	23
7 Aflife	19
8 Momentum	15

* Free reserves of wholly-owned assurer as % of market cap of group

Free reserves: Capital adequacy requirement	Times
1 Liberty	17,4
2 Metlife	5,9
3 Old Mutual	5,8
4 Fedsure Life	4,6
5 Sage Life	4,1
6 Momentum	3,4
7 Southern	3,3
8 African Life	2,9
9 Sanlam	1,7
10 Norwich	1,5

Assets	Rbn
1 Old Mutual	172,7
2 Sanlam	132,9
3 Liberty	82,5
4 Southern	32,6
5 Momentum	22,8
6 Fedsure	19,3
7 Metlife	10,9
8 Norwich	10,1
9 Sage	6,0
10 African Life	1,3

Sources: Annual and/or prelim reports (1996/1997) of mentioned companies.

LIBERTY LIFE

58 18/7/97

Can Liberty take the

Old guard must stage a comeback if challenge to conservative strategies by new breed of fund managers

Donald Gordon made the right call when he started Liberty Life in 1958. Though inflation was a relatively unknown phenomenon in the Fifties, he believed it would become an issue soon, with an ever-increasing demand for savings products hedging South Africans against inflation.

Gordon also reckoned at the time that the cost structures of other SA assurers had been too high.

On cue, inflation rocketed in the Seventies and Eighties while the Reserve Bank failed to enforce real interest rates. Assurers became popular investment institutions for savers, while returns on the stock market outpaced inflation and outperformed banking deposits.

In less than three decades Liberty, selling its products to upper income groups, grew to become the biggest listed, and, measured by assets, the third largest life assurer in SA. It is also the fifth largest company listed on the JSE, the second largest life assurer among all emerging economies and the 25th largest insurer in the world, all measured by market capitalisation

Gordon attributes Liberty's success to product innovation, the quality of a highly trained sales force and broker network support and a superior investment performance and administrative service.

In essence, Liberty has come to see itself as a safe haven for the nation's savings — challenging, successfully and profitably, giants such as Old Mutual and Sanlam.

Indeed, as had been the case for many years before, Liberty was by 1994 the undisputed king of all listed life assurers in SA The success story written by Gordon is a case study many aspiring entrepreneurs have followed with forensic interest.

LIBERTY'S ALTERNATIVE RATINGS

	With reserves as at 12/96 (Rm)	Adj *p:e	With est current reserves (Rm)	Adj *p:e
Market capitalisation‡	35 774		35 774	
Free reserves	(18 283)		†(21 949)	
Premium on free reserves	17 491		13 825	
Op surplus (Income statement)	1 539	11,4	1 539	9,0
Less: Equity accounted earnings	(364)		(364)	
Adj operating surplus (1)	1 175	14,9	1 175	11,8
Less: Overseas earnings	(134)		(134)	
Adj operating surplus (2)	1 041	16,8	1 041	13,3
Less Investment inc on free reserves†	(370)		(370)	
Adj operating surplus (3)	671	26,1	671	20,6

* Adj p:e = Premium on free reserves divided by operating surplus or adj operating surplus † FM estimate ‡ Share price at R141,75.
Sources Liberty Life and Liberty International Hldgs, annual report, 1996 and Presentation to The Investment Analysis Society, May 1997

Liberty can now boast a market capitalisation touching R36bn, a capital base, now probably more than R20bn, blue chip strategic investments in Stanbic and SA Breweries (SAB) and an overseas subsidiary with enormous potential

Yet over the past two years the stock market's love affair with Liberty has cooled. It no longer enjoys a superior p:e rating. In fact, it lags behind several of its much smaller competitors

Liberty is known for conservative accounting. In 1994 international actuaries indicated that the net taxed surplus for 1993 would in terms of US general accepted accounting practice be R100m more than the reported R441,8m

With the adoption of the Financial Soundness valuation method in SA, Liberty now probably hides less of its operating surplus

Unlike other assurers in SA, Liberty consolidates or equity accounts some of its activities Some foreign analysts disagree with the inclusion of retained earnings from associates, overseas earnings and investment income produced by free assets in the operating surplus The inclusion of these numbers, they argue, makes it difficult to

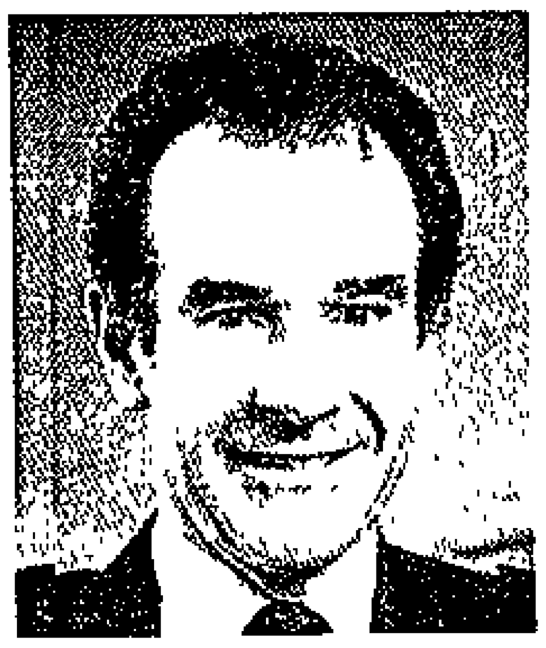
CLEVER, RICH AND EXPERIENCED

Dorian Wharton-Hood (58), vice-chairman & PR supremo. Joined Liberty in 1987 with the acquisition of Prudential

Alan Romanis (57), MD Chartered accountant 22 years with Liberty

Yves D' Halluin (58), exec director responsible for life operations 25 years with Liberty

Steve Handler (56), exec director responsible for finance. Actuary. 31 years with Liberty



Roy McAlpine (56), Chairman of Liberty Asset Management. Chartered accountant. 27 years with Liberty

Wolf Cesman (55), Chairman of Liberty Life Properties Chartered accountant 21 years with Liberty

LIBERTY LIFE

(58)

An apology

fm 18/7/97

Last week we published an article on the Liberty Life group, reporting that a former employee, Tony Katsapas, had been paid R1m in settlement of disputes between himself and Liberty Life following his dismissal in 1994. The headline read: "Who is Katsapas and why is his silence so crucial?" A subheadline read: "Documents and tapes are worth R1m to Donny Gordon."

Both headlines imply the existence of an attempt by Liberty to suppress or cover up supposedly secret information. Yet neither headline is substantiated in the text of the article that followed. The implication of both headings was that chairman of Liberty Life Donny Gordon had authorised payment to the former employee to keep secret some thus far unpublished information.

In as much as the article stated the payment was actually handled by the new chief executive of Liberty Life Roy Andersen, the headings imply that he acted as principal agent in what would have amounted to a cover-up of secrets or damaging information whose publication would have served the public interest. The fact is that confidentiality agreements of the kind agreed between Liberty and its former employee are not uncommon in settlements of individual industrial relations disputes.

The headlines not only misrepresented our intent in publishing the fact of the payment to Katsapas, they unjustly and unfairly impugned the integrity of Gordon and Andersen. We have no reason to believe this payment was made to do anything other than settle what had become a vexing and toxic industrial relations dispute. In the light of these reflections we owe both Gordon and Andersen a sincere apology and we make it without reservation.

The Editor

Almost entire management team replaced

Key Afbank staff go in shake up

CT (BR) 18/7/97 (58)

Duma Gqubule

Johannesburg — The restructuring of the unlisted African Bank has been completed, but has resulted in the departure of almost the entire original management team, Chris Beazley, the group's newly appointed managing director, said yesterday.

Those who have left include Colin Franks, the former managing director.

African Bank was rescued from liquidation by New Africa Investments Limited (Nail) and NBS Bank in September 1995. Beazley said its new owners had agreed not to restructure operations for 18 months.

That agreement ended early this year, and all interested parties had agreed to take the "bitter medicine" of voluntary retrenchments, he said.

The bank's staff complement had been reduced by 189. Those employees accepted voluntary retrenchment packages that would cost the bank R12 million, but result in direct savings of about R870 000 a month and other indirect savings. The bank now employed 277 people, he said.

The bank had closed seven branches and four regional offices. It now had a network of seven hubs, which served as distribution and administration centres, and 15 sub-branches. It would report a profit for the 18 months to September 30 this year, Beazley said.

African Bank would be supported by the proceeds from the recent sale of its 31 percent stake in African Merchant Bank to Nail, which analysts have estimated to be worth between R80 million and R90 million.

Unaudited results showed that the bank had expanded advances to about R500 million from R390 million at the end of March last year.

Beazley said the bank expected to increase its advances to about R700 million by next September and report an operating profit.

NEW BOSS *Chris Beazley has taken the helm* PHOTO SHAUN HARRIS

The bank, with share capital of about R120 million, had the capacity to grow its advances to more than R1 billion. "But we will grow the asset base responsibly and not repeat previous mistakes of lending into high-risk areas," he said.

"The challenge is to improve the quality of our lending and diversify the risk of the loan book by taking on more corporate customers. At the moment there is a split of about 70:30 between retail and corporate clients. I would like the bank to have an even balance in the near future and see advances gradually increase ... by September 1998 — at which stage the bank should be able to report an operating profit," Beazley said.

□ Business Watch, Page 14

Loan sharks let rip on public

3 000% INTEREST A YEAR

(58) CT 18/7/97

MONEY-LENDING is big business in South Africa where it's legal to charge as much interest as you like on loans under R6 000. The less scrupulous charge 100% a day. **CLAUDIA CAVANAGH** investigates.

LOAN SHARKS are charging up to 3 000% interest a year on short-term loans — yet gullible debt-ridden South Africans continue to fuel the R5-billion a year mushrooming industry without complaint.

Even regulated sectors of the high-risk industry generate interest rates that amount to 360% a year and demand clients' bank cards and pin numbers in return on the understanding that the lender will withdraw the owed amount early on the next pay day.

These rates are legal thanks to a 1992 regulation which exempts loans under R6 000 from all provisions of the Usury Act.

And the majority of those being ripped off by the loan sharks are not the illiterate, but the well-heeled, who are struggling to pay off debts run up at upmarket department stores.

An ironic twist: protecting people from money-lenders who charge excessive interest rates was one of the main aims of the act in the first place, said Professor Piet du Plessis of the Department of Business Management at the University of Stellenbosch.

Du Plessis has conducted extensive research into the industry.

The Department of Trade and Industry appears to be aware of the anomaly and is reviewing the exemption.

"We also recognise that there is a desperate need for change in legislation relating to the small loans industry," said Dr Alistair Ruiters, Registrar of the Usury Act. "As long as the demand for informal financing remains so vast and continues to grow we should regulate the industry to the best of our ability to ensure that consumers are not exploited."

And it's the people who should know better that are the industry's best clients.

Eighty-three percent of those who took part in Du Plessis' 1995 study had passed some level in secondary or tertiary education and most were economically active. Fifty percent were employed by the state as teachers, civil servants, policemen, nurses and members of the prisons or defence force. Semi-state employees such as traffic and post office officials, municipal workers, medical proto teams, ambulancemen and Iscor and Eskom employees made up a further 14,7%.

"From this it's clear that the majority of clients fall within the semi-skilled and skilled levels of employment," said Du Plessis.

Nearly 33% borrowed money to pay account arrears — especially those from retailers selling clothes and furniture.

"The inability to live within the limits of a fixed income causes problems for many people within this market," he said.

"Literate and semi-literate people tend to think they know everything and are the ones who are ripped off or who get themselves into the worst debt," agreed Mrs Tia Young, consumer campaigner and author of the consumer guide Get Wise.

Speed is of the essence when it comes to those in dire financial straits — and it's here that the loan industry comes out tops.

"Almost 60% of the agencies said they could give an answer on the outcome of an application within 15 minutes.

"This is one of the very attractive features of the industry since, at the stage that they apply for the loans, many clients are already in serious financial difficulties. If they had to wait for days for an answer, it could be too late," said Du Plessis.

The Usury Act exclusion does not only apply to the informal business sector — banks could jump on the bandwagon.

"To maintain a favourable public image, banks would probably never charge over 32% interest — as stipulated in the current Usury Act — even for amounts which are exempt," said Mr Stuart Grobler, general manager of the Council of South African Bankers.

Seizing bank cards and pin numbers is also not illegal and cannot be outlawed — although it is frowned upon by the banking industry and consumer groups.

"It does go against the conditions on which cards are issued in

❑ Turn to PAGE TWO

Loan sharks let rip on public

(58)

❑ From Page 1

CT 18/7/97

the first place, increases the chance of phantom withdrawals and opens the client to all sorts of potential fraud," said Grobler.

By and large, the banks can do little to stop clients from handing over their cards to a third party.

"In many cases, the bank doesn't know that this has happened, and may only find out when the lender walks in and asks the bank to cancel a whole batch of cards that were perhaps stolen with the pin number from his premises."

The practice also generates much unnecessary administrative work for bank officials.

"Having surrendered his card and pin to the lender, the client may report it lost and cancel the card, ask the bank for a duplicate or withdraw all his money via a teller."

And as the Business Practices Committee of the Department of Trade and Industry has yet to receive a formal complaint on the matter, it has not been declared a harmful business practice.

"Even if it was, how would the situation be controlled and policed?" asked Grobler.

"The man in the street who knows nothing about interest rates and legislation is definitely exploited through cash loan operations," said Grenville Abrahams, head of Consumer Affairs for the provincial Department of Economic Affairs.

"He doesn't care. He just wants to walk in and walk out with his money."

Young, who has for some time campaigned against the exemption, concurs: "If the man in the street wants R100 today, he doesn't care if he has to pay back R220 by next week.

"We need action from the government to control — not shut down — the industry. The people who fuel the industry and are exploited will do nothing to help themselves out of the spiral."

Self-regulation in the industry has taken place since the formation of the Micro-Lenders Association just over a year ago. Although not yet rubber-stamped by the relevant authorities, nearly 1 000 of the estimated 5 000 cash shops in South Africa are members of the body.

P.T.O.

New competitors and products shake the life assurance industry

BRUCE CAMERON

The future has arrived for the life assurance industry with new competitors, products and marketing strategies hitting the market in rapid succession.

This week Personal Finance deals with three major innovations – the launch of South Africa's first major direct selling operation of life assurance products by Hollard Life; the requirement by Sage Life that its agents be qualified to sell the products in its range; and the move by retailers into financial services. **(See Page 27)**

The financial services industry, particularly the life industry, is now caught between the pincers of increasing competition and consumerism, which is demanding greater protection and more transparency.

The life assurance industry over the past 18 months has already seen the proof of customer dissatisfaction, with new business falling off while the unit trust industry is showing remarkable growth.

In the three months to June 30, assets under management by the unit industry jumped a staggering 16 percent to R56,7 billion.

The opening of the South African market to global investment for individual investors has added competition from offshore to local competition from the recent entry into financial services of non-traditional institutions, like Shoprite/Checkers and Pick 'n Pay.

And the shake up does not stop at the companies themselves but filters rapidly through to the sales forces.

Hollard Life, in going direct to you with its new products, will be exploiting public resentment at paying brokers and financial services advisers, by assuring the public that no commission charges will be added.

Standard practice is to add in commission charges to life assurance products even if you by-pass intermediaries.

There is a general move within the industry to improve the standards of both products and intermediaries, which has been stimulated by the recent Appeal Court decision in which Absa was instructed to pay back more then R700 000 to the Durr family in Cape Town because of inadequate selling practices.

Star 19.7.97

(68)

New competitors, products, strategies shake life assurance industry

ARG 19/7/97 (58)

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The arrival of a flood of foreign banks in SA has changed the country's corporate banking world. Clients have never had it so good as foreign banks eat into local banks' market share. CIARAN RYAN reports

Foreign invasion forces Big Four to change tactics

ST (IOT) 20/7/97 (58)

SA IS awash with foreign banks — more than 70 at the last count — and the battle for corporate lending has never been more intense.

Loans are being doled out at wafer-thin margins — as low as 0.25% in some cases. A survey by Price Waterhouse on foreign banks in South Africa shows that the foreigners, backed by huge global balance sheets, are less worried about domestic banks than are domestic banks by the arrival of so many new competitors.

It is generally acknowledged that the market cannot support so many banks and a shake-out is now widely predicted. So, too, is a merger between two of the Big Four South African banks — Absa, Standard, First National Bank and Nedcor.

Most of the foreign banks are targeting the top 100 corporations, a market now so over-banked that several domestic and a growing number of international banks are moving into the mid-sized corporate market where, although higher risk, margins are more generous. Among the foreign banks showing interest in the mid-sized corporate market are New Republic Bank (controlled by Dato Samsudin) and newly formed TA Bank — both Malaysian controlled.

The squeeze on margins at the lower risk top end of the market has forced domestic banks to eliminate duplications and focus on chosen niche markets, according to an analysis of the banking sector by Mark Young, banking analyst with IBCA South Africa.

Writing in the 1997 Financial Markets Handbook, Young says this competitive attack from abroad resulted in many of the larger domestic banks entering markets traditionally dominated by the small and medium-sized domestic niche banks.

Total banking assets grew by 18.4% in 1996 to R472.1-billion, while assets under foreign control nearly doubled to R18.3-billion. The banking sector remains dominated by the Big Four, but their share of the market declined from 82.2% in 1995 to 80.6%. Absa is the largest, with a 26.5% market share, followed by Standard (21.56%), First National (16.8%) and Nedcor (15.8%).

"Growth in assets under foreign control was significantly higher than the market average but did, however, fall sharply between the first (38.5%) and third (7%) quarters," says Young. "This is probably a reflection of the increased uncertainty and tight liquidity conditions in the financial markets at the time."

The majority of foreign branch assets are located in foreign currency loans, the inter-bank market, corporate loans and investments in the capital markets. This tends to be low risk margin business and generally of a short-term nature.

Foreign banks' share of the foreign currency loans market has grown from around 17% to 35% over the last 18 months — at the expense of the Big Four.

Foreign currency loans attributed to the foreign branches more than doubled during 1996 to R5.1-billion, with these banks having gained market share from the Big Four. In the inter-bank market their contribution to market assets rose from 20.5% to 27.2% during the year.

Foreign banks have been able to leverage their lower overhead costs by offering finer interest rates, while the introduction of money market funds should exert additional pressure on rates as commercial banks are forced to pay more for their funding.

"This has placed pressure on South African banks to reduce their high cost ratios and focus on becoming less reliant on interest revenues, with different avenues of fee and commission-related income being explored," says Young.

Restructuring of the domestic banking sector is complicated by their heavy investments in branches and information technology, and the pressure being exerted on the banks to extend banking services to the poor. Most are targeting a 60% cost to income ratio (Nedbank is already there).

Cross subsidisation of banking services is being squeezed out of the system as smaller niche banks target the more profitable markets. There seems to be little interest so far from foreign banks in the retail banking sector (catering to the man in the street) because of the high costs of maintaining branch networks.

All in all, says Young, 1996 was one of the more challenging years in South African banking history. A period of consolidation is likely to follow, starting with the merger of NBS Bank and Boland Bank, which gives the two a national distribution and wider range of products which will compete directly with the Big Four.

The merger of smaller niche banks such as Citizen Bank, Future Bank and Bophuthatswana Building Society will ensure a better critical mass and wider product range. Other niche players have increased their capital bases to ensure they remain competitive. Competition will get even hotter as non-banking institutions such as Pick 'n Pay and other retail chains start to offer banking services. Under conditions such as these, a merger between two of the Big Four makes sound sense.

Govt aims to get more out of its finance institutions

(58) BD 21/7/97

John Dludlu
and Robyn Chalmers

GOVERNMENT would seek the best returns and a way of maximising benefits from the five development finance institutions it owned, Finance Minister Trevor Manuel said at the weekend.

Manuel expressed reservations about the viability of draft legislation on development finance institutions which was the result of earlier initiatives.

He said government was taking a different approach to seeking efficiencies from the Development Bank of Southern Africa, the Industrial Development Corporation, Khula Finance Corporation (which wholesales finance to small business intermediaries), the National Housing Finance Corporation and the Land Bank.

A draft document, which has since been taken off the table, recommended the establishment of a co-ordinating council chaired by the finance ministry but had sections which clashed with founding statutes of some institutions.

Manuel also said the "entire arena of provincial development corporations" was being appraised within the finance "minmec" — the intergovernmental ministerial forum. Lack of communication could result in duplication among development institutions, which would not benefit SA.

The ministry's long-term approach was to bring the five bodies together, seek synergies and explore possibilities which could see facilities being shared.

However, Manuel said the ministry was aware of the unique relationships each of the corporations had with domestic capital markets. "It is important (though) that in talking they do not only define how they touch sides, but what they can share to ensure SA gets maximum return for that which is invested with the five."

The ministry was looking beyond co-ordinating structures and wanted to break the previous government's trend which saw funds being pumped into former bantustans when the apartheid regime was profitable.

While progress had been made in linking the five institutions to line ministries, Manuel said that the "fit" between them would still be "imperfect".

Regarding the Development Bank, Manuel said a new board would soon be appointed in terms of the parastatal's transformation process. The bank had been refocused to concentrate on financing infrastructure and it announced last year a flatter management which involved getting rid of 55 of 75 senior management posts.

Manuel said he was satisfied that the bank was moving in the right direction, although further work would be needed as the bank was facing new challenges in different environments.

He said that while the jury was still out on the success of the bank's transformation, benefits were already being seen in terms of shorter response times and a flatter management structure.

Referring to a recent letter sent to Manuel by "concerned bank staff" outlining complaints regarding the management of the organisation, he said it was unclear how representative the letter was. "We do not believe it represents a groundswell of dissatisfaction within the bank. The transformation committee, however, is widely representative of staff and concerns should be raised within this forum," he said.

Insurance fraud on the rise in SA

Sowetan 23/7/97 (58)

Illegal insurers invade the local industry

By Maxwell Pirikisi

FURTHER relaxation of exchange controls early this month has opened the way for increased insurance fraud, with the Financial Services Board (FSB) already investigating 12 cases.

The FSB says it is being inundated with complaints against illegal insurers.

The 12 cases being investigated centre on illegal foreign currency transactions involving both local and international insurers, FSB long-term insurance head Oppie Opperman told *Sowetan Business* yesterday.

Local and international insurance companies are selling foreign currency denominated insurance products to South Africans in contravention of the foreign currency regulations, he says.

Most of the institutions are not registered in accordance with section 75 of the Insurance Act which protects consumers against unscrupulous insurers.

Since exchange controls were relaxed, allowing South Africans to invest up to R200 000 abroad or hold it locally in foreign currency deposit accounts, insurance fraudsters have gone beyond limits, with some putting up permanent structures in South Africa.

> ‘There is a need for sterner legislation to regulate the insurance industry’

FSB executive officer and registrar of insurance Rick Cottrell has already warned that there has been an influx of illegal insurers invading the local industry since July 1 and that, in the absence of clear regulatory measures, South Africans need deal with prospective insurers diligently.

Unregistered operators

Cottrell says: "The short-term insurance industry has for some time been plagued by unregistered operators but there is now a proliferation in the long-term insurance industry with the relaxation of exchange controls for individuals.

"For this reason we urge the public to make sure they approach companies that are registered with the FSB before investing in a policy."

> ‘The FSB is already taking action to the fullest extent of the law’

He says legislation governing such issues as, for example, whether a South African insurance company may issue a foreign-currency denominated life assurance policy have yet to be finalised by the Reserve Bank.

The FSB is already taking action "to the fullest extent of the law" in the 12 cases it had discovered, according to Opperman. But there is a limit to what the FSB can do in terms of current legislation.

Because it has civilian powers only, the best it can do is seek court orders to stop unregistered insurers from operating.

However, Opperman says, there is a need for sterner legislation to regulate the insurance industry.

BANKING (58)

FM 26/7/97

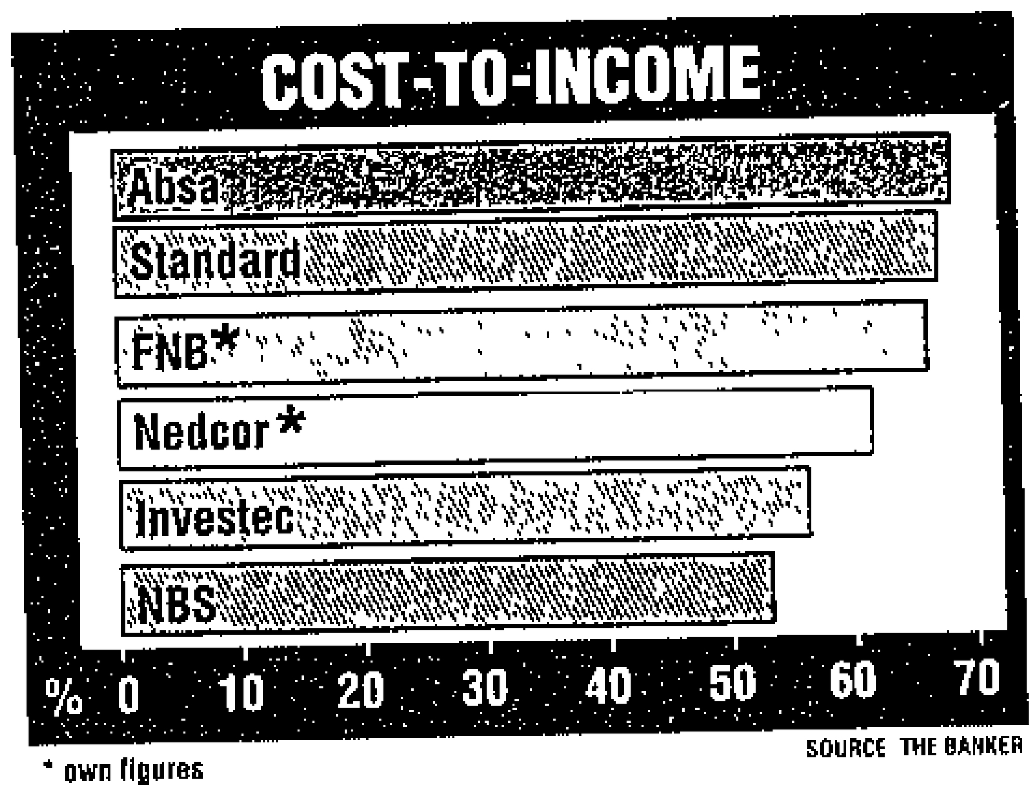
Stepping up a gear or two

International survey ranks SA banks on cost-to-income ratios

The cost-to-income ratio is a measure of banking efficiency. And it is a measure by which SA banks have performed poorly in the past

Recently, however, they have been reducing their ratios and a comparison with banks internationally shows they are safely in the midrange when it comes to efficiency

This emerges in *The Banker*'s annual survey of international banks, published in its July issue For the first time, it includes banks' cost-to-income ratios



The tables show that Absa's ratio is 68,2% and Standard Bank's is 67% NBS scores best with a ratio of 53,39%, followed by Investec with 56,2%

No ratio is published for First National Bank and Nedcor According to FNB, its ratio in 1996 was 66%. And Nedcor's Bruce Vermeulen says the bank's ratio was 61,38%.

To a large extent, the structure of a bank determines its cost-to-income ratio Banks with big branch networks, for instance, will have a higher ratio because of the cost of staffing and equipping the branches.

Niche banks have much lower costs. That is why the cost-to-income ratio of the Nederlandse Waterschapsbank is only 7,67%. "It specialises in lending to the public sector," says *The Banker*, "and finances itself mainly by long-term debt Consequently it has no branches and only 30 staff"

Theoretically, the bigger the bank the more scope there is for economies of scale But this does not hold good in practice

The world's 10th biggest bank, in terms of its US$401,7bn assets, the London-based HSBC, has a cost-to-income ratio of only 52,9% and number seven, the Fuji Bank with assets of $432,7bn, scores under 60% It has a cost-to-income ratio of 42,74%

But most of the big 10 have far higher (and therefore worse) scores than the SA banks

The world's biggest, the Bank of Tokyo-Mitsubishi, with assets of $647,8bn, has a ratio of 96,52%. This is no doubt because of the cost of the merger between the Tokyo and Mitsubishi banks Presumably, the ratio will fall as jobs, branches and other duplications are eliminated

The critical measure by which *The Banker* ranks the banks is narrowly defined as Tier One Capital.

First internationally is UK-based bank HSBC Holdings with $25,7bn It is followed by the Bank of Tokyo-Mitsubishi, $24,3bn; and French Credit Agricole, $22,2bn

First among SA banks is Absa ($1,9bn), which overtook Standard Bank, followed by Standard $1,8bn, Nedcor $1,1bn; FNB $1,1bn, Investec $753m; and NBS $517m

Ethel Hazelhurst

Finance network to curb poverty initiated

(58)

29/7/98 Sowetan

By Shadrack Mashalaba

A REGIONAL programme aimed at building and strengthening regional and countrywide networks of microfinance to alleviate poverty, was launched by leading African experts in Pretoria yesterday.

Once in operation, the programme will enable microfinance practitioners to exchange experience, build common performance and influence Government policy to facilitate the growth of microfinance institutions in Africa.

Women's World Banking (WWB), which together with the United Nations Development Programme (UNDP), was involved in the workshop to launch the programme yesterday.

WWB said the programme would help as microfinance has been recognised all over the world as a sustainable means to alleviate poverty.

Addressing the opening of the workshop yesterday, Khula Enterprise chief executive Sizwe Tati said South Africa still had a skewed distribution of resources three years after the 1994 democratic elections.

Women, said Tati, were still finding it hard gaining access to financial resources.

"While it is important to promote our industrial entities, we will not succeed if we leave poor, rural women in the whole Southern African region behind," he said.

According to Tati, Khula has to date committed R73 million worth of loans to SMMEs.

WWB started in 1979 with the aim of expanding low income women's participation and power by opening access to finance, information and markets.

As of December 1995 the organisation had built a capital fund of R112,5 million.

The programme, according to UNDP, is part of its R250 million micro-start project.

Development Bank makes record loans

CT(BR) 30/7/97 (58)

RICHARD STOVIN-BRADFORD

Johannesburg — The Development Bank of Southern Africa said yesterday it had disbursed a record R1,4 billion of loans during the 1996-97 financial year.

"We're aiming at commitments of R2,5 billion and loan disbursement of R2 billion this year," Ian Goldin, the chief executive, said. "Our commitments are growing faster than our disbursement. But we are disbursing more quickly," he said, referring to the closing gap in lead time between commitments and contract completion, when disbursement is made.

New investment loans of R2,2 billion were approved for 102 infrastructure programmes and projects. This was up from last year's R1,6 billion.

Lending was concentrated on funding the provision of infrastructure. The majority went to bulk electricity supply. Local government institutions and public utilities were the largest borrowers, followed by Southern African Development Community countries. The bank said the performance of the loan book remained satisfactory, with a default rate of below 1 percent.

"Our bottom line this year is down to R102,6 million," Goldin said. The 9 percent fall from last year is mainly the result of a 54 percent rise in interest expense compared with a rise in interest income of only 22 percent, partly because of the lower interest rates on the older loans now being repaid.

"Next year we're targeting a surplus of well over R150 million," Goldin said.

The bank no longer receives subsidies from the government and has improved its treasury management in order to become financially self-sustainable. Goldin said the average return on loans is 14,3 percent, up from the previous return of 9,24 percent.

In the past year the bank borrowed some 30 percent of its requirements from concessionary international financial sources, although this will decrease in the present year.

Strict financial discipline helped the bank to retain its long-term AAA rating for raising debt in the domestic market. In addition, it was rated A1+ for short-term credit by IBCA, the rating agency.

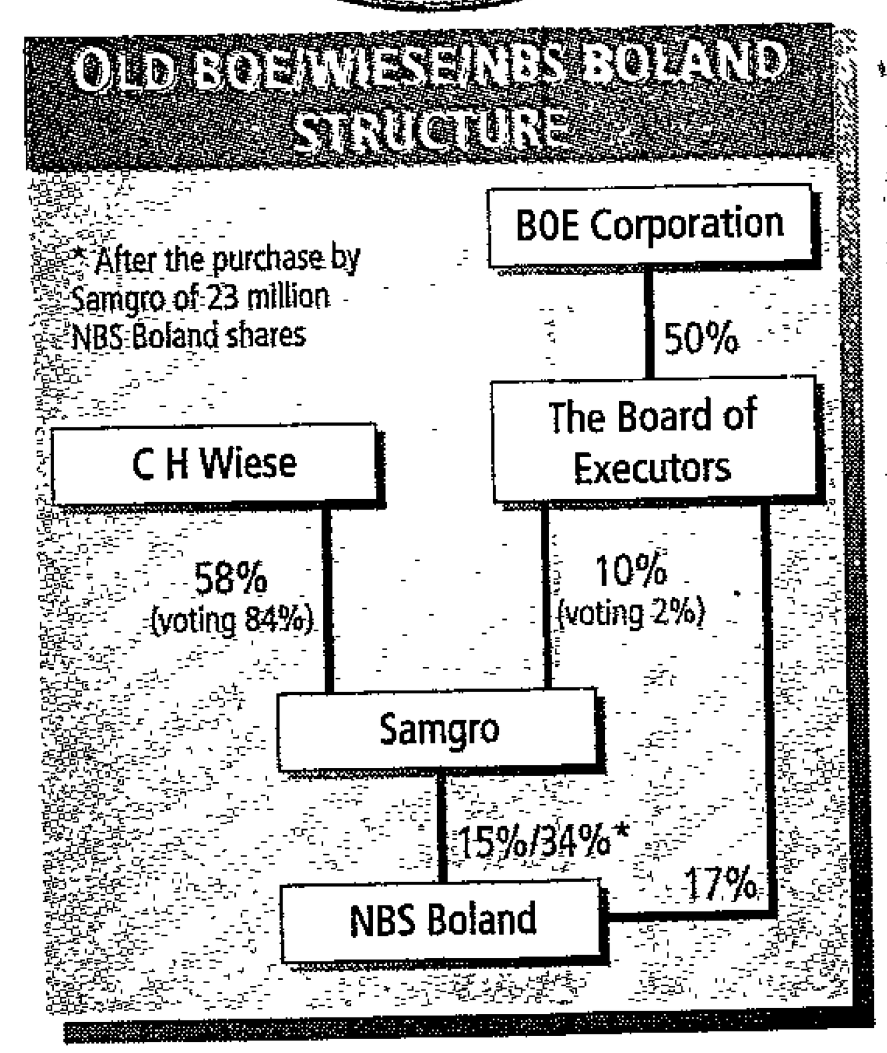
Goldin said the lack of liquidity and lack of risk sharing (in the local bond market) was a problem in South Africa.

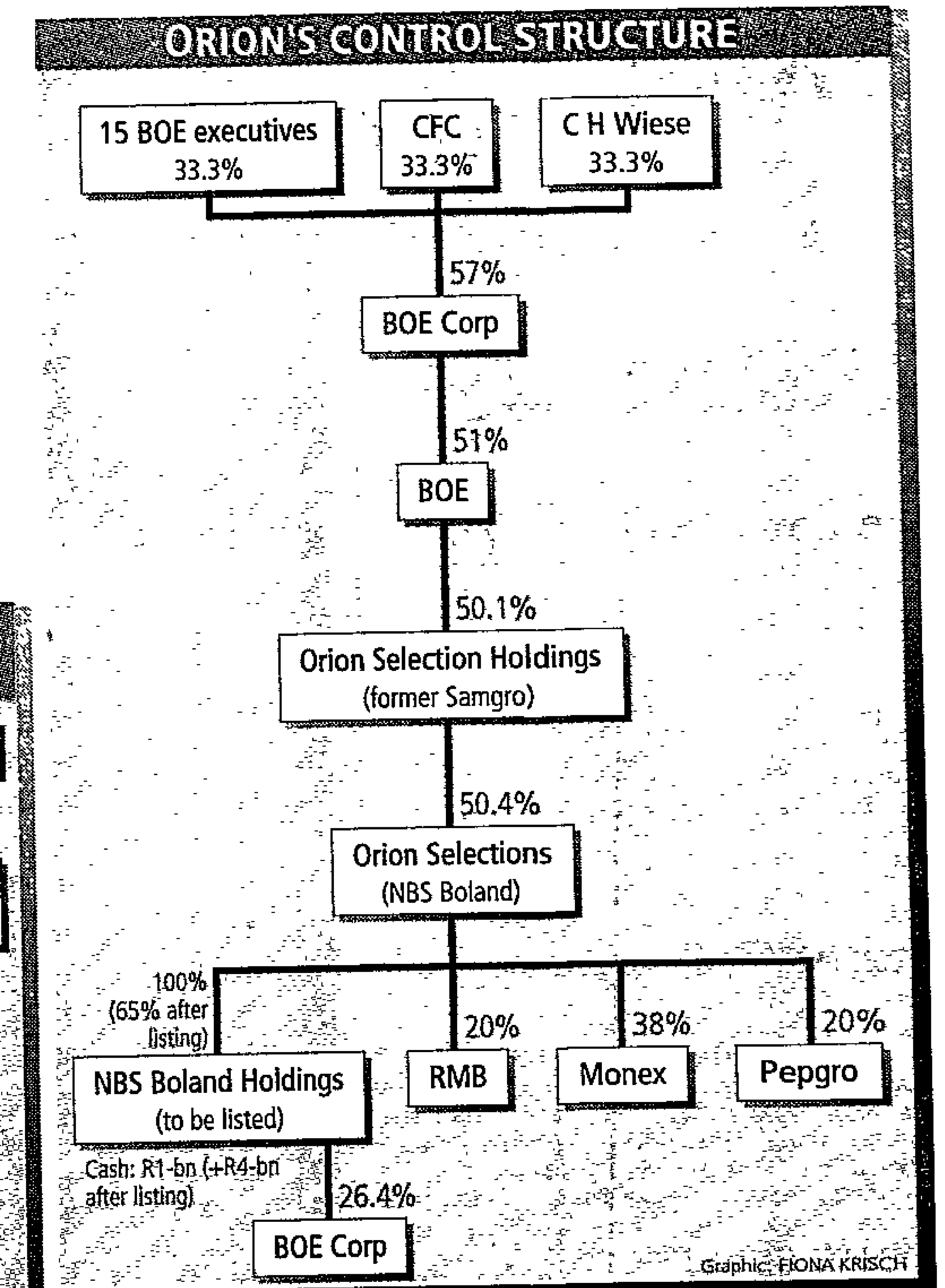
(68)

Labyrinthine deals lead to formation of massive banking group

ST(BT) 31/8/97

MARCIA KLEIN
Looks at the formation of the R60-billion Orion group





WORKING TOGETHER . . . Bill McAdam and Christo Wiese to head new banking group

'The formation of Orion brings together four powerful personalities'

THE relationship between The Board of Executors and Cape entrepreneur Christo Wiese spans more than a decade. But it took them just a few months to form a R60-billion financial services and investment banking mega-group.

The seeds were sown early this year when BOE bought 17% of NBS Boland for R1.4-billion and NBS Boland bought 24% of BOE for R880-million. Through a number of transactions, Wiese's Samgro emerged as NBS Boland's major shareholder with 34%. Following these deals, BOE and Wiese formed a concert party and extended an offer to minorities.

These deals created a loose alliance between BOE, Wiese and NBS Boland. But their ties were cemented last week when the three parties announced the formation of a new group, Orion Selections, whose interests include NBS Boland Holdings (which will house the group's banking interests through a soon-to-be listed company), 20% of Rand Merchant Bank, 38% of Monex, 20% of Pepkor Group and R4-billion in cash.

BOE, with a market capitalisation of R9-billion, will have effective control of Orion.

Orion, with a market capitalisation of R16-billion, becomes SA's third largest investment company after SA Breweries and Rembrandt Group, and just ahead of Amic, Bevcon, CG Smith, Barlows and Libsil.

Control of the group is spread equally among Wiese, 15 BOE executives and Commercial Finance Company (CFC). BOE owns an effective 18% of CFC, an investment trust company with which BOE has had a longstanding relationship.

BOE executive chairman Bill McAdam says formation of the group has moved forward with great speed. It was only last December when RMB and Eskom sold the first tranche of NBS shares, which Wiese bought through Samgro. In January, Norwich put its stake up for sale, which is when BOE stepped in.

McAdam says people "don't seem to realise the speed at which the transactions were concluded and managerial and structural decisions were taken at Orion. The new group will maintain this steam to achieve its stated objectives."

The players announced the deal last Thursday and were already in negotiations with potential empowerment partners over the weekend. The identity of the other parties remains secret as negotiations are, at this stage, continuing and sensitive. McAdam says an empowerment partner "is an obvious, and vital, missing piece in the puzzle".

He concedes while most of the component pieces of the group fit well, the structure — with at least four pyramid levels and various cross-shareholdings — does not, but "should be seen as the first step in a process. We will streamline over time."

The structure was necessitated by a number of factors. Various parties had to be seen to be independent, it was vital that the businesses remained niched and there were certain financial restraints. "This was the best structure we could come up with at this juncture, but as the parties get to know one another, the structure will change."

A few months back, McAdam said while he appreciated the relationship with Wiese and NBS Boland, he was happy BOE was able to remain independent, entrepreneurial and flexible, and said holdings within the alliance were not expected to change much. Now BOE finds itself an integral part of a much bigger web. But McAdam believes BOE can still maintain its characteristics within a larger context and can benefit from being part of an enlarged group.

"We gain from the deal. We made the first investment in NBS Boland for R1.4-billion and this created the first paradigm shift. The three entities (who have all been successful in investment banking) and Wiese's entrepreneurial reputation make for a powerful mixture, so the deal has, in fact, added a new dimension to BOE in terms of size and strategic importance."

The formation of Orion brings together four powerful personalities, Wiese, McAdam, Phil Biden and Tony Norton. Wiese will be chairman of Orion Selection Holdings and chairman of Pepkor. McAdam will be chairman of Orion Selections and NBS Boland Holdings and executive vice-chairman of Orion Selection Holdings, while remaining executive chairman of BOE. Norton will be deputy chairman of Orion Selections. Biden is MD of the BOE Group and a director of both Orion companies and NBS Boland. But it seems there will be no power struggle.

"Although there has to be a hierarchy, there will be a partnership of all the shareholders together, with no dictatorial MD or leader. We (at BOE) use the best business brain power at our disposal, we debate things and talk them out and come up with solutions. We will run the group as partners."

McAdam says Norton's appointment as deputy chairman of Orion Selections is an important move. "He has been sent up for higher duties and released from day-to-day operational issues. Tony's strengths are in strategy and his knowledge of the Johannesburg Stock Exchange's rules and status. He will play an important senior statesman role. We will use his talents to the full.

"Each personality comes with his strengths and weaknesses, and we have brought together an interesting mix of people; a dynamic board who are not afraid of risk and who are quick to see opportunities and find ways of seizing them."

After the listing of NBS Boland, Orion Selections will have about R4.2-billion available for acquisitions. Orion Holdings already has R550-million, while BOE has cash and near cash holdings of R600-million plus, "so we have firepower at our disposal and will be aggressively looking for opportunities. We will look at opportunities arising from unbundling and empowerment and in southern Africa. We are also trying to create an equivalent of Minorco or Richemont within the group." It has identified a London-based financial services company and is in the early stages of analysis.

"We are not in any negotiations yet; just getting our information together. We will make moves over the next two months to take it further if our investigations prove our initial interest is warranted.

"We would envisage a strategic stake and would want representation on the board and the ability to be involved in its future strategic direction. If successfully concluded, it would create an exciting base. It has the component parts of what could be a BOE-type organisation," says McAdam. All acquisition opportunities will be examined, but the thrust will always be financial services.

"For anything outside, we will first ask what it can do for the component parts, what it can bring to the group and to the financial services operations. There is no point in creating a conglomerate that does not fit together."

The Pep group, which owns, among others, Shoprite, Pep, Ackermans and Stuttafords, could be seen as an uneasy fit, but McAdam argues that it does (in-store financial services are a huge potential growth area) and that it is a strong performer.

McAdam said with the coming together of three groups, "we are at pains to ensure that they are all winners in the deal. With the combination of excellent management and strong companies we have, I don't want to say we will be an unstoppable force, but a potent mix of businesses and people."

While his feet seem firmly on the ground, McAdam is not averse to stargazing. He loves to explain how the group came to the name Orion, which refers to the constellation of stars (symbolising the three groups), and bright stars at that.

Orion, he explains, is a hunter, hunting for investments which must become bright stars in the group's portfolio. He holds a torch or knobkerrie (symbolising an African group), has a belt and braces (a banker), a dagger in the belt for managers who don't meet budgets. Orion wears a skirt (for affirmative action), has a fine pair of legs (to sprint ahead of competitors) and a fine nose to pick up the scent of new acquisitions.

A little bank with a big developmental role

(58) CT (BR) 1/8/97

DUMA GQUBULE

Why does PostBank, which uses the Post Office network to provide financial services to the "unbankable masses", manage to report a profit — a feat other institutions in this market, like African Bank and Community Bank, have failed to accomplish?

Billy Tlhabanelo, PostBank's general manager, is more qualified than most to answer this question. Before joining PostBank he was an assistant general manager at African Bank who had been earmarked for the managing director's position.

Tlhabanelo says PostBank, which was established in 1883, has mobilised more than R1 billion from 1,6 million rural savers. It does not publish separate accounts — they are consolidated into the Post Office's books. "But we do have an idea of the profits we make, although we do not disclose the figure separately," he says.

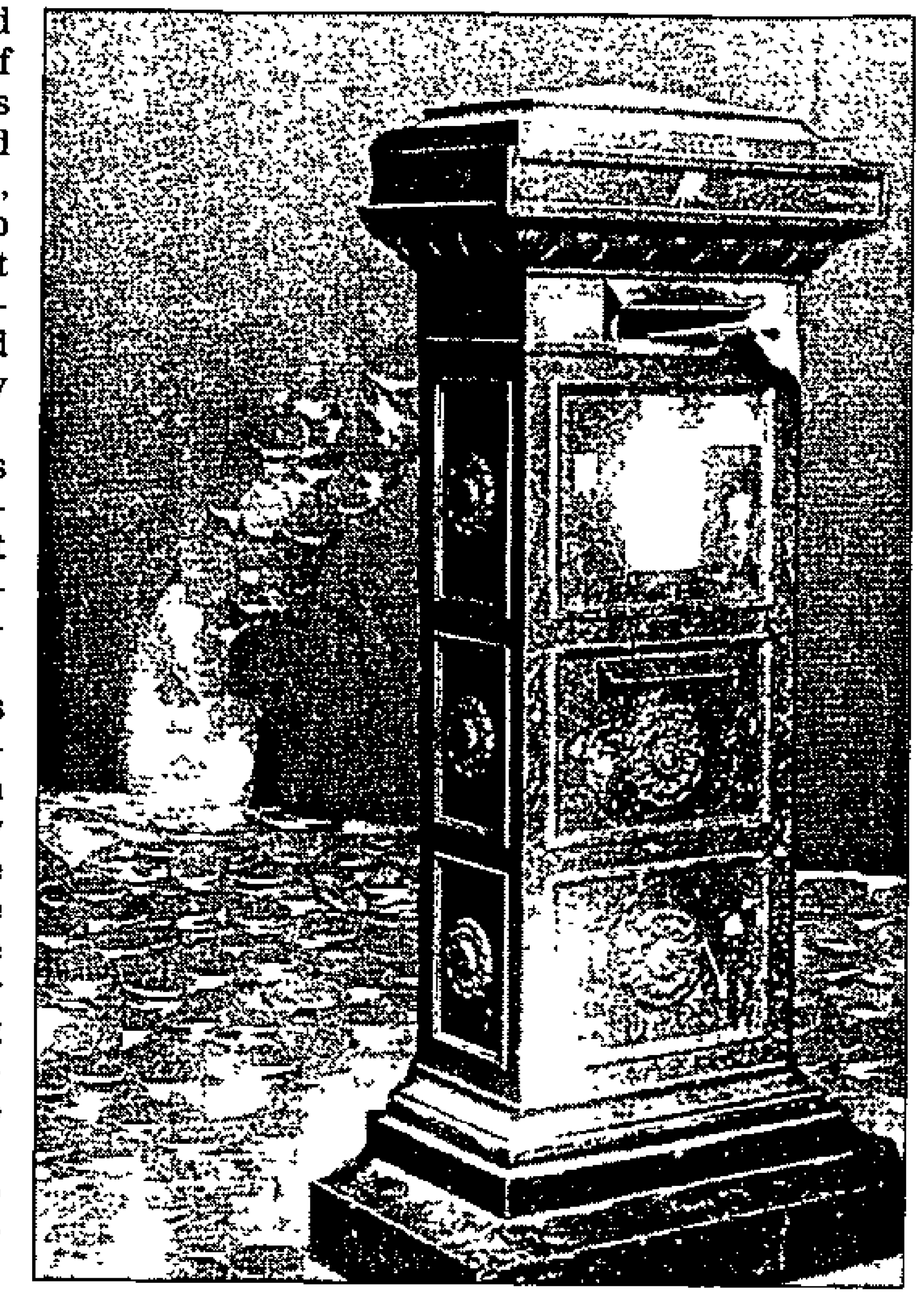
A key reason why PostBank reports a profit is the simplicity of its operations. It offers just three savings products — a book-based account, a card-based account and savings certificates.

It makes money by collecting the difference between its cost of capital — the average interest rate paid to the depositors — and the average return it receives from the depositors' funds which are invested in money market instruments.

Compare this with African Bank, which failed largely because of poor credit policies and controls and Community Bank, which invested too heavily and too fast in costly infrastructure before it could lend enough money to earn interest.

PostBank does not offer credit facilities, nor does it have a costly infrastructure to support.

It piggy-backs the Post Office's network of more than 2 000 outlets, many of them in remote areas where there are few banks. "We do not have to incur the costs of starting our own branch network," Tlhabanelo says.



PostBank also uses the Post Office staff to handle enquiries and process transactions. "We pay the Post Office a fee for the services it provides us."

On the negative side, the bank incurs high administrative costs processing small transactions for a poor clientele, the majority of whom have balances of R500 or less.

The recently published Green Paper on Postal Policy recommends the allocation of subsidies for specific expenditure to compensate for the higher transaction costs of financial delivery to low-volume rural areas.

Before long, PostBank could make a leap into an uncertain and riskier future and register as a fully fledged bank offering a wider range of services, including credit. The Strauss Commission on Rural Financing has called for an expanded role for PostBank.

The report said the bank could play an important developmental role in rural areas, offering a wider range of savings products — for burials, school fees, lobola — such as pension delivery facilities, transmission services and credit.

The Green Paper says PostBank has lost market share and profitability in recent years. A recent study by the Savings Bank Foundation for International Co-operation says the loss of market share is not due to unfavourable market conditions.

Instead, the study blames the bank's poor service, a weak information technology infrastructure, unfavourable terms and conditions, the limited range of services offered, and poor marketing.

The Green Paper outlines five options for restructuring PostBank which could become a division of the Post Office; a standalone profit centre of the Post Office; a separate 100 percent owned "for profit" company; a "for profit" company in which the Post Office keeps a controlling majority or a significant minority stake; or a "for profit" company in which the Post Office does not have any shares.

The Green Paper says "government is now prepared to exchange part-ownership of the institution with another financial entity capable of bringing more attractive products and effective management".

Tlhabanelo says it is still too early to say what kind of company would want shares in PostBank. He says it could be a financial institution with capital or management skills to contribute, or a non-financial institution.

If PostBank does assume the wider role envisaged in the Strauss Commission and the Green Paper, it will have to tread warily where other banks burnt their fingers.

Offering credit facilities could involve costly new investments in personnel trained to process credit applications and new information technology (IT) systems. The bank would have to avoid the mistake of investing too fast in personnel, IT systems and other infrastructure because the expected new revenue streams (from new loan advances) would take time to flow.

But PostBank is better placed to succeed in a country where there are few examples of successful financial institutions catering for the lower end of the market. It has 1,6 million rural clients, more than 100 years' experience serving the banking industry's "untouchables", and the advantage of learning from the mistakes of others.

ARG 2/8/97

Micro money lenders have a role to play in the new SA

(58)

ESANN DE KOCK

With money lenders charging interest rates in the region of 30 percent a month, it might take a strong argument to convince you that they provide a good and often essential service to people who are unable to borrow small amounts from their banks at short notice.

But those who have insight into the "formal" R5 billion-a-year micro-lending industry, claim money lenders are not the scoundrels they are often made out to be.

They suggest government and the banks should see this industry with its massive infra-structure and loyal client base as an opportunity, instead of a threat.

This is not to say that micro-lenders do not sometimes exploit you and help you from the frying pan into the fire when it comes to managing your money.

But researchers, legal advisers and the banks generally agree that there is undoubtedly a need for this industry, that it is here to stay and cannot be wished away.

They also say there are ways in which you can, to some degree, protect yourself when you approach money lenders.

A safeguard

If you have to borrow money from a money-lender, go to one that is registered with the Micro-Lenders Association.

This is your main safeguard, says Stellenbosch Professor Piet du Plessis, who has been doing extensive research into the micro-lending industry.

There are more than 600 formally subscribed members of the association who adhere to a strict code of ethics and a code of conduct, Du Plessis says.

"The association is, to a certain extent, recognised by the Department of Trade and Industry (DTI), the Reserve Bank and the Business Practices Committee as the mouthpiece for the industry."

Du Plessis points out that the competitive nature of the micro-lending industry is, to a large degree, responsible for the ethical conduct of many money lenders.

"They know that a bad reputation will put them straight out of the market and they don't want to risk that. There is no need for it, either. The industry is huge and has clients flocking into its offices daily."

> *'Money lenders know that a bad reputation will put them straight out of the market'*

He points out that the DTI is discussing a review of an exemption in the Usury Act which, since 1992, exempts all loans under R6 000 from the provisions of the Act.

This exemption allows the small loans industry to charge huge interest rates – often up to 50 percent.

Still, Du Plessis says, people are aware of the interest they have to pay. And it doesn't bother them, because it is their only way out.

Lana van Zyl, Registrar of the Usury Act, says the DTI supports the micro-lending industry in as far as it wants to see that loans are made available to the public in an orderly manner.

The problem

It is not just the poor who approach money lenders.

Du Plessis argues many people who are falling into debt today belong to the new up-and-coming middle class who are enjoying better salaries.

The problem, he points out, is that the education of the public on their personal money management has not gone hand-in-hand with their improved financial status.

He says certain elements in the furniture, motor, insurance and small retail clothing industry have started to exploit the inexperience and the improved financial position of the new middle class.

"Contracts have been entered into and, in many instances, people are finding that their cash flow is too small to meet their commitments."

As a result the micro-lending industry has mushroomed.

Wessel Smit, legal adviser for the Money-Wise franchise which already boasts 117 branches countrywide, says it is short-sighted of anyone to tell people that they should avoid that which they cannot afford.

"Many people borrow money to pay for important things like school fees and rent."

Du Plessis points out that the problem – from a point of view of control – does not lie with the "formal" money lending sector where offices and an infra-structure exist.

Instead, it lies with the obscure, lesser known money lenders who don't have offices, have no business records and who operate "in the shadows". Those, he says, are the ones to avoid.

The banks and money lenders

The challenge today, according to Du Plessis, is for government and the formal banking sector to positively utilise the massive infra-structure of the industry – instead of seeing it as a threat.

"Many small lenders are keen to make a contribution to the new South

Some banks do offer you small loans

Although banks generally do not get involved in lending small amounts of money to the public – especially at interest rates of 30 percent a month, the bigger banks are involved in micro-lending in two ways:

- Home loan offers of up to R10 000 (for the so-called incremental housing market); and
- Lending small amounts to the public via employers or trade unions.

Lance Edmunds, general manager of housing at the Council for South African Banks (Cosab), says the banks involved in micro home loans are Absa, First National Bank, Standard Bank and Nedcor.

These smaller home loans, he says, are aimed mainly at the lower income section of the market and are backed by pension or provident funds.

Edmunds says criteria for these loans vary from bank to bank.

In most cases regular interest rates of around 20,25 percent will apply – although smaller amounts tend to attract lower rates.

In addition to small home loans, banks are also involved in micro-lending in the field of physical assets.

Cosab general manager Stuart Grobler says this relates to the purchase of, for example, furniture and "white goods" such as fridges and stoves through retail outlets.

In these instances, the banks either do the financing or the dealer finances the purchase and sells the loan to the bank who then gets it at a discount.

Jacques Basson – involved in business development of emerging markets at Boland Bank – says micro-lending is a natural movement and there is a demand for it in society.

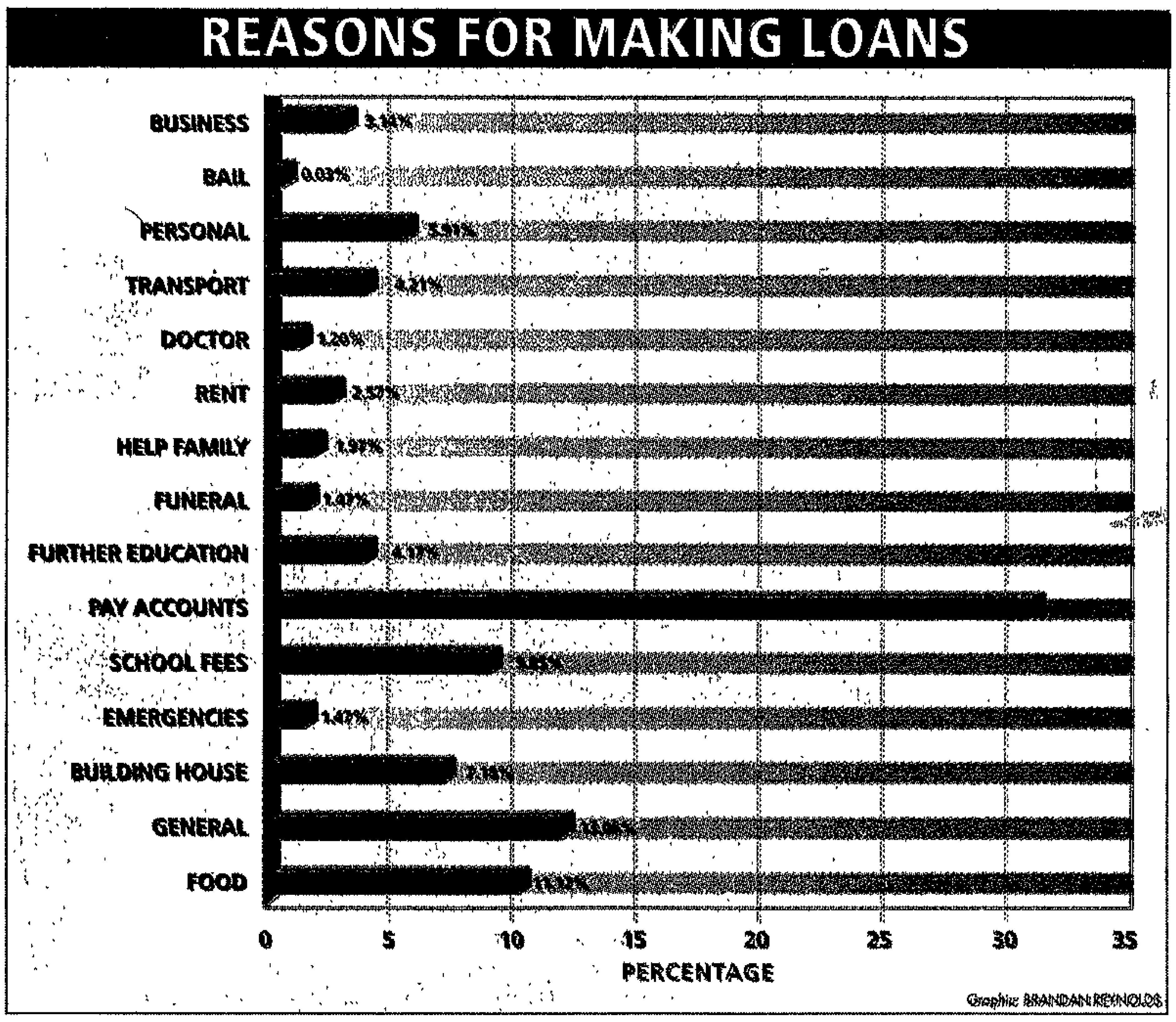
He says Boland Bank competes with small money lenders via loan offers through employers and trade unions.

These 36-month loans are offered at normal bank lending rates.

Basson says the bank guards against allowing individuals to commit more than 15 percent of their net pay a month towards repayments.

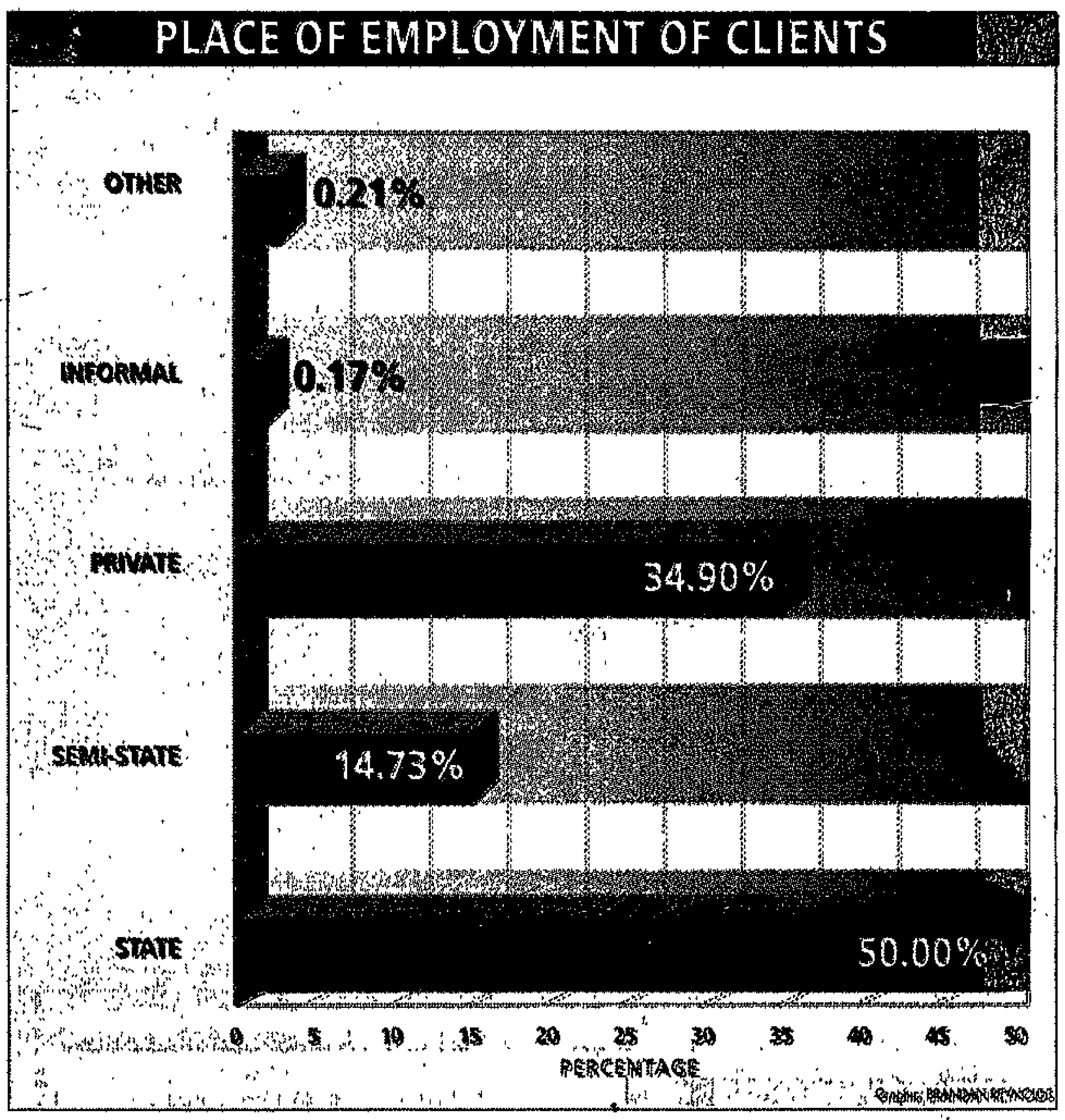
He suspects the micro lending industry will develop substantially over the next five years.

Cont...



LEFT:
The graphic shows how most people borrow money for day-to-day living. It is based on research completed in 1995.

BELOW:
Research conducted by Stellenbosch Professor Piet du Plessis in 1995 shows that many people who borrowed money from micro-lenders were public servants. Very few were from the informal sector.



Africa. And great inroads can be made if one can utilise their infrastructure for an educational task.

"For instance, micro-lenders could refer clients who have been credit-worthy over a number of months, to the formal banking sector."

Du Plessis believes there are many opportunities and he hopes some will emerge during a workshop on the matter at the Reserve Bank next month.

Smit says the franchise is in the process of developing a system of payment "similar to a debit order".

He says this will prevent customers from handing over their bank cards and pin numbers to money lenders – currently the only way to ensure repayment.

Smit says the system is unsatisfactory and a security risk, yet neither he nor Du Plessis know of a single case where it has been exploited.

Du Plessis points out that access to the banks' Saswitch system will prevent clients from handing over their bank cards and pin numbers and will help reduce the risk element in money lending.

"But the banks, generally, see the industry as a potential threat and are refusing access to the system."

The future of micro-lending

Jopie van Honschrooten, a divisional manager with the Small and Medium Enterprises division at Standard Bank firmly believes there is a place in society for a reasonable micro-lending industry.

"Banks cannot lend small amounts of money to people at such short notice. Micro-lenders have found a way of doing that. They charge huge interest, but when you go into a micro-lending hall, you see people with smiling faces. Something you don't see in the banks.

"Yes, these people are credit junkies. But don't the banks have credit junkies too – of millions of rands?"

Van Honschrooten says it is sad that people live beyond their means, cutting their clothing far broader than the pattern.

He believes, however, that the banks would be foolish not to look at ways in which to facilitate a safer and better lending process for their own customers who approach money lenders.

Ombudsman may take tougher line with insurers

ARG 11/8/97 (68)

ALIDE DASNOIS
BUSINESS EDITOR

Insurers may no longer be able to hide behind a strict interpretation of the law in refusing policyholders' claims, if a suggestion by the ombudsman for short-term insurance bears fruit.

In his report for 1996, ombudsman Michael Bennett says at present the final decision in disputes where the insurer is justified in law rests with the insurer, even if the Ombudsman recommends a settlement based on equity or on sound insurance practice.

But he hints that this should perhaps change.

"In such cases I ask that the insurers consider them carefully and debate them with me, although the final decision is the insurer's prerogative.

"Whether this should continue to be so in the future is perhaps a matter for debate and it is interesting to know that in the United Kingdom the ombudsman is empowered to enforce 'equitable' as well as formal recommendations."

Mr Bennett's office dealt with 1 355 complaints from the public last year, 36% of them relating to motor policies, 20% to householders' policies, 16% to houseowners' policies and 11% to claims against brokers.

The ombudsman has harsh words in his report for unscrupulous brokers who bring the industry into disrepute.

"I believe that the whole industry should take notice that the actions of a comparatively minor section of the broking profession have a most adverse and unhappy effect on the whole reputation of the industry."

NE

Ombudsman releases his annual report

There are too many conmen, says watchdog

CT (IDR) 12/8/97 (58)

AUDREY D'ANGELO

Cape Town — The public had been cheated by dubious insurance broking operations and there had been too many liquidations of broking companies and close corporations, Michael Bennett, the ombudsman for the short-term insurance industry, said in his annual report issued last week.

He said too many clients had been left in the lurch in the past year or two. "Worse still, there have been scams in contravention of the Insurance Act (in which) brokers have purported to issue insurance policies without any underlying authority from registered insurers."

Warning members of the public to make sure that their broker did not fit into any of these categories, Bennett said that pending legislation would limit the number of intermediaries between the insurer and insured and would give the latter more protection.

Bennett said he looked forward to the co-operation of the South African Insurance Brokers Association in improving the position. His office was preparing a handbook to assist the public.

His office had dealt with 1 355 complaints from the public last year. Of these, 36 percent were in connection with car insurance, nearly 20 percent about householders' insurance relating to contents and 16 percent about home owners' policies, including damage as a result of earth movement.

Bennett said 11 percent of these complaints "arose from claims against brokers". Many complaints were settled quickly and amicably by the insurance companies without the need for formal recommendations.

He deplored the fact that the ombudsman's recommendations could not be enforced.

Bennett said "the overwhelming majority of insurers have undertaken to abide by the ombudsman's formal recommendations, even when they disagree with him". But, in addition to these recommendations, there were cases when the ombudsman accepted that the insurer's repudiation might be justified in strict law but considered that reasons of fairness or sound insurance practice should prevail.

In cases when he made such equitable recommendations, the final decision was the insurer's prerogative.

He said the insurance companies had now agreed that, in cases when the policyholder had started legal proceedings within a specified time to challenge repudiation of a claim, the time limit should be "suspended for the period that the matter was in the hands of the ombudsman".

Govt reviews Act to protect consumers from unfair deals

Sowetan 13/8/97 (58)

By Shadrack Mashalaba

TRADE and Industry Deputy Minister Phumzile Mlambo-Ngcuka yesterday said the Government was busy reviewing the current Usury Act to protect consumers from unscrupulous micro-lenders.

Addressing a micro-lending workshop hosted by the South African Reserve Bank in Pretoria, Mlambo-Ngcuka said the revised legislation would be in place soon.

Mlambo-Ngcuka said the current Usury Act did not regulate interest charged on loans under R6 000. This constrained the delivery of financial services to micro entrepreneurs

"Government is tasked with ensuring that consumers, including borrowers, are protected from unfair business practices

"One of the issues debated in the context of micro-lending institutions is the fact that the poor have to pay the highest interest rates," Mlambo-Ngcuka said.

In his presentation, University of Stellenbosch professor Pieter du Plessis said South Africa was emerging from a generation that excluded a section of our population from the economic strata. He said the micro-lending industry was filling the gap that existed in the market.

According to a study he conducted in 1995, it was estimated that the micro-finance industry generated a turnover of R5 billion annually.

"The micro-lending industry is in its growth phase. However, we need to be wary of the fly-by-nights who will impair the reputation of the industry. Government should use the opportunity to regulate the industry and there is also a need for the industry to get its house in order and speak with one voice," said du Plessis.

Manuel stresses monetary and macroeconomic harmony

Bank 'co-ordinates policy'

(58) CT (BR) 13/8/97

CHRISTO VOLSCHENK
ECONOMICS EDITOR

FINE-TUNING *Trevor Manuel, the finance minister*
PHOTO JOHN WOODROOF

Cape Town — The Reserve Bank did not have unfettered independence and should co-ordinate monetary policy with other elements of the state's macroeconomic policy, Trevor Manuel, the finance minister, said yesterday.

Addressing a wide range of issues at an informal press conference, Manuel said the Reserve Bank should be free to use any instrument of monetary policy, but "co-ordination is exceedingly important". The constitution merely required the Reserve Bank "to consult regularly" with the minister of finance.

Manuel also rejected the employment figures published by the Central Statistical Service, which showed the economy, excluding agriculture, had shed 42 000 jobs in the first three months of the year after losing 71 000 last year. "I disagree with the way the service collects the employment statistics."

Reacting to a suggestion that job creation was lagging far behind the targets set in government's growth, employment and redistribution (Gear) strategy, Manuel said it was hard to believe the service's calculation that one in three people was unemployed.

He said Cabinet had agreed last week to upgrade the position of head of the new South African Revenue Service (SARS) from deputy director-general to director-general.

Since the departure of Piet Liebenberg, the then chief executive officer, Trevor van Heerden, the inland revenue commissioner, had also been the acting chief executive officer of SARS.

Under the SARS bill, adopted yesterday by the parliamentary portfolio committee on finance, the position of chief executive officer will disappear.

Manuel said Van Heerden would head SARS and, although salary scales had not been finalised, it was possible Van Heerden could receive a bigger remuneration package than other directors-general.

Manuel also said it "was always going to be hard to reach the budgeted deficit before borrowing of 4 percent of GDP", but the issue of teachers' salaries would make it more difficult.

☐ BANKING

ET (BR) 13|8|97 (58)

Indian group opens branch in Durban

The Bank of Baroda, India's second largest bank, would open a branch in Durban today, the bank said yesterday. Krishnamurthi Kannan, the chairman, said the main objective of opening a branch in Durban was to consolidate regional operations between the African states, the Indian Ocean islands, India and Hong Kong. He said the bank would act as a "catalytic agent" for the growth of trade and commerce between India and South Africa by providing banking and advisory services to importers and exporters in both countries. He said it would also explore new business avenues in South Africa. The focus of operations would be corporate finance, retail financing and loans for large projects, he said. The Bank of Baroda has 38 international branches in 13 countries. — *Ravin Maharaj, Durban*

Banks, insurers move closer together

The Credit Suisse deal illustrates the blurring of boundaries between banks and insurance companies, write **George Graham, William Hall** and **Christopher Adams**

(58)
BD 13/8/97

EVER since Lukas Muhlemann took over as CE of Switzerland's Credit Suisse group at the start of this year, the stock market has been waiting for him to make a move. Given his background at Swiss Re (where he was CE), insurance seemed the obvious area of his interest and Winterthur, with which Credit Suisse has close ties, the obvious target.

Muhlemann, however, said there was no need for closer ties. "You do not need to buy a cow if all you want is a glass of milk," he quipped. On Monday, Muhlemann bought the cow.

In announcing a Sf54bn merger of Credit Suisse and Winterthur, he is creating the world's third biggest asset manager, with Sf700bn under management. With 15-million customers and a market capitalisation of more than Sf50bn, the new Credit Suisse group will be one of Europe's top half-dozen financial services companies.

Why has Muhlemann changed his mind after less than a year in charge? And does the merger of the two companies tell you something about the changing nature of the banking and insurance businesses?

On the face of it, those businesses are indeed being transformed — which is why Muhlemann has abandoned his scepticism about a merger. The former McKinsey management consultant said he thought that two big trends were pushing banks and insurance companies together: increasing concentration in the financial services industry, and a "blurring of boundaries" between banks and insurance companies.

Legal barriers which pigeonholed particular financial products have disappeared in most countries, and competition to sell more products to the same customers has intensified.

This has posed problems both for banks and insurance companies. Banks have come under pressure as deposits, their traditional savings product, have lost market share to assets such as life assurance or mutual funds.

In the US, the share of all personal sector financial assets accounted for by bank deposits has slid from 35% in 1980 to 18% in 1995. The share taken by insurance, pensions and mutual funds has risen from 26% to 42%. In the UK, bank and building society deposits dipped from 29% in 1982 to 22% in 1994. Germany, meanwhile, saw bank deposits decline from 52% of personal financial assets in 1985 to 44% in 1994.

In contrast to banks, which have needed to find new products to sell, insurance companies had traditional products that were in healthy demand. The problem for them was that their networks of tied agents were becoming increasingly expensive.

If anything, the insurers' quandary has been greater than the one facing banks, which have at least been able to get into other business. Some banks, such as Lloyds TSB and Abbey National in the UK, have bought established life assurers to build up their life business. Others, such as Credit Agricole in France and Midland Bank in the UK, have formed joint ventures with traditional insurers to build their own life assurance operations. In short, both banks and insurance companies have found it convenient to link up, often in a loose co-operation.

Credit Suisse and Winterthur were among the companies doing this. Last year they formed a strategic alliance to tap additional sales opportunities for their products. So why have they now gone further, to a merger? One possibility is that this is a defensive move by the insurers.

Once regarded as separate from other areas of financial services, insurance is in its simplest form an attempt to pool and diversify risk. The underwriting skills needed to do this remain distinct, but in the competition between banks and insurance companies to grab customers, the banks appear to be winning. They have captured 19% of the European life assurance market — and much more in France, where they are dominant. Insurers have made no such inroads into banking.

But when bankers and insurers have linked up, there have been awkward clashes of corporate culture. The gap between banking and life assurance may not be too wide to bridge, though some bankers shudder at the door-to-door sales culture of many traditional life companies. Accident insurance, however, appears a more disputatious business to a banker reluctant to haggle with a customer over his claim.

As a result, bank/insurance mergers on a scale as large as Credit Suisse's deal with Winterthur have been rare, and when they have taken place, they have sometimes been bumpy.

In the 1980s, when the French discovered "bancassurance", the largest example was the take-over by the Gan insurance company of the Credit Industriel et Commercial (CIC) banking consortium. The results have been poor, though blame may lie more with CIC's cumbersome structure and with the heavy hand of state ownership than with the mixture of banking and insurance. The government plans to sell Gan by June — and that could break the link between the two sides.

If the two Swiss firms want to find a merger that holds out more hope for themselves, they might look to the ING Group, created from the 1991 merger of Nationale Nederlanden, the largest insurer in the Netherlands, with NMB Postbank, the country's third-largest bank.

"We always thought we would be the beginning of a fashion," said Aad Jacobs, ING's chairman.

ING executives say the merger has brought some cost savings, though these have come more from sharing information technology development than from stripping out duplicated expenses. It has also allowed ING to push insurance products through its bank branch network, which now sells 12% of group insurance policies.

"We have both the bank's deposits and the insurance funds, which gives us all kinds of money: short, medium term and long," an ING executive said.

All the same, although the two sides of ING claim to work closely together, their operations remain largely separate and they have kept their own brand names, at least in the Netherlands.

In the case of the two Swiss firms, a combination of general principles and a few special factors also appears to be at work. Having reviewed the various areas of co-operation with Winterthur, Muhlemann said the two groups could not make the best use of opportunities by relying on loose co-operation any longer.

"The focus has moved from traditional supply structures along product lines to the needs of the customer," he said.

But the main advantages of a merger lie in distribution. Its costs are a "decisive factor" in the pricing of products and often the most important element causing differences in price. "If we can offer customers in Switzerland and abroad the products of both companies on a joint basis, and offer them through combined distribution channels involving close collaboration in marketing, then unique opportunities will be open to us," says Muhlemann.

The combination of the two groups is expected to achieve cost savings of between Sf300m and Sf350m within three years.

Doubts hang over Winterthur's insurance operations in the US, one of the few countries where significant legal barriers persist between banking and insurance. ING had to give up its US commercial banking licence, and Credit Suisse could face the same issue, although Congress is now considering legislation which would allow ownership links between banks and insurers.

One important factor in past mergers has been capital management. A driving force behind bancassurance deals in France in the 1980s was the need to bring the insurers' excess capital to the rescue of the undercapitalised banks. They faced the need to bring their capital ratios up to the new international norms set by the Bank for International Settlements in Basle, but could get no cash from their shareholder, the state.

Credit Suisse is not in such dire straits, but a spur to its thinking was the emergence of Martin Ebner, Switzerland's best-known corporate predator, as Winterthur's biggest shareholder. Moreover, the offer of 7,3 Credit Suisse shares for each Winterthur share amounts in effect to a rights issue that allows it to consolidate Sf7bn of Winterthur capital on its own balance sheet. That is quite a glass of milk, and may be a good enough reason for Muhlemann to change his mind and buy the whole cow. — Financial Times.

Bank of Baroda opens SA branch

(58) BD 13/8/97

Nicola Jenvey

DURBAN — Commercial banks and government should work together to promote and develop self-help schemes in rural areas to create sustainable small and medium-scale industries, Bank of Baroda chairman and MD Krishnamurthy Kannan said yesterday.

Speaking at the Indian bank's launch into SA, Kannan said similar schemes had already been developed in India to enhance the skills in these areas and prevent significant urbanisation and poverty.

However, government had to underwrite a percentage of the risk associated with funding self-help schemes, since the social responsibility of banks did not extend indefinitely.

The bank yesterday established its 2 500th branch with the R50m investment in Durban. The bank has 2 461 branches in India, and has a majority holding in two subsidiaries in Uganda and Kenya. Partial interests are also held in IBU Hong Kong and Indo-Zambia Bank in Africa and it has a presence in the USA, UK, Bahamas, United Arab Emirates, Oman, Fiji, Mauritius, Belgium, Seychelles and Guyana.

Global deposits by March were $8,9bn, with advances amounting to $4,6bn and investments stood at $3bn.

Initially, the Durban branch would engage in wholesale banking, trade finance, money market operations and retail lending.

'Aids will quadruple disability claims'

CT (BR) 14/8/97 (58)

STAFF REPORTER

Johannesburg — The number of disability claims against South African companies would rise by four times over the next 15 years because of HIV and Aids, Janina Slawski, an actuary in Southern Life's risk management division, said yesterday.

"Aids will have a dramatic impact on employers in terms of the sheer magnitude of the number of people who could be affected," she said.

Slawski said the high level of technological advancement in the workplace had brought with it new diseases such as stress, repetitive strain injury and myalgic encephomyletis (ME).

"These new diseases mean that new ways have had to be found for coping in the workplace with persons suffering with these diseases," she said.

Slawski said a downturn in economic growth increased the incidence of employee disability claims. In the 80s, when South Africa recorded negative economic growth, disability insurers experienced significant increases in new disabilities.

BAD TIDINGS *Janina Slawski, an actuary at Southern Life*

She said employees and employers preferred disability to retrenchment. Employers often used disability insurance policies when they had insufficient money for retrenchment benefits. "There is often a kitty set aside for disability, which is not there for retrenchment," she said.

Employees used old or recurring injuries to apply for disability when they feared possible retrenchment in the future, especially if disability payments exceed retrenchment payments. "Employers encourage us to give disability payments rather than retrenchment packages," she said.

But Slawski warned that paying people to stay at home on a permanent basis was a drain on company finances.

"While letting employees leave through the payment of insured disability benefits may seem to be a cheap short-term solution, this practice will lead to significant increases in the cost of providing those benefits," she said.

Local banks losing out

(58)

FM 15/8/97

Foreigners are nibbling at the edges

Large loans to corporates, mostly in foreign currencies, are boosting the business of offshore banks operating in SA.

Also significant in the monthly reports submitted to the Reserve Bank on assets and liabilities is funding to other banks

An analysis of the reports (DI900s) by Nedcor's group finance division shows the foreigners, many of whom have recently arrived in SA, are climbing up the rankings in terms of the size of their local operations — helped in some cases by the merging of Boland and NBS. The two banks are together ranked number five.

Spearheading the advance is the German Commerzbank Aktiengesellschaft. It's one of the few foreign banks with an unbroken presence in SA (since 1958) After adding R1,2bn to its assets between December 1996 and June 1997, it moved up one place to number nine on the list, with total assets of R5,2bn.

Because of the dominance of SA's biggest banks, Commerzbank Aktiengesellschaft's market share is still only 1% But it grew 30% in the six months and 86% in a year.

Smaller entities are following close behind. Formerly the French Bank, Société Générale added R800m in six months and moved from number 11 to number 10 Total assets were R3,5bn at the end of June And French-owned Banque Indosuez gained R909m to move from number 13 to number 11, with R3,3bn in total.

BOE NatWest, a joint venture with UK NatWest Markets, grew by R1,3bn to R3,1bn, moving from 18 to number 12.

Netherlands-based ABN Amro gained R1,1bn, which leapfrogged it from 19th place to 14th, overtaking US-based CitiBank, one of the few foreign banks to fall in the ranking. ABN Amro's total assets are R2,7bn.

And the UK-based, Netherlands-owned ING Barings added R1,1bn in the period. This boosted it from number 25 to number 20 with R1,8bn total assets

However, two foreigners moved down the ranks Assets of CitiBank dropped marginally to R2,3bn. This small loss pushed it down from number 14 to number 17. And the slow growth in assets of the UK's Barclays from about R1,3bn to R1,5bn cost it one place It is now number 22.

Ethel Hazelhurst

R18 million increase in ...

'Govt should keep servicing R177m Land Bank debt'

Louise Cook (68) BD 15/8/97

A COMMITTEE reporting to Land and Agriculture Minister Derek Hanekom on the future of Maize Board assets recommended government continue to service a R177m debt to the Land Bank, and that the net assets of the board be transferred to a trust.

The agriculture department had been servicing the interest on the loan on behalf of the Maize Board and the fiscus had been responsible for repayment of the loan on behalf of the Maize Board.

Hanekom confirmed yesterday that the committee supported the formation of an SA grain information service to handle market information. The report proposed that future research in the industry be covered by the Agricultural Research Council and the National Maize Producers' Organisation.

The report recommended that once the board's capital (believed to be about R250m), as well as its income, had been transferred to the trust, the funds should be available to cover specific maize industry needs. "Based on current estimates, it is recommended that R2m, R10m and a remaining income of R10m per annum, should be allocated for information, research and market access."

Hanekom said the committee, headed by National Agricultural Marketing Council chairman Eckart Kassier, was in agreement on the issues with the exception of one member who had proposed in a minority report that the Land Bank debt not be serviced by government and that the assets of the board be used to assist drought-stricken farmers.

The committee also agreed not to support the use of the Maize Board's funds to set up a floor price at this stage. "It could be considered in future, if all role-players in the industry agreed to it and if the necessary procedural steps were followed."

Sources said maize farmers had dropped earlier claims to some of the board's money. Farmers argued that the money paid last year in compulsory levies should be returned to them as no price support was necessary during the marketing season.

"It is clear that consensus was reached between the majority of committee members primarily because they were willing to put their respective positions aside while considering the range of possibilities. I appreciate the willingness of the members of the committee to take a long-term view in the interests of the maize industry," Hanekom said.

Business Times APPOI

Smallest entrepreneurs deserve a fair chance

(58) (153A)

ST (BT) 17/8/97

Finding finance is tough for poorer people who want to start businesses, writes THABO KOBOKOANE

MEALIES! ... hawkers like Maria Mahlangu need finance to get off the ground

THROUGHOUT the world micro-finance is recognised as one of the most effective means of providing poor people with access to finance.

Yet in SA it is an area that has largely remained unexplored, save for a few non-governenmental organisations and community initiatives like the stokvels. But even these are estimated to satisfy only 1% of the demand for finance from the lower end of the market.

The concerns, by commercial banks in particular, are the high administrative costs and risks associated with lending to the poor. But there is increasing evidence from around the world that institutions lending to this end of the market do so profitably, using innovative systems with the participation of the population.

Roy Naguran, a lecturer at the University of Durban-Westville, told a workshop on micro-finance convened by the Reserve Bank that the "most important innovation in this respect has been to replace traditional collateral requirements with group liability", a type of lending known as group solidarity. Examples are the Grameen Bank in Bangladesh and the Banco Sol in Bolivia, which have recovery rates of more than 95%.

These institutions provide working capital of the equivalent of around R500 for the poor to start their own micro-enterprises. These, as defined in the National Small Business Act, are enterprises with less than five employees, total annual turnover of below R150 000 and total gross assets of no more than R100 000.

The Ntsika Enterprise Promotion Agency estimates that micro-enterprises contribute approximately 14% to total employment in SA against unemployment levels of between 40% and 50%. Central Statistical Services estimate that 71% of all private businesses in SA fall within the category of micro enterprises.

It is only recently that private sector initiatives have emerged to service the sector. Despite these developments there is a visible absence of a bank like Grameen Bank to providing specific products to low-income earners.

Existing initiatives have largely been overshadowed by controversy surrounding high interest rates and questionable debt collection methods.

To this effect, government has served notice that it intends scrapping exemptions which allow interest rates above those stipulated by the Usury Act to be charged for loans under R6 000 with a maturity of less than 36 months.

As a result, government is faced with a dilemma on how to strike a balance between consumer protection, development needs and enhanced access to finance for micro-entrepreneurs.

Trade and Industry Deputy Minister Phumzile Mlambo-Ngcuka said at the Reserve Bank workshop that while the exemption from the Usury Act was crucial for increasing access to finance, "government is also tasked with ensuring that consumers, including borrowers, are protected from unfair business practices".

The fledging industry, represented by the Association of Micro-Lenders (AML), is not in favour of regulation by government, preferring self-regulation by the industry.

Johan Jonck, chief executive of the AML, said: "Regulation of micro-lending to 'protect' the consumer generally does the opposite for those it is designed to protect — the people at the bottom of the economic ladder. The most reliable way to protect high-risk borrowers is to ensure that they have alternative sources of finance from which to choose. This is best accomplished by facilitating the unrestricted entry of competitors into the market without artificial constraints."

FINANCIAL SERVICES *Retailer to launch its first cash accounts by September 10*

Pick 'n Pay goes banking

CT (BR) 20/8/98 (58)

MARC HASENFUSS
CAPE EDITOR

Cape Town. — Pick 'n Pay, the leading retailer, would have its first financial service product — the cash account — up and running by September 10, the company announced this week.

Gareth Ackerman, who heads Pick 'n Pay Group Enterprises, stressed yesterday that the cash account was only the first in a range of financial service products to be offered to shoppers.

"Our next financial service products are already ready. We have four or five ready to roll-out if our first venture is successful."

He said the cash account, which would offer higher interest rates and lower bank charges than similar accounts from other commercial banks, expected to attract 100 000 customers within the first year.

Ackerman believed the financial services division could break even by the end of the next financial year. "The big turnovers in our accounts form a good basis for starting a banking business."

Ackerman was not sure what the reaction would be from commercial banks. "For banks to react immediately to our launch would undercut their profitability and cost them a fortune. We are coming off a small base and we can afford to offer better interest rates."

He pointed out that the cash account (backed by Boland Bank) was primarily, but not exclusively, aimed at Pick 'n Pay customers and would offer two new banking concepts.

"Firstly the account can be accessed at any of Pick 'n Pay's stores ... enabling customers to make deposits and withdrawals at the check-out as well as pay for their purchases.

"Secondly, account holders can make use of the technologically sophisticated call centre to do almost all their banking by phone."

Ackerman said the service would be launched in the Western Cape but would extend to all stores, covering 3 500 checkouts, by the end of the year.

Nicholas Bicket, the managing director of Pick 'n Pay financial services, said the new division would follow the retailer's philosophy of offering customers the right products at the right price.

"We want to provide banking products that are simple to use, easy to understand and convenient to access. They want fast response times, effective solutions and a secure environment. We believe our banking products will fill a real need in the market."

CHECK THIS OUT *Gareth Ackerman of Pick 'n Pay Group Enterprises tests a simulated call centre at the launch of the retailer's financial services arm* PHOTO ANDREW BROWN

Now you can do your banking at the supermarket

ARG 20/8 (58)

Cash Account launched

LLEWELLYN JONES
Business Reporter

Milk, soap powder and a bank account, please – that's right, supermarket banking is here.

Pick 'n Pay Financial Services today launches its marketing drive to woo customers to the first banking product to be offered at supermarkets.

The retail chain expects to attract at least 100 000 banking customers to the new service, which kicks off with its card-based Cash Account, within a year.

International experience indicates that the target is well within reach and, might even be a little conservative.

When UK retailer Sainsbury's launched a similar product early this year, it signed up 150 000 customers in eight weeks, and increased this to 550 000 in the first six months.

It launched its bank in partnership with the Bank of Scotland, and while Pick 'n Pay has no immediate plans to follow suit, group enterprises managing director Gareth Ackerman said this had not been ruled out for the future.

Mr Ackerman said the Cash Account, which is backed and administered by Boland Bank, was only the first in a range of financial services that would be offered.

The Cash Account functions as both a savings account and a transmission account, enabling customers to make deposits and withdrawals, transfer funds from one account to another, and pay bills such as rates, telephone and electricity.

Pick 'n Pay will be laying down the gauntlet to South Africa's established banks, offering much higher interest rates than those banks offer on savings accounts.

'We see the product appealing to the majority of Pick 'n Pay customers – salary earners who already have accounts'

For example, on balances of R1 000, Pick 'n Pay will offer its customers an 8% interest rate. The major banks are currently offering between 2,75% and 6%.

"We see the product appealing to the majority of Pick 'n Pay's customers – that is salary earners who probably already hold one or more banking accounts, are regular Pick 'n Pay shoppers and may already have mortgages or be saving for a home of their own," said Nicholas Bicket, the managing director of Pick 'n Pay Financial Services.

Pick 'n Pay would also offer lower-than-usual service charges.

Customers who kept credit balances of more than R1 000 in their accounts would pay no bank charges, while charges on accounts with less than R1 000 would still be about 30% lower than the big banks.

The new product would also offer extensive telephone banking options through a national Call Centre.

Bill relaxes restrictions on Bank

BD 20/8/97 (58)

Linda Ensor

CAPE TOWN — The growing international problem of money laundering had engendered a re-examination of bank secrecy laws, Finance Minister Trevor Manuel said when introducing the SA Reserve Bank Amendment Bill in Parliament yesterday.

The bill, which was read a second time, relaxed the restrictions on disclosure of information by the Bank and the minister.

Manuel noted that the issue of money laundering concerned governments around the world.

"International experience has shown that apart from requiring banks to be more rigorous in reporting suspect transactions, devoting more resources to hunting launderers and trying to persuade offshore havens to change their ways, bank secrecy laws need to be re-examined."

Many countries at greater risk from money laundering than SA lacked such measures of disclosure, he said.

The minister cautioned, though, that client-Bank confidentiality would still have to be maintained.

The SA Revenue Services Bill, which provided for the administrative autonomy of SARS, was also read a second time yesterday.

Despite its numerous objections to the bill which it did not believe went far enough, the Democratic Party (DP) supported the bill.

Manuel said the DP was in effect asking for the privatisation of revenue services which was a responsibility of government.

African National Congress MP Andrew Feinstein argued that the bill achieved the correct balance between administrative autonomy and political responsibility.

SBDC boosts manufacturing financing

BD 21/8/97 (58)

Shareen Singh

THE Small Business Development Corporation's (SBDC) move from a loan financing company to equity financing resulted in a 62% drop in the number of projects approved, but an increase in the value of each project and in job creation potential, the company said yesterday.

SBDC chairman Johann Rupert said in the company's annual report that approximately 9 451 jobs were created in the financial year through more than 1 000 business activities made possible by the company. Investment capital of R243m was passed in the year to March 1997 and a total of 65 equity projects amounting to R33,6m had been approved since the introduction of new financing products over the past year.

The company planned to increase investment capital approvals to R770m a year within five years.

As the manufacturing sector in SA needed to be developed, the company planned to increase business financing in this sector to 46% from 43%. Loan approvals to black entrepreneurs would increase from the current 27% to 50% a year by 2002. The company's net income increased 21,5% to R70,7m. Headline earning a share surged 91% to 33,5c.

The SBDC currently owned and managed 283 properties valued at R767,1m. Of these, 112 properties valued at R357,8m were identified as security for the debenture issued to the trade and industry department and may be sold at the state's request.

The department of trade and industry, which had held 50% equity in SBDC, has reduced its stake to 20% effective from July last year. Government sources said the department might consider disinvesting completely in time.

Invitation to 4-million Mutual policyholders

Huge life assurer heads for JSE

ARG 22/8/97 (58)

ALIDE DASNOIS
BUSINESS EDITOR

Old Mutual's four million policyholders are to be invited to become shareholders, each taking a chunk of the huge life assurer's R24-billion in assets for distribution.

Chairman Mike Levett yesterday confirmed rumours that the Pinelands-based group, stealing a march on rival Sanlam, had decided to head for the Johannesburg Stock Exchange.

"The board has taken an in-principle decision to demutualise", he told a press briefing.

Policyholders would have to approve the decision.

This could take up to two years to implement and would probably cost "a lot of money", Mr Levett said.

The shareholders in each country where Old Mutual had operations would be the new owners of the restructured group, he said.

If the various regulatory authorities approved the process, Old Mutual would list on stock exchanges in South Africa, Namibia, Zimbabwe, Malawi, Hong Kong and Europe.

Mr Levett said if policyholders gave demutualisation the green light, the excess of assets over liabilities at the time of the decision - Old Mutual's "free assets" - would be converted into share capital and distributed to policyholders as shares.

The number of shares given to each policyholder would depend on the number, size and duration of policies held.

He expected the new Old Mutual shares to be highly sought after "blue chips".

> *'This is the biggest empowerment exercise ever' – Mike Levett*

"This should become the most liquid share on the market", he said, predicting that financial institutions would rush to buy shares from shareholders.

People who bought policies before a cut-off date that was still to be determined would also be allocated shares, Mr Levett said.

"This is the biggest empowerment exercise ever," he claimed.

Asked why policyholders had not been consulted over the in-principle decision to transform the company, Mr Levett replied that it would not be usual to expect policyholders to vote twice.

The mutual structure had served Old Mutual well for more than 150 years, he said, but the time had come to change.

The decision had not been easy to take because there would be a loss of benefits to future policyholders who would no longer be owners of a mutual society.

"But this is the way to go," he said.

The financial services industry was changing rapidly.

South Africa still had the highest ratio of life assurance premiums to gross domestic product (GDP) in the world.

But unit trusts and other products, rather than life assurance, were taking an increasing share of people's savings, Mr Levett said.

In this context it was no longer appropriate for an institution the size of Old Mutual, with its R198-billion in assets under management, to be owned by a life assurance house.

Demutualisation and listing would also enable Old Mutual to raise capital easily on stock markets all over the world, if it needed it, for future expansion.

But at the moment Old Mutual did not need capital, Mr Levett emphasised.

Banks cautious on effect of Pick 'n Pay's finance plans

BUSINESS EDITOR (58)

AKG 22/8/97

Major banks were tight-lipped this week about the impact on their business of the move by supermarket chain Pick 'n Pay into banking.

Pick 'n Pay announced the launch of its long-awaited banking product, the Cash Account, this week, promising customers interest rates of between 5% and 14,75% on various categories of deposits - mostly much higher than the rates the banks are offering.

Officially, the big banks are playing down the possibility of a threat to their business, relying on their much wider network of outlets to keep customers.

"Standard Bank is not too concerned," Len Schutzler, senior general manager in charge of retail banking, said. "We believe our branches service the needs of our customers in many different ways."

"At this stage Absa is just keeping an eye on what is happening," spokesperson Carina Potgieter said.

"Nedcor Bank will watch the developments within Pick 'n Pay's financial services sector with interest," said Gail Kelly, Nedcor's general manager of personal banking.

"Obviously we will be watching Pick 'n Pay's moves with interest," agreed Alec Grant, FNB's general manager, group communications. "But we feel that our investment in technology infrastructure will continue to meet the needs of our clients for convenient 24-hour banking, anywhere in the country."

Bank representatives point out that Pick 'n Pay can afford to offer customers better rates because of lower infrastructure costs, but by the same token cannot offer banking services at all where there are no supermarkets - while the banks' networks are spread across the country.

But, some admit, the entry into the market of the retail chains as well as of foreign banks will force the big banks to make changes to the way they sell their own products.

"Depending on the impact of Pick 'n Pay, we, like all banks, will have to look at our sales and services," said Absa's Carina Potgieter. "We will have to be less oriented towards administration and more towards sales."

Commission's research stymied

BD 25/8/97 (58)

Deborah Fine

AN APPALLING lack of available data on local authorities and their constituencies had caused significant delays in research undertaken by the Financial and Fiscal Commission on intergovernmental grants, commission director Pundy Pillay said yesterday.

He was responding to concerns expressed recently by Gauteng Democratic Party local government spokesman Ian Davidson, who said the current commission process to determine a formula to enable local councils to receive their equitable share of national revenues was taking too long.

Davidson said the formula framework would be submitted to Parliament only by the end of the year or early next year, and that several cash-strapped town councils in Gauteng could collapse in the meantime.

He suggested government find some way to "short-cut" the process of finalising the formulas.

Pillay said, however, the purpose of the formula-based allocations was to ensure that financial resources passed down to local government were used in the most co-ordinated, effective way and actually reached communities where they were needed most.

To develop the right formula, the commission had to take into account specific demographic and financial data about local authorities and their jurisdictions. There was no way to speed up the process, which was severely hampered by a lack of data "even at the most rudimentary level".

Attributing the lack of information largely to the amalgamation of many local councils to create new, racially desegregated structures, he said the commission itself had attempted to fast-forward the process by initiating its own research and extrapolating on previous data.

Commission secretariat deputy head Colin Donian said local authorities should look to provinces rather than national government as their "first port of call" if they needed financial assistance.

National government had already granted R800m to provincial authorities to assist local government activities in the 1997/1998 financial year. The Gauteng government had received R156m for this purpose.

However, financial crises could be caused by a number of factors including a lack of administrative or managerial capacity, inadequate revenue bases, a lack of municipal pay-points and poor or inadequate financial management, billing and credit control. Individual analyses were needed to determine each council's problems.

SEPTEMBER COMMISSIO

Govt market regulation under fire

BD 25/8/97 (68)

Reports by
Reneé Grawitzky

GOVERNMENT's failure to regulate financial markets properly has come under fire by the Congress of SA Trade Union's September Commission report on the way forward for the labour movement. The report was released on Friday.

The call for government to increase its regulation of financial markets was crucial to implementation of the commission's economic strategy which stressed redistribution policies to alleviate poverty.

The commission said this strategy would require reduced interest rates, the maintenance of exchange controls and increased taxation of the wealthy. Adoption of financial deficit targets without assessing their impact on service delivery had to be avoided.

SA's tax revenue as a proportion of national income was much lower than in comparable countries internationally, the report said.

A study suggested the country's tax could increase from 25,7% of national income to 31%, which would provide an extra R25bn to the state.

The commission proposed that government reduce its debt substantially by moving towards a "pay-as-you-go public service pension fund". A shift to this system could reduce the budget deficit by 2% of GDP, the report estimated.

It acknowledged the role of public-private sector partnerships to increase investment and called for the restructuring of the Industrial Development Corporation, Development Bank of Southern Africa, Land Bank and the National Productivity Institute.

The commission's thrust to achieve economic redistribution was based on the transformation of the public service, and public and private sectors by shifting focus from shareholder interests to those driven by the broader interests of workers, communities and society.

Establishment of a social sector where companies and capital could be partially or wholly owned by community organisations or trade unions was another option.

The state was a key economic agent.

Social sectors could influence investment patterns, ensure "democratic governance" of companies, generate profit to benefit workers and communities and ensure local community/worker ownership, as was proposed for Alexkor and Safcol.

The commission focused briefly on union investment companies. It acknowledged that the separation between unions and their investment arms was blurred and that union officials gained financially through their access to cheap shares or to directors' fees. Continuation of this strategy could exacerbate the gap between them and workers.

If workers or unions lost money, "this could precipitate a serious crisis".

None of the investment companies, the report said, were guided by any social criteria about what to invest in.

Insurance bills closer to final passage

(58)

Linda Ensor

BD 27/8/97

CAPE TOWN — The Short Term Insurance Bill and Long Term Insurance Bill are moving closer to their final passage through Parliament, after many years of deliberation and drafting.

Apart from consolidating and modernising existing legislation, the two bills expand consumer protection measures, make supervisory arrangements more effective and enhance the powers of the insurance registrar to intervene in corporate affairs when failure is apparent but not imminent.

A memorandum on the bill presented to Parliament's standing committee on finance yesterday says the Short Term Insurance Bill provides for lower thresholds for new entrants without sacrificing regulatory standards.

The Long Term Insurance Bill provided for greater disclosure of information on products and their costs, proper testing of the executive management of long-term insurers and a more functional approach to supervision than the current approach.

Ye old bank . . . hallowed halls on the way out as market dictates the pace

PRIVATE BANKS

Hoity-toity rub shoulders with hoi polloi

(58)

Lines blur as institutions vie for additional fee income to ease margin squeeze

FM 29/8/97

Having the services of a private bank was once as important as having the "right address." No more. With the super-wealthy now also looking for and using the services offered by traditional high-street institutions, the lines are blurring. The result, private banks are moving in line with their overseas counterparts to offer high-street type services.

They're evolving beyond their once exclusive market while traditional retail banks introduce services such as personal attention to clients. That change is a reflection of both types of banks' desire to win additional fee income as lending margins are squeezed.

Private banking services are a profitable route to higher and steady profits for banks. The capital requirements are generally lower, non-interest income is higher and the return on assets typically better than for most traditional, loan-issuing banks.

"We make a fine living from it but it needs more personal work than other types of banking," says BOE Private Bank managing director Brian Béchet. Syfrets' ROA of 2% is a better indication of how private banks make assets sweat. It, too, has other businesses but earns more from private banking services. The ratio of traditional retail and merchant bank Standard Bank Investment Corporation (SBIC) is only 1,4%.

That's why traditional retail banks are moving towards private banking type services, such as financial advice on tax, trusts and wills and investment management. RMB Holdings, with a successful merchant bank and insurer, in June revealed its intention to enter the private banking market to make up the income it's forgone from the sale of its stake in NBS. Rand Merchant Bank expects this activity to contribute about R160m to the bottom line by 2000. Much of that won't be from lending but from the fees earned by its respected asset managers, its brokers and financial advisers on private client portfolios.

Investec has won a considerable number of private banking clients by offering a complete range of financial services, says its private bank head, Sam Hackner. "From a group perspective, it's quite lucrative because private banking brings them into the loop of the whole range of things we can do for them," he says.

Mainstream and private banks are looking more alike as they invade each other's territory. The super-rich also want the convenience and uncomplicated access of using an automated teller machine and credit and debit cards (in future, smartcards).

Typically, private banks have offered those products with their branding through a large retail bank. Syfrets, for example, provides its private clients with credit cards and ATM access through its associate Nedbank. Other private banks are known to be setting up their own cards, wanting to capture for themselves more of the transactions and holding fees, and interest on negative balances. That creates friction with the mainstream banks, who typically have the vendor and ATM infrastructure private bankers are looking to use.

But the lines will continue to blur as bankers chase fee income and look to bolster their ROAs.

Sean Feely

FRANCHISING

Small business vaults hurdle

Government steps in to give banks reassurance on loans

Difficulty in accessing finance, added to by a lack of collateral, is the biggest hurdle facing small business. But banks are starting to take a more progressive stance on funding entrepreneurs — and the franchise sector, less risky than most other start-up businesses, has benefited most.

Government indemnity schemes, in which government takes up to 60% of net loss, have helped, says First National Bank small business senior manager Willie Höll. He says risk is now often shared between banks, government and franchisers, who provide support and ensure their franchise operations follow approved business models. "However, I will still take whatever collateral I can get as this will get the entrepreneur's commitment and ensure it's not easy to opt out," says Höll.

Future Bank's specialist franchising unit also uses resources outside the bank to alleviate risk. Its national marketing manager for franchises, Barry Thompson, says third parties help with site selection, leasing, training and the creation and assessment of business plans. Often, these responsibilities fall on the franchiser.

"We provide training courses as well as the business model for all our franchisees," says Tony Karafilakis, CE of Mochachos Group, which has 110 outlets including the Mochachos Mexican-style chicken outlets, Bacini's, Skippers Fish & Chips and The Indian Ocean Company.

"Many banks are now looking for as little as 10% collateral, depending on the location and business plan."

If banks are serious about getting black entrepreneurs involved in kick-starting the economy, they need to be more innovative and creative in the provision of finance, says Höll.

Marina Bidoli

THE NATIONAL PAYMENT SYSTEM (58)

FM 29/8/97

New look next year

On-line, real-time transactions reduce risks to the banking system

A collapse of the banking system, triggered by the default of a single party, is every banking regulator's nightmare

It's not such a remote possibility, either Because of the way in which payments are cleared, a potential problem may not be identified until 9 am the next day, when payments are finalised. By this time it could be too late to contain the damage of one massive default

However, from March next year, this danger will start to recede with the implementation of the first phase of the new National Payments System (NPS).

Large, interbank payment flows will no longer be cleared overnight through the Automated Clearing Bureau (ACB), says Reserve Bank GM Philip Tromp.

"Banks will be able to exchange on-line, real-time payments during the day between each other and with the Bank," he says "However, as an interim measure, final settlement will continue to take place the following day. And only in the second phase, which will be introduced towards the end of next year, will settlement be finalised as a transaction takes place."

As phase two progresses it will be expanded to embrace settlements from the three financial markets

"The final phase will take place in the third quarter of 1999," says Tromp "It will affect the retail side of banking business "

High value transactions, which account for about 95% of the value of transactions processed by the ACB, represent only about 3% of the volumes.

"The remaining 97% of transactions will still be cleared through interbank clearing houses such as the ACB " A new NPS Act has been drafted and will go before parliament soon

Ethel Hazelhurst

Foetus insurance provided for in new legislation

(58)

Linda Ensor

BD 29/8/97

CAPE TOWN — The long-awaited Long-Term Insurance Bill, tabled in Parliament by Finance Minister Trevor Manuel yesterday, provides for the first time for the insurance of foetuses which are deemed to be alive for purposes of insurance contracts.

The memorandum to the bill states this will clear up confusion around the insurance of foetuses, which is significant when it comes to medical advances in the treatment in uteri of unborn children.

The bill also beefs up consumer protection. The memorandum states: "Politico-economic changes in the relationship between large businesses and individual consumers require consumer-protection measures be altered and in most cases expanded."

Other controversial provisions include greater "up-front" disclosure on products and their costs and the "fit and proper" testing of the executive management of long-term insurers at the time of their registration. The registrar has the power to remove management if they are no longer deemed "fit and proper".

A more functional approach to supervision is adopted in the draft legislation which is also made more "user friendly".

The memorandum also notes expected future trends in the industry in an internationally integrated world, required that supervision be made more appropriate.

The bill gives the registrar circumscribed discretionary powers, counterbalanced by entrenched checks and balances to prevent their abuse.

For instance, he has the power to declare a business practice undesirable after consultation and with consent of the finance minister.

QUESTIONS

†Indicates translated version.

For written reply:

Defence: advisers employed

728. Mr J H VAN DER MERWE asked the Minister of Defence.

Whether, in respect of each adviser employed by the South African National Defence Force, he will furnish a schedule for the period 1 July 1994 to 1 March 1997, (a) indicating for each month, the number of business days on which such adviser was (i) present in and (ii) absent from the office in which he or she was based, (b) indicating for each business day whether or not such adviser was in the office in which he or she was based and (c) indicating for each business day on which such adviser was not in his or her office, (i) where he or she was, (ii) the reasons for his or her absence, (iii) whether such adviser was absent on official business or not, (iv) whether he or she had prior permission to be absent, (v) the cost of his or her absence and (vi) the steps that were taken in cases of unauthorised absence to (aa) discipline him or her and (bb) recover the appropriate amounts from his or her salary; if not, why not, if so, what are the relevant details in each case? N1272E

The MINISTER OF DEFENCE:

As I replied to a similar question from the hon member last year, the two special advisers employed by the Ministry of Defence fall under my direct supervision

I assign tasks and projects that are to be handled by them and their progress and end-results are continuously monitored by myself and my Deputy Minister.

Whenever the advisers are required to be absent from their offices, this is done with the necessary permission

No incidents of unauthorised absenteeism have occurred therefore no disciplinary action or recovery of costs was necessary.

Sanab: illegal casinos closed down

904. Mr L T LANDERS asked the Minister for Safety and Security:

(1) Whether any illegal casinos were closed down by the South African Narcotics Bureau (Sanab) in any of the provinces during the period 1 July 1996 up to the latest specified date for which information is available; if not, why not; if so, in each specified province, (a) how many, (b) what was the physical address of each such illegal casino and (c) what are the names of the owners of each such illegal casino;

(2) whether any arrests have been carried out in this regard; if not, why not; if so, what are the names of the persons so arrested;

(3) whether any of these persons have been prosecuted following such arrests; if not, what is the position in this regard; if so, what are their names? N1554E

The MINISTER FOR SAFETY AND SECURITY
(Reply bound in Annexures of House – see M 358/97.)

Recommendations of Strauss Commission accepted/rejected/implemented

929. Mr A S BEYERS asked the Minister for Agriculture and Land Affairs:†

58

Whether any recommendations of the Commission of Inquiry into the Provision of Rural Financial Services (Strauss Commission) have already been (a) accepted, (b) rejected or (c) implemented; if so, what recommendations in each case? N1630E

The MINISTER FOR AGRICULTURE AND LAND AFFAIRS:

(a) Yes, the Cabinet approved the policy principles inherent in the recommendations of the Strauss Commission report. The Cabinet also approved that the Minister for Agriculture and Land Affairs take responsibility for monitoring the implementation of the Strauss Commission recommendations.

The policy principles which underlie the sixty five recommendations as presented by the Strauss Commission affirm that –

(i) the State has an important role to play to secure greater access to rural financial services by rural people;

(ii) the State, however, should not engage in direct lending activities;

(iii) the role of the Land Bank is to be extended;

(iv) the Post Office offers considerable potential, both as a transmission and product service provider, communication network and pensions delivery;

(v) the proposal of establishing a Development Council should be examined to maximize synergy as the state disburses considerable sums of monies to rural dwellers; and

(vi) there are proposals to effect changes to legislation to address gender equity and rules governing the activities of small rural financial institutions

(b) Not one of the recommendations has been rejected Direct credit services through the Agricultural Credit Board were terminated on 31 August 1997. The Land Bank has started its transformation process and is preparing itself for the extended role as envisaged by the Strauss Commission

Provincial legislatures: strength of police force

935. Mr W L FOURIE asked the Minister for Safety and Security.

(a) What was the strength of the police force under the control of each of the provincial legislatures as at the latest specified date for which information is available and (b) how many members were there in each rank in each of the police forces on that date? N1637E

The MINISTER FOR SAFETY AND SECURITY:

(a) The strength of the South African Police Service in each of the provinces as at 11 August 1997 was as follows:

Province		
Gauteng	–	30 304
KwaZulu-Natal	–	21 624
Eastern Cape	–	17 460
Western Cape	–	12 785
Free State Province	–	10 788
North West Province	–	10 069
Northern Province	–	9 218
Mpumalanga	–	6 796
Northern Cape	–	3 641

(b) See attached Annexure A.

Annexure A.

Rank Description	Gauteng	KwaZulu-Natal	Eastern Cape	Western Cape	Free State Province	North West Province	Northern Province	Mpumalanga	Northern Cape
Provincial Commissioner	1	1	1	1	1	1	1	1	1
Assistant Commissioner/ Director Head	10	8	7	6	3	4	4	3	1
Director	48	32	39	18	14	15	14	13	12
Senior Superintendent	176	107	122	96	55	58	38	46	29
Superintendent	427	323	278	361	133	123	138	112	67
Captain	1 337	1 572	998	942	447	473	481	301	226
Inspector	3 627	2 809	2 968	2 800	1 358	1 536	1 726	809	597
Sergeant	15 498	10 476	6 571	5 225	4 939	5 521	4 615	3 256	1 532
Constable	5 451	3 923	4 381	1 506	2 284	1 187	1 184	1 236	523
Student	27	6	20	3	26	13	4	23	2
Civilian	3 702	2 367	2 075	1 827	1 528	1 138	1 013	996	651
Total	30 304	21 624	17 460	12 785	10 788	10 069	9 218	6 796	3 641

COMPANIES

Game gets in-store banks

BD 3/9/97 (58)

Nicola Jenvey

DURBAN — Game Stores, McCarthy Holdings' nonfood retailer, has forged an alliance with United Bank, part of the Absa banking group, to provide its customers with in-store banking during shopping hours.

Game MD Dan Barrett said in terms of the agreement with Absa, Game would have a bank providing the traditional services in virtually every one of its stores in SA, Botswana and Namibia, as well as in-store ATMs and a facility for making third-party payments, including water and electricity, rates, taxes and TV licences.

The first store to provide the new facilities would be the East Rand Mall from next month. Game would not disrupt Christmas trading with extensions, but additional banking facilities would be put into Game stores next year.

Barrett said the Absa group held about 35% of the 15-million-strong debit card market in SA and the international Maestro and Electron, the MasterCard and Visa debit card brands, would also be accepted in the new system.

Absa corporate bank KwaZulu-Natal regional GM Oscar Grobler said negotiations were under way for the debit cards of other banks, including Standard, Boland and NBS, to be brought into the retailing system.

Barrett said the store development programme — which would see Game investing R300m in new stores by 2000 — would take annual sales through the R2bn mark by the middle of next year.

Game posted a 50% jump to R1,4bn in sales and a 52% increase to R46,4m in pretax profits in the year to June. He said trading since the financial year-end had been even higher, with July sales at R124m (1996: R79m) and August at R135m.

The company opened a new store in Klerksdorp last week and stores in Secunda, Port Elizabeth and Kimberley would open by the year-end.

Next year Game would open another seven stores including an expansion into Zambia.

Barrett said the company would have established a 50-strong network across southern Africa by the turn of the century. He expected turnover to rise to R4bn with the extended network.

Banks overcharging interest — claim

BD 3/9/97

(58)

Linda Ensor

CAPE TOWN — The problem of banks allegedly overcharging interest and failing to pass on the benefit of lower rates to clients was discussed yesterday by Parliament's standing committee on finance.

A special task team was set up by the committee to investigate the role of the Reserve Bank in the economy following a request by Cosatu that public hearings be held on the issue in an attempt to develop a "more effective and credible" institution.

A letter to committee chairman Sipho Mpahlwa from the Financial Research Foundation's Dave Thomas claimed overcharging by banks was one of the "biggest white collar crimes in SA". Thomas asked that a commisison inquire into financial institutions' practices in this regard.

National Party MP David Graaff said many investigations undertaken by companies into overcharging were "con exercises".

But Democratic Party finance spokesman Ken Andrew said the matter of possible overcharging should be referred to the Registrar of Banks or a harmful business practices body.

Stals calls for public patience over Bank policies

CT(BR) 4/9/97 (58)

ROY COKAYNE

Pretoria — The Reserve Bank remained optimistic that its monetary policy was succeeding in restoring equilibrium to the financial markets, and that this would reduce inflationary pressures and lead to lower interest rates in due course, Chris Stals, the governor of the Reserve Bank, said yesterday.

"We can only beg of the South African public to remain patient with us in the full implementation of this frustrating corrective process.

"In the longer term it will be in the interest of a more sound economy, which will benefit all the people of South Africa," Stals said.

In a response to recent criticism about the Reserve Bank's failure to reduce interest rates, Stals said: "Personal and emotional attacks on the governor of the Reserve Bank will not change the basic macroeconomic laws of demand and supply, or obviate the need for persistent financial discipline in an economy that is inclined to overspend and live beyond its means."

Stals said: "With the liberalisation of the South African financial markets, and integration in world financial operations, the pressure on us to come more in line with global trends in inflation is growing."

However, he said, what was of even greater concern was that most of the internationally recognised financial guidelines for monetary policy in South Africa had moved in the wrong direction over the past two years and "now urgently demand corrective action".

Money supply had increased at a rate well in excess of the growth in nominal gross domestic product, and there was now more money a unit of production available in the South African market than ever before, which was "a very dangerous signal".

He added that total bank credit extension had increased at almost 20 percent a year for the past three years, and the amount of bank credit outstanding as a percentage of gross domestic product was at "record levels".

Stals said the depreciation of the rand last year caused the rate of inflation to almost double from April 1996 to April this year.

"And yet, the pressure on the Reserve Bank is increasing to use its power to create money in an effort to bring interest rates down — against the trends of market forces.

"In the situation, the bank's monetary policy committee cannot be blamed for being cautious."

FISCAL FAITH *Reserve Bank governor Chris Stals maintains his cautious policy will restore equilibrium to financial markets*

PHOTO JOHN WOODROOF

Groups advise Govt about debt

(658) (~~777~~)

Informal discussions held with Finance Minister

Sowetan 5/9/97

By Sharon Chetty

GROUPS LOBBYING for the scrapping of the Government's apartheid debt have proposed a formula to restructure the debt repayments.

Yesterday leaders of the South African National NGO Coalition (SANNGOCO), the body spearheading the campaign against the debt, unveiled suggestions they have made to Government on how to reduce debt repayments so as to increase the money made available for social spending.

The Government currently has a debt of about R300 billion, owed mostly to the Public Investment Commissioners (PIC), which is made up of civil service pension funds. The rest is owed to private pension funds, the Reserve Bank, insurers, banks and other institutions.

This year the second largest item on the budget, R40 billion, was spent on servicing the debt.

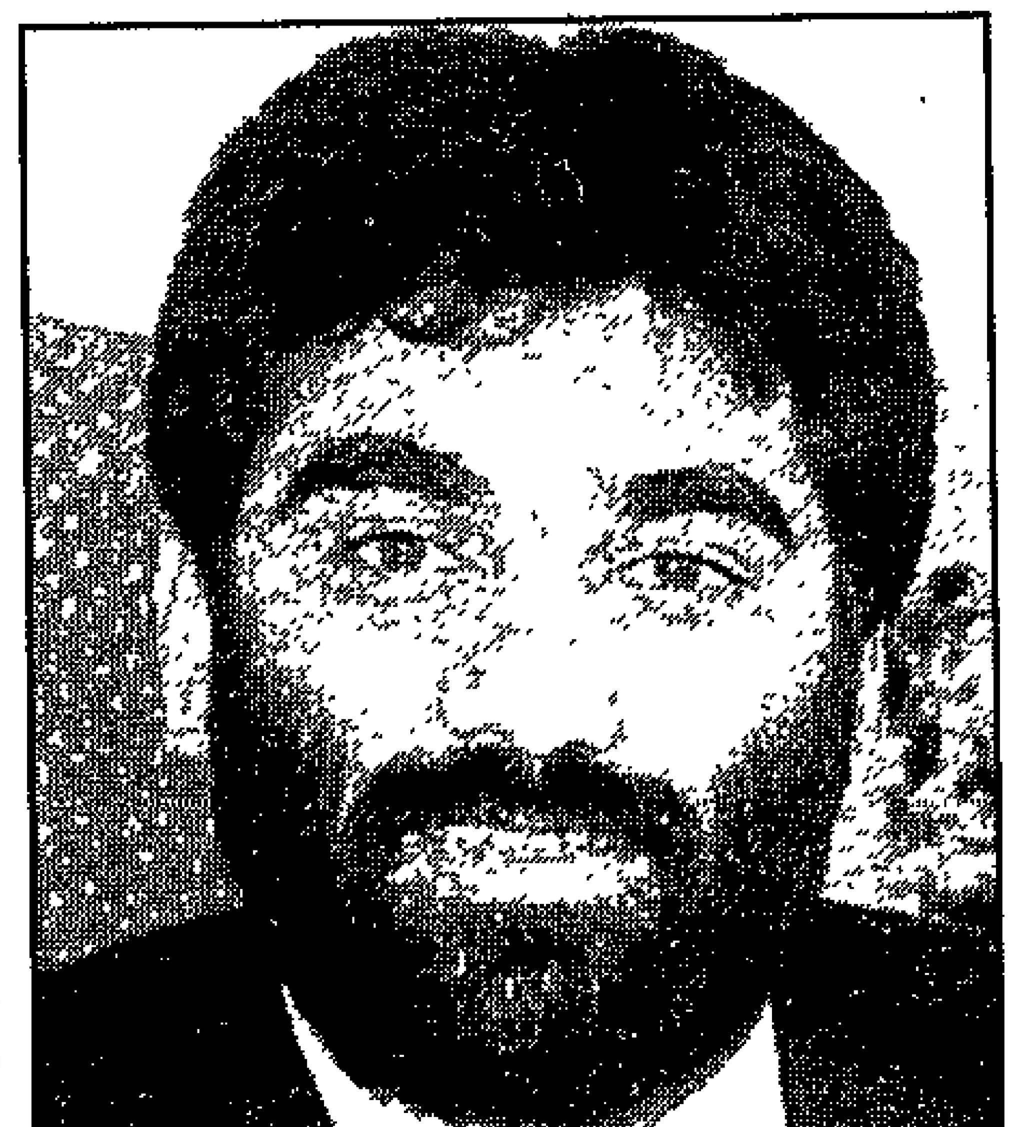
The NGO coalition, churches and unions believe that the running of the state pension funds can be changed so that more money is made available for use in areas like health, housing and poverty eradication.

A study by economist Gavin Duffy of Glassbox Consulting has found that up to R15 or R16 billion can be released from the PIC to offset the debt.

From 1989, the former National Party government changed the system so as to commit government into putting more money into its pension funds to service those retiring.

But, not as many people as expected have retired, thus leaving a surplus in the pension fund.

The new democratic government continues to pay the R15 or R16 billion into the fund.



SA National NGO Coalition executive director Kumi Naidoo.

Executive director of the NGO coalition Kumi Naidoo argues that the money is lying dormant and has accumulated to about R135 billion already and should therefore be used to pay off some of the actual debt.

Besides, if Government stopped paying this contribution, it would also reduce its budget deficit.

Another suggestion is that Government also takes an "interest holiday" and does not pay interest on the debt for a year. Since most of the money is owed to its PIC, it can also save about R15 billion.

It would, however, have to negotiate such a deal with its private sector debtors, and if successful, stands to save about R35 billion, says Naidoo.

Informal talks have been held with Minister of Finance Trevor Manuel who has agreed to look at the findings.

Nedcor to put financial services operations under one umbrella

RICHARD STOVIN-BRADFORD

Johannesburg — Nedcor Bank, one of the country's big four banking groups, is to merge Nedcor Investment Bank (NIB), its in-house merchant banking arm, Syfrets, its fund management business, and fellow subsidiary UAL Merchant Bank, South Africa's longest-established merchant bank, market sources confirmed yesterday.

The amalgamated financial services group will be partly or wholly listed on the JSE in late January or early February next year, subject to market conditions. Management is to be given a substantial equity stake in the merged business, probably in the form of share options.

The planned merger enables Nedcor to tidy up under one umbrella its portfolio of separately branded financial services companies, although the Cape of Good Hope Bank is not mentioned as part of the planned amalgamation.

Richard Laubscher, Nedcor's chief executive, who was not available for comment late yesterday, has historically defended the group's separate branding philosophy.

There was duplication in the Nedcor group, an analyst said.

By putting the companies together as one merchant bank, the merged group would command the higher price-earnings multiple generally enjoyed by merchant banks.

"They'll definitely get a better price on listing.

"It will put a very effective player on the market. Nedcor can then concentrate on commercial, corporate and core banking," the analyst said.

The merger would enable the companies to compete with the high fliers, such as the foreign banks and black-owned groups, he said.

The listing would also facilitate Nedcor's continuing search for an international partner for the three companies by presenting a more logical line-up to potential suitors. Analysts had been sceptical about the price Nedcor could have obtained individually for the companies.

CT (BR) 6/9/97 (68)

FINANCIAL SERVICES (58) CT(BR) 9/9/97

Unity to grow micro-lending network

Unity Financial Services, a market leader in the micro-lending industry, would grow its national network from 54 to 300 branches by June 1999 following the acquisition of equity stakes by Sanlam and Baobab Solid Growth, soon to be renamed Theta. Johan Jonck, who heads Unity, confirmed yesterday the two investors had already injected R60 million in working capital. Forthcoming growth into rural areas and within key centres would be a combination of organic growth and new investment. He said Unity had already identified existing role players and money lenders in certain regions and would merge with these on an equity exchange basis. In addition, he said, Unity was negotiating with Khula Finance, the government's wholesale finance institution which made finance available to small business. He also said discussions being held with the National Housing Finance Corporation were well advanced and would provide finance for housing loans. — *Shirley Jones, Durban*

You can have a say in proposed insurance bills

CT(BR) 10/9/97 (58)

ESANN DE KOCK

The public will have an opportunity to respond to the short-term and long-term insurance bills before they leave the hands of the parliamentary finance committee and are finally presented to parliament.

It has taken the Financial Services Board (FSB) 11 years to draw up the two bills, which contain significant changes to the outdated legislation that currently governs the industry.

The FSB presented the bills to the finance committee this week. The committee decided the proposed legislation should be advertised in the press and the public will be invited to comment.

The bills, described by FSB spokesman Francois Jooste as "practical resolutions with a bit of give and take on both sides", contain crucial proposals in relation to the practical realities of the insurance industry.

Of major importance are the proposals relating to how consumers should be protected.

Jooste said it was an acknowledged fact that the expectations of consumers had changed over the years. As far as consumer protection measures are concerned, the new short-term insurance bill:

- ☐ Retains the majority of consumer protection measures contained in the current Act, although some have been reformulated and improved;
- ☐ Introduces a major change in proposing an obligation on the insurer to provide a policy document within a fixed period in the case of personal lines (for example household or motor insurance) policies;
- ☐ Proposes the establishment of a mechanism whereby the Minister, the Registrar and the Advisory Committee may formulate business practice rules to deal quickly with malpractices that occur in particular areas.

Other significant proposed changes that apply to both bills include:

- ☐ Policyholders should be given written notification that they have freedom of choice whether to take out new policies for credit applications or make available existing policies or a combined option;
- ☐ There should be a prohibition on inducements.

As far as maximum commission that may be paid out by short-term insurers to intermediaries is concerned, the proposals are substantially the same as in the current Act.

Jooste pointed out the current short-term insurance Act was outdated in a number of ways.

He said the principles underlying the current bill include that:

- ☐ It is freestanding in that it contains all the necessary information relating to the short-term insurance industry;
- ☐ The powers of the Registrar are extended to increase his ability to act while sufficient new checks and balances are introduced to protect fundamental rights;
- ☐ It attempts to maintain discipline on imposing unnecessary costs to the industry; and
- ☐ It suggest a significant decrease in the threshold of entry into the industry.

As far as the long-term assurance bill is concerned, consumer protection is most noticeable in the proposals on a cooling-off period, disclosure of all information needed by a client to make an informed decision and the contractual terms of policies which, in certain cases, put clients at a specific disadvantage.

Jooste said the difficulty with consumer protection was that it was not a static affair.

He said the FSB was satisfied that a host of additional measures had been written into the bill.

Donald Gordon's lust for Liberty Life

CT (BR) 10/9/97 (58)

ANN CROTTY

There's obviously something about the prospect of moving into a new decade that prompts a reflective mood. Yesterday, as Donald Gordon was making his way to work, he was contemplating the end of his 39th year as chairman of Liberty Life, which was formed on September 10 1957. So today both chairman Gordon and Liberty move into their forties.

It was a time to contemplate what had been achieved — the development of revolutionary new products, the organisation and wealth created here and in Europe and, most particularly, the fun that was had.

There are those in the local investment community who would say that both display some of the main traits of 40-year-olds — being conservative and risk averse. In the fast-spinning financial services sector these traits are about as appealing to some investors as Mozart is to Spice Girls fans.

In a market invaded by high-flying financial services companies and recently listed consumer stocks with stratospheric price-earnings ratings, it is possible to divide investors into two camps: those who believe that Liberty and Gordon are missing out because of a refusal to fall in with the latest trends; and those who believe that behind Gordon is exactly the place to be because, soon enough, the hot air will start to go out of the market and fundamental quality will dominate.

Gordon himself acknowledges his conservative bent: "You must remember I am an accountant," he laughs. Indeed, if he has any regrets they are probably that he was unduly conservative in the early days. In the initial prospectus for Liberty he predicted that no dividends would be paid for at least 20 years: "I couldn't understand why people wouldn't take up their shares." As it happens, dividends were paid in year five.

Looking back, he remarks: "Maybe I should have been more aggressive about developing the company. It would have become the biggest in the land." Recalling that it was the first insurance company to be listed in South Africa, he smiles at having conducted a low-intensity war with Old Mutual for years as to the most appropriate vehicle for an insurance company. The Cape-based mutual has finally "succumbed to our principles" and opted for demutualisation.

"Yes," he answers to the charge that he is still conservative, seemingly without feeling it is a stance that should be defended.

The conservative approach means there is enormous substance within the group. As one analyst said: "Just look at one example, Charter Life — which is 100 percent-owned by Liberty and is in their books at R100 million — is about the same size as African Life which has a market capitalisation of R3,6 billion. Liberty will be here long after the current high fliers have disappeared."

It is for these sort of reasons that investors and analysts who have followed Gordon through his career know better than to dismiss him or the group as having passed their prime.

Gordon himself exudes the energy and enthusiasm of someone in his early twenties. He chatted yesterday about the new lease on life he has been enjoying in recent years and the fun he was having. A strange description for a life dominated by a commitment to work: "I have slept and lived this company for 40 years." When involved in a particular deal Gordon is known to thrive on four hours' sleep a night, getting up at 4am to consider, for the thirtieth or even fortieth time, the details of some or other brilliant scheme.

In its comparatively short lifespan Liberty has introduced and developed a number of products that have since become the mainstay of the insurance industry worldwide. In 1965 the first South African mutual fund, the Sage Fund, was launched by Liberty. In the 1960s the group pioneered the concept of linked insurance, initially with equities and later with property as well. It is a concept the Americans only caught on to in recent decades.

Property-linked insurance business was behind the group's strong growth in the early 1970s. At that stage the group's excellent property assets looked extremely attractive against a stock market that was in the doldrums. Gordon reckons Liberty International's UK business growth stands to benefit similarly from the attractive property assets the group owns there in the event of an expected weakness in the UK equity market. Those assets include a number of regional shopping centres set to revolutionise UK shopping patterns much as Eastgate and Sandton City did in South Africa in the early 1970s.

Unlike some businessmen, Gordon does not feign indifference to what his group has created. He is much more like a gushing parent keen to extol the many virtues of his children and, despite having been at the cutting edge of business for the best part of 40 years, he still gets excited about developments within the Liberty group. It is a youthful excitement, and it seems underpinned by the energy of a 20-year-old.

At present Gordon is in the midst of an extensive tidying up of the group's complex structure — an exercise not expected to be completed until well into next year. He wouldn't give details other than to say: "What we are proposing is very exciting; in terms of workload it is probably the biggest single project I have ever faced. Essentially we want to simplify a very complicated structure and ensure that people outside the company can understand it." And after that?

"We'd like to find an appropriate global acquisition," replies Gordon without missing a beat. An acquisition by the group, which has cash resources of at least £1 billion, has been on the cards for some time, and the expectation is it will be an American-based asset. Gordon is believed to be still waiting for a correction in the investment markets to more realistic levels before making a play. "We've got lots of patience, and I'm still young."

Ironically, the recent appointment of Roy Andersen as the group's chief executive and confidant to Gordon, far from preparing the 67-year-old Gordon for retirement, seems to be giving him even more drive and energy: "He's a tremendously dynamic and energetic chap, and he's pushing me all the time," says Gordon.

Looking back, was the 40 years of dedication worth it? Would he do it all again? "Oh yes, it's been enormous fun and has provided reasonable remuneration," says Gordon with a broad smile that reveals decades of enjoyment.

Foreign insurers told to register or face ban

Linda Ensor BD 10/9/97 58

CAPE TOWN — Foreign insurers would be banned from doing business in SA unless they were locally incorporated and registered, Financial Services Board legal division head Francois Jooste told Parliament's finance standing committee yesterday.

An amendment would be submitted to Parliament soon, closing a loophole in the 1943 Insurance Act which had been exploited by a number of foreign insurers. The amendment would be an interim measure pending the promulgation of the Long-Term Insurance Act and the Short-Term Insurance Act.

Jooste said a number of foreign insurers were making money on the SA market on a branch basis without complying with the capital and other requirements imposed on SA incorporated insurers.

Foreign insurers wanting to do business in SA would have to be properly capitalised with a minimum capital base of R10m. The insurers would also have to pay tax and comply with the full gamut of insurance legislation.

"The concern is the protection of the industry and the policyholders. Many insurers in the world are highly suspect." Even reputable foreign insurance companies created problems for their local counterparts when they set up a local brokerage as they got local market access on more favourable conditions.

However, he said the board foresaw the possibility in the next few years for a locally registered foreign insurer to do branch business in the country without being incorporated. This could be simply achieved by the deletion of the local incorporation requirement in the new act.

"If allowed, this would have to be on the firm understanding of reciprocity; namely that SA insurers would have the same rights to do branch business in the other country," Jooste said. The board and trade and industry department officials had formulated a position along these lines for the general agreement on tariffs and trade round on financial services in Geneva.

Jooste noted the loophole in the current act was created by a provision deeming offshore insurers to be doing business offshore even though they were doing business locally.

"We caught up with them and were about to take action when they raised these arguments. We referred this to senior advocates who informed us that they were probably right," he told the committee.

However, a distinction would be drawn for foreign reinsurers which were allowed to use independent local intermediaries to accept short term reinsurance business. This was because of the essentially international character of reinsurance and the need to develop reinsurance capacity in SA.

However, if the reinsurer wanted to set up business in the country it would need to be locally incorporated.

Jooste also disclosed that the policy board for the financial services industry was examining a set of objective criteria for the disclosure of information to consumers which would apply to all financial intermediaries.

Insurance industry plans to close loopholes

Crackdown on foreign firms operating in SA

CT (BR) (58)

Lynda Loxton
PARLIAMENTARY CORRESPONDENT

Cape Town — The Financial Services Board (FSB) is to crack down on foreign insurance companies operating in South Africa to cut out unscrupulous operators and level the playing fields with local insurance companies.

The parliamentary finance committee heard yesterday that amendments would soon be tabled before it to close loopholes in the Insurance Act pending the passing of new legislation to cover the short and long-term insurance industries separately.

Francois Jooste, head of the FSB legal and policy department, said the loophole was discovered as the board was about to close in on some foreign operators and they took legal advice. The amendment would "send a clear message to those insurers that they are not welcome unless they are prepared to incorporate a subsidiary locally, to capitalise it properly and register it locally".

Jooste said it was an international norm that insurance companies from one country could not open branches in other countries because "there are many jurisdictions where the insurers are highly suspect.

"The concern is not necessarily the protection of the local industry. The concern is the protection of the policyholder."

Jooste said it was likely, however, that within a few years offshore insurers would be able to do business in South Africa and safeguards would be needed.

"But if that is allowed, it will have to be on a firm understanding of reciprocity so that the South African insurers can similarly do insurance business in the other country," Jooste said.

Herman Schoeman, head of FSB short-term insurance, said the FSB was considering a minimum capitalisation of R10 million for foreign insurance firms.

He said consumers had to be protected against both unscrupulous and apparently respectable foreign insurance companies, as both could now remit their funds after attracting business by granting salesmen higher commissions than the local industry could offer and without having to meet stringent legal and actuarial requirements.

The new insurance bills would also change the way in which Lloyds of London operated in South Africa, but further amendments would be submitted soon to incorporate changes that Lloyds itself wanted to introduce.

"The status quo is maintained with regard to the security that is being provided by Lloyds currently in the way of a trust account," he said.

The registrar of pensions would no longer automatically authorise Lloyds' agents. It would be up to its general representative, whose appointment the FSB would approve, to do so.

'Remote' business the way banks are going

BD 11/9/97 (58)

IN 10 years' time, banks predict, only 48% of their customers will carry out their banking through branches.

The majority of customers, the banks say, will bank remotely, 23% by telephone and 29% through the Internet.

Those are among the findings of a survey commissioned by IBM which has serious repercussions for the banking industry.

Technology-driven change and the lowering of international borders threaten to slash the number of banks by more than a quarter over the next 10 years, according to the survey.

While the survey focuses on Europe, similar results are likely in SA, whose banking technology is widely considered to rank ahead of Europe.

In the US, the pressures of deregulation, competition and remote banking have already reduced the number of banks by almost 30% in the past decade.

Only those banks which seized the opportunities offered by technology would survive, said Larry Hirst, IBM's GM of banking, finance and securities for Europe, Middle East and Africa.

"Banks will have to ensure the relationship they have with their customers is strengthened and the products and services they offer are well targeted and timely," he said.

"This will only be achieved by using technology to harness the wealth of customer information buried in their systems and using this to enhance the service they offer."

IBM SA's banking executive Bruce MacLaren agreed that a dramatic shake-up was likely in SA. This would come, he said, as established foreign banks muscled in electronically.

"We see a major push towards electronic business which can change the delivery channel and let you come in as a formidable player without physical bricks and mortar.

"I think the big four clearing banks are struggling to defend their positions."

Smart banks

MacLaren said it was possible that one of the big four banks would disappear, swallowed up by a major overseas bank.

"I think it is a very real possibility as we open up globally."

To defend themselves, smart banks were using technology to boost their efficiency ratios and to help them target their most profitable customers, MacLaren he said.

Leading bankers in SA have already voiced similar concerns.

Speaking at a Deutsche Morgan Grenfell seminar in London recently, Capital Alliance Group CE Mark Barnes said that of more than 50 merchant banks operating in SA at present, the market could sustain only about eight.

S

Assurer reports 51% rise in earnings attributable to shareholders

Momentum's record result

(58) CT(BR) 12/9/97

Richard Stovin-Bradford

Johannesburg — Momentum Life, the listed life assurer in the RMB Holdings stable, yesterday reported a record 51 percent increase in earnings attributable to shareholders of R210,4 million for the year to June 30.

"The excellent results are entirely due to the strong organic growth of the companies in the group," said Laurie Dippenaar, the chairman, as the group recorded its best-ever earnings growth.

"We think they'll be able to keep earnings growth above 30 percent in the years ahead," said Graham Baillie, the banking and insurance analyst at Fleming Martin.

The group's earnings a share have increased at a compound rate of 38 percent a year for five years.

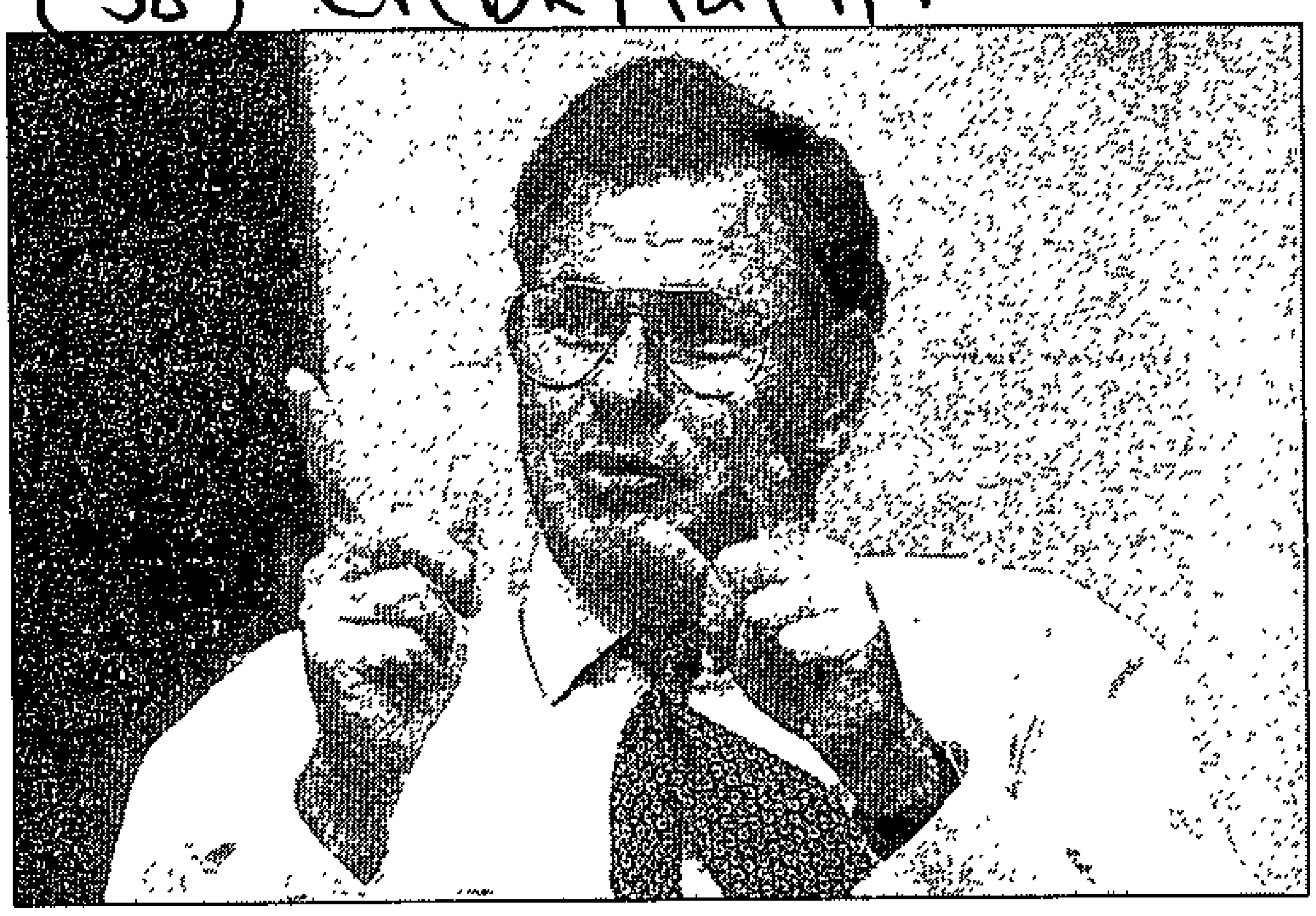
There were groupwide increases in after-tax contributions. Life insurance and asset management delivered a 44 percent increase to R109,7 million, while banking earnings climbed 36 percent to R78,6 million. Momentum Health saw earnings soar 233 percent to R12 million, and Aegis, the short-term insurer, contributed R10,1 million, a rise of 432 percent.

Total premium income rose 44 percent to R4,178 million. Life business total premium income increased 38 percent to R3,847 million. Individual life recurring premium income cruised ahead 22 percent, while individual life single premiums, including retirement annuities written by Momentum Administration Services, leapt 88 percent to R1,9 billion. Momentum Health's proportion of total premium income jumped 169 percent to R331 million.

The actuarial surplus, which indicates the financial soundness of the group, swelled 55 percent, excluding new capital raised during the year.

Total group assets and funds under management increased 35 percent to R53,9 billion. Of these, assets managed by RMB Asset Management increased 39 percent to R24,1 billion.

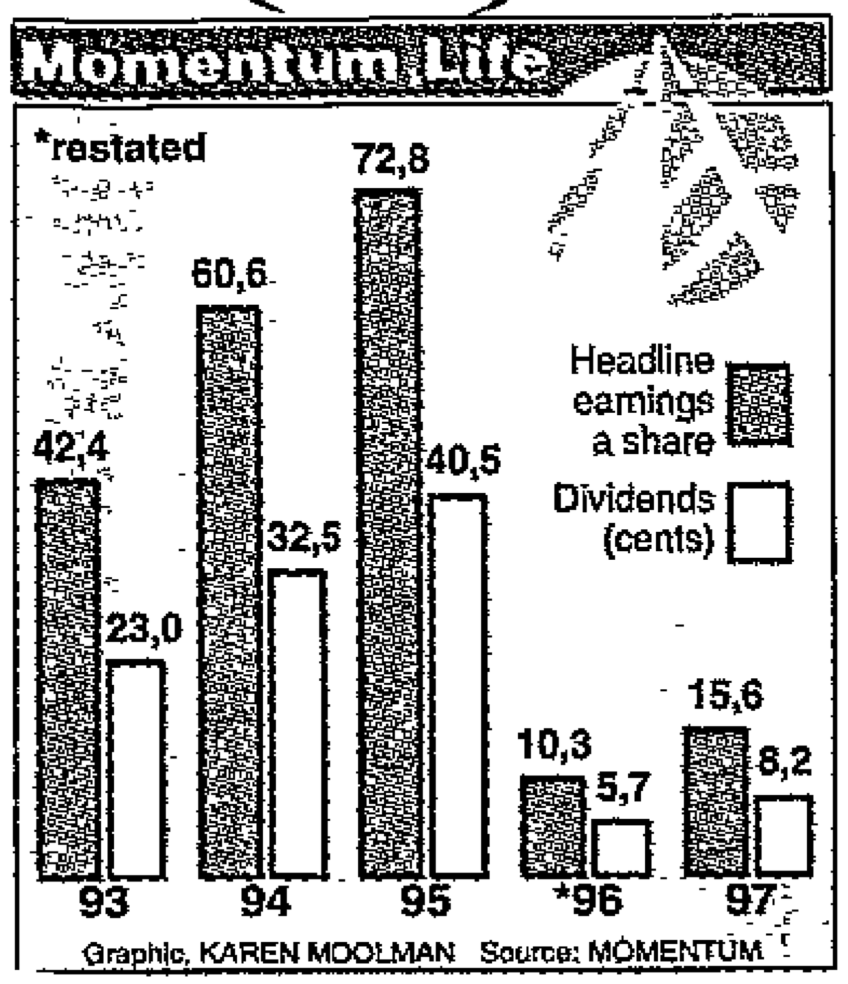
Headline earnings a share rose 50 percent to 15,5c, and the group declared a final dividend of 5,6c, a total dividend for the year of 8,2c a share, an increase of 44 percent.



CLOUD NINE *Laurie Dippenaar, the chairman of Momentum Life, relishing the group's best-ever earnings growth* PHOTO JOHN WOODROOF

Momentum's 'organic' growth yields rich reward

(58) BD 12/9/97



Samantha Sharpe

CAPE TOWN — Life group Momentum lifted its attributable surplus 51% to R210,4m in the year to June, benefiting from strong organic growth across all its divisions.

The group's robust surplus was accompanied by a 50% increase in headline earnings to 15,5c a share — earnings were 51% up at 15,6c a share — and a 44% hike in total dividend to 8,2c. Investors were offered a capitalisation share in place of dividends.

Group executive chairman Laurie Dippenaar said the results were the best since Momentum Life became part of the Rand Merchant Bank (RMB) Holdings group in 1992, with every year since then, bar one, having shown growth of more than 40%.

"Momentum, like a couple of other financial services group, currently enjoys a very high rating and its important to us that ours is not predicated on us doing one or other acquisition, but on sound organic growth," he said.

The net taxed surplus reflected a 44% increase in contributions from life insurance and management, which made up just over half the R210,4m and a 100% increase from health insurance to R12m, a 36% improvement in its banking operation and a 100% rise in the contribution from short term insurance to R10,1m.

Dippenaar declined to forecast earnings growth for the next 12 months, but said he was confident of the group's ability to sustain its growth and benefit in the longer term from new opportunities.

These included RMB's planned foray into retail banking and a new generation of risk products to be issued by Momentum Administration Services. "Things can always go wrong, but the chaps have budgeted aggressively," he said.

Turning to performance from the different divisions, he said Momentum Life had shown a 38% increase in total premium income to R3,8bn. Individual life recurring premiums were up 22% in the period under review and individual single life premiums had risen 88% to R1,9bn.

Growth from employee benefits was a more muted 10% increase to R1,1bn, but profits had at least doubled during a year which had built a platform for future growth.

The performance of Momentum Health had exceeded expectations, with total premium income up 89% to R646m, Dippenaar said. Although it was unlikely the company would treble its earnings in the new financial year, "we would be disappointed with anything below 40%".

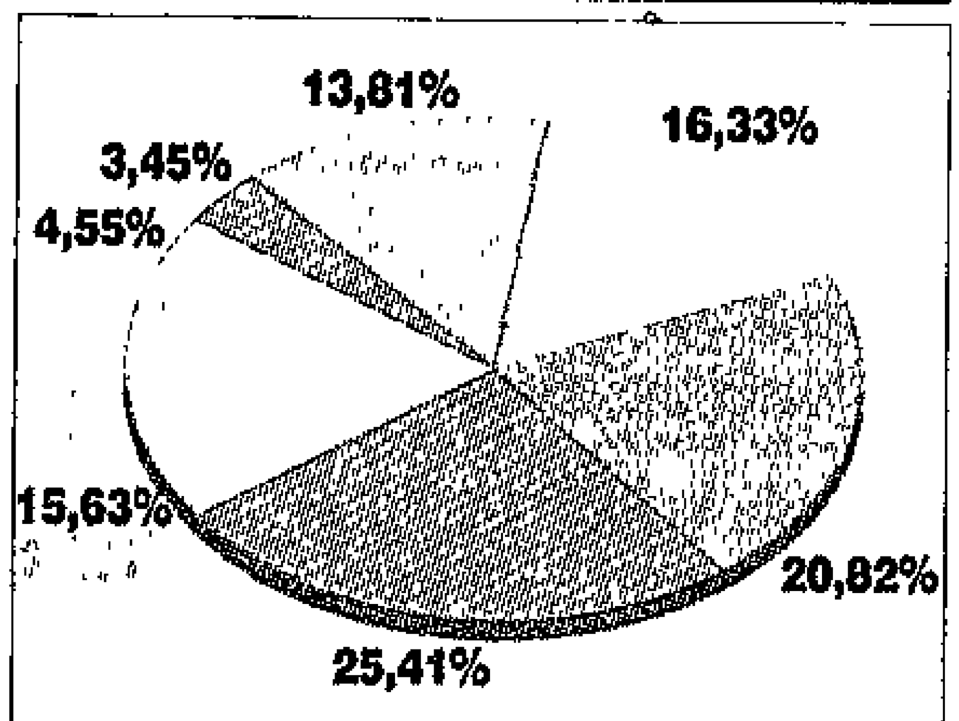
He said RMB Asset Management had enjoyed another outstanding year, with the company's longer term investment performance highly competitive, reflected in a 39% increase in assets managed on behalf of third parties to R24,1bn.

RMB's increase in after-tax income to R131m, of which Momentum received R78,6m, showed that most divisions of the bank had exceeded budgeted income.

Smaller banks 'increase market share'

(58)

Percentage market share of total assets



Graphic: KAREN MOOLMAN Source. FNB

Belinda Beresford

BD 17/9/97

THE latest DI900 figures confirmed that pressures towards specialisation and segmentation of the banking sector were continuing as smaller financial institutions eroded the market share of the big five banks, analysts said yesterday.

One said the DI900 — an analysis of the banking sector — showed growth in most bank asset categories in July had "slowed substantially".

According to his analysis, of the top five banks only NBS had consistently grown faster than the market. The "other" category of smaller institutions had "grown substantially faster than the market and consequently made significant gains in market share".

Continued on Page 2

Banks

Continued from Page 1

Total assets for the banking sector had shown 15,3% annual growth to July, with a 15,9% rise in total advances.

He maintained the smaller institutions were eating into market share of their specialised activities. Niche players such as Imperial Bank were cutting into market share.

His analysis showed that Standard was larger in instalment finance and leasing than Absa, with 24,7% of market share compared with 23,9%.

He also expected increased competition next year.

Grant Dunnington, First National Bank assistant GM for business strategy, said the DI900 was open to distortions, for example as corporations switched between different kinds of lending. In addition the returns included only domestic trading. Returns were also open to interpretation of the institutions completing them.

Dunnington's analysis disclosed little change among the big five banks over the past year, although Standard Bank had lost market share in credit cards due to the disposal of its Woolworth's book.

However, over time the figures clearly showed that smaller banks had been taking market share.

Foreign banks have also been steadily increasing market shares, particularly in corporate financing.

Aegis's yearly earnings rocket 432%

CT (BR) 17/9/97 (58)

RICHARD STOVIN-BRADFORD

Johannesburg — Aegis, the short-term insurer owned by Momentum Life and RMB Holdings, yesterday reported a 432 percent surge in attributable earnings from R3,8 million to R20,2 million for the year to June 30.

The strong results were achieved despite an increase in net premium income of only 11 percent to R1,015 billion, of which recurring premium income formed the overwhelming majority.

Aegis's performance reflects the benefits flowing from in-house restructuring and tighter management. "We've been on a mission to make sure that the quality of our book is improved," said Hilary Wilton, the managing director. "Quantity is not exciting, but quality is."

While the earnings growth was admittedly achieved from a low base, real encouragement came from the substantial improvement in underwriting results. Aegis cut its underwriting loss during the year by 87 percent from R66,5 million to R8,7 million, proving that management expenses and the claims area were both under a tight rein.

QUALITY *Hilary Wilton, managing director of Aegis* PHOTO JOHN WOODROOF

"Aegis now has strong financial disciplines, sound corporate governance and improved IT (information technology) solutions in place, which are all starting to contribute to our results," she said.

There was nevertheless scope for further improvement in underwriting results, according to Laurie Dippenaar, the chairman of controlling shareholder Momentum Life. Far from resting on its laurels, Aegis expected to continue to improve its underwriting results in the year ahead.

"We are starting to reap the benefits of the restructuring programme implemented during 1995, and will continue to fine-tune and improve all aspects of our business," said Wilton.

the council's scientific decision making re-

Finance watchdog's existence questioned

(58)

BD 18/9/97

Linda Ensor

CAPE TOWN — The need for the continued existence in its present form of the overloaded, understaffed Office for Serious Economic Offences has been questioned by Parliament's public accounts standing committee.

In its report on the auditor-general's report for 1995/96, the committee queried whether the special investigating unit established under Judge Willem Heath should not receive some of the complaints which would normally be referred to the office.

It also recommended that a number of matters, for example, the R66m bill incurred by the constitutional affairs department for the use of the World Trade Centre during the multiparty negotiations, be investigated by the special investigating unit.

The unit was set up under a special act of Parliament to investigate fraud, corruption and maladministration of assets within the government service.

The committee's report, to be submitted to Parliament, recommended that Justice Minister Dullah Omar considered whether the office as "was able to achieve the objectives for which it had been created".

There was serious concern that the office could not accept any more cases because of staff deficiencies; about the unacceptably long delay in finalising cases; and that the office appeared unable to use the funds allocated to it, resulting in the large amounts of money remaining unspent.

The resolution on the World Trade Centre said an investigation was needed "in view of the unsuccessful attempts to obtain full access to the records of the supplier of the services rendered at the World Trade Centre during the multiparty negotiations".

Auditor-general Henri Kluever could not assess the reasonableness of the expenditure because his office was not given access to the centre's financial records.

World Trade Centre management, who included director Neels Swart, said "no request for information was ever denied".

The committee also recommended that the special investigating unit delved into the serious deficiencies in the internal controls exercised by the SA National Defence Force (SANDF) over the maintenance and repair of military vehicles, which cost an unaudited R107m over three years.

The report said it was "unacceptable" that departmental restructuring and transformation was presented as an extenuating circumstance for ineffective financial controls.

The committee recommended that "moratoriums on staff appointments should not be applied to staff in positions of financial control" and suggested the SANDF closed its medical stock trading account by March.

The report, compiled after questioning directors-general, also dealt with shortcomings in the finances of the SA Police Service and a number of government departments.

BANKING (58) fm 19/9/97

Quest for a new wave

Banks have to find new ways to manage liquidity

Banks are working out new ways to manage their liquidity when the National Payment System (NPS) is introduced next year to bring SA banking into line with international standards.

The NPS will remove the inherent risk to the existing system, where settlement does not take place until the day after the transaction, particularly in the case of high value payments But the innovation will force radical changes in the way banks manage their funding flows.

Instead of building up negative and positive balances during the day, and settling them the next, banks will have to settle high value transactions (about 97% of interbank values) as they take place

Some banks may prefer not to incur the expense of installing an infrastructure compatible with the NPS, say Standard Bank's Arthur Cousins and Mike Lear.

"There are a number of banks which operate solely in the wholesale market, but the values and volumes of their funding flows are not huge," says Lear.

"You need high volumes to support such an investment and, if you aren't big enough, you may prefer to use the infrastructure of other banks for a fee," says Cousins These smaller banks can turn to larger banks who will treat their accounts as they do the accounts of any other client.

For the larger banks, says Cousins, the central problem will be "building bridges between wholesale and retail operations.

"The retail sector also creates wholesale payments," he says "The corporate accounts are usually housed with the retail banking sections of large commercial banks. But the large value payments that pass through these accounts often relate to transactions that take place in the wholesale market.

"The amounts in the retail system are considerable," says Lear. This raises another question· what constitutes a high value payment? "A client may want the security that goes with immediate settlement, for an amount of R500 000 to buy a house," says Cousins. "But as banks deal in billions of rand each day, it is a small amount There is a grey area between small value and large value."

Ethel Hazelhurst

Branson magic will shake up SA industry

(58)

FINANCIAL SERVICES

By LEIGH ROBERTS

RICHARD BRANSON loves getting into difficult industries and turning them upside down — and he can't wait to have a go at the financial services industry in SA.

In an interview in London this week Branson confirmed that his UK-based company, Virgin Direct Personal Financial Service, will be launching in SA next year.Virgin Direct is the fastest-growing financial services company in the UK.

It is a direct-selling operation: no brokers are involved, hence customers do not pay commission costs.

The company sells life and disability assurance, investment and pension plans, and unit trusts. And, in the next few months, Virgin Direct will launch a banking service, which, says Branson, will get the High Street banks sitting on the edge of their seats.

Branson is keeping mum on what the new banking service will offer, but it is likely to be a one-stop shop which will include credit cards.

When Virgin Direct lands in SA they are likely to offer a range of products. Branson would not be drawn on what's to be sold, saying only that it will be a bigger launch than they had earlier expected.

Richard Branson

When asked whether he was concerned that Pick 'n Pay Financial Services, Cortal Direct and Old Mutual Direct had launched before Virgin into the local direct selling market, Branson was dismissive: "In the UK, Marks & Spencer got into the market long before us, but that didn't stop us."

There is much speculation on whether Branson will pick a local financial services company to partner him in his venture.

Branson's not saying a word. It is the Virgin style, however, to hook up in joint venture business deals.

Lets hope Branson will do for local financial services what he has done in the UK for air travel, CDs, books, holidays, helicopter rides and his latest venture, cosmetics.

ST (BT) 21/9/97

A good reputation is the key to Virgin's diversity

(58)

The group is identified with its founder, but must learn to stand on its own, writes ALISON SMITH

ST (BT) 21/9/97

WHEN Richard Branson talks about the Sherman tank Virgin Cola intends to send into New York's Time Square to mark the launch of the drink in the US, it seems inevitable the Virgin chairman will be driving it.

"Somewhere like America, you have to do larger-than-life things," he says. "If our staff have been working enormously hard and I can help put the icing on the cake, I shouldn't be too coy about doing it."

The plans for expanding the cola in the US highlight important questions about the extent of the Virgin brand's elasticity and its relationship with its creator.

A complicated picture of the brand has emerged since Branson set up the Virgin mail order operation and record shop more than 25 years ago. It includes licensing agreements, a variety of joint ventures and the sale of Virgin Music to Thorn EMI in 1992. That sale means Branson cannot use the brand name in the record business, and has set up V2 instead.

Virgin has confounded marketing opinion by the diversity of its branded businesses, which range from the airline to financial services, cinemas and rail. In October its retail cosmetics operation will launch under the name "Vie" and next spring it plans to launch a range of clothing.

The move into cosmetics and clothing might seem a more immediate choice than some other businesses, given that Virgin's roots are in music that appeals to the youth market.

But MT Rainey, a managing partner of Virgin's main ad agency, Rainey Kelly Campbell Roalfe, says to make marketing sense of Virgin's businesses you have to see the group based on reputation rather than image. "Virgin has a reputation for being innovative and taking on large, lazy competitors. If your products match that reputation, you can swap between diverse businesses."

Branson is considering other businesses, including banking and credit cards. "Telecoms is another industry it would be foolish for us not to explore," he says.

But success in the face of those who argued that the foray into, say, financial services, would not work, does not mean the brand is without no-go areas.

There are businesses Branson will not go into for fear of damaging the brand. He gives the example of cigarettes, not wanting to encourage young people to smoke.

Other limits are in markets where Virgin's reputation for shaking up a sector would not apply. Rainey says that in many types of fast-moving consumer goods (though she excludes cola), customers do not appear dissatisfied with the range of choices, nor are they at the mercy of a few big, unsympathetic suppliers. Therefore it would be harder for Virgin to make an impact.

Others wonder whether these boundaries to the brand's power will apply in the clothing venture it plans: clothing manufacturing does not have the hallmark of a market in need of reinvention. The Virgin brand may be more a badge than a sign of innovation.

Risk to the brand may occur even where businesses fit squarely into the group's plan of entering markets to revolutionise them, because of the difficulty of meeting customer expectations that Virgin will make a difference.

In the two rail franchises the group recently won, for example, about nine in 10 staff have transferred from British Rail, and new rolling stock is not immediately available.

Virgin is refurbishing trains, trying to bring former BR staff into its corporate ethos and seeking to manage customer expectations. Branson is confident about where the rail services will be in a few years, but acknowledges the danger to the brand from the time lag. He also admits that in the group's cinema operation, which acquired MGM cinemas in 1995, "we put the Virgin cinemas in perhaps slightly sooner than I would have liked".

It is clear that what Branson likes dominates the group. His personality still runs through it, and his genius for publicity — from a readiness to dress up in public to an ability to exploit opportunities such as flying the Union flag dumped by British Airways — still dominates the group identity.

An NOP opinion poll for the magazine PR Week in 1994 found that though Virgin was known by 93% of the public, Branson was known by even more — 97%. Within the group, the positive view of Virgin reported in the poll is credited with prompting Branson to see more clearly how to develop the brand.

Though Branson's high profile is a cast-iron way of commanding attention, he does not feature much in advertisements for Virgin businesses.

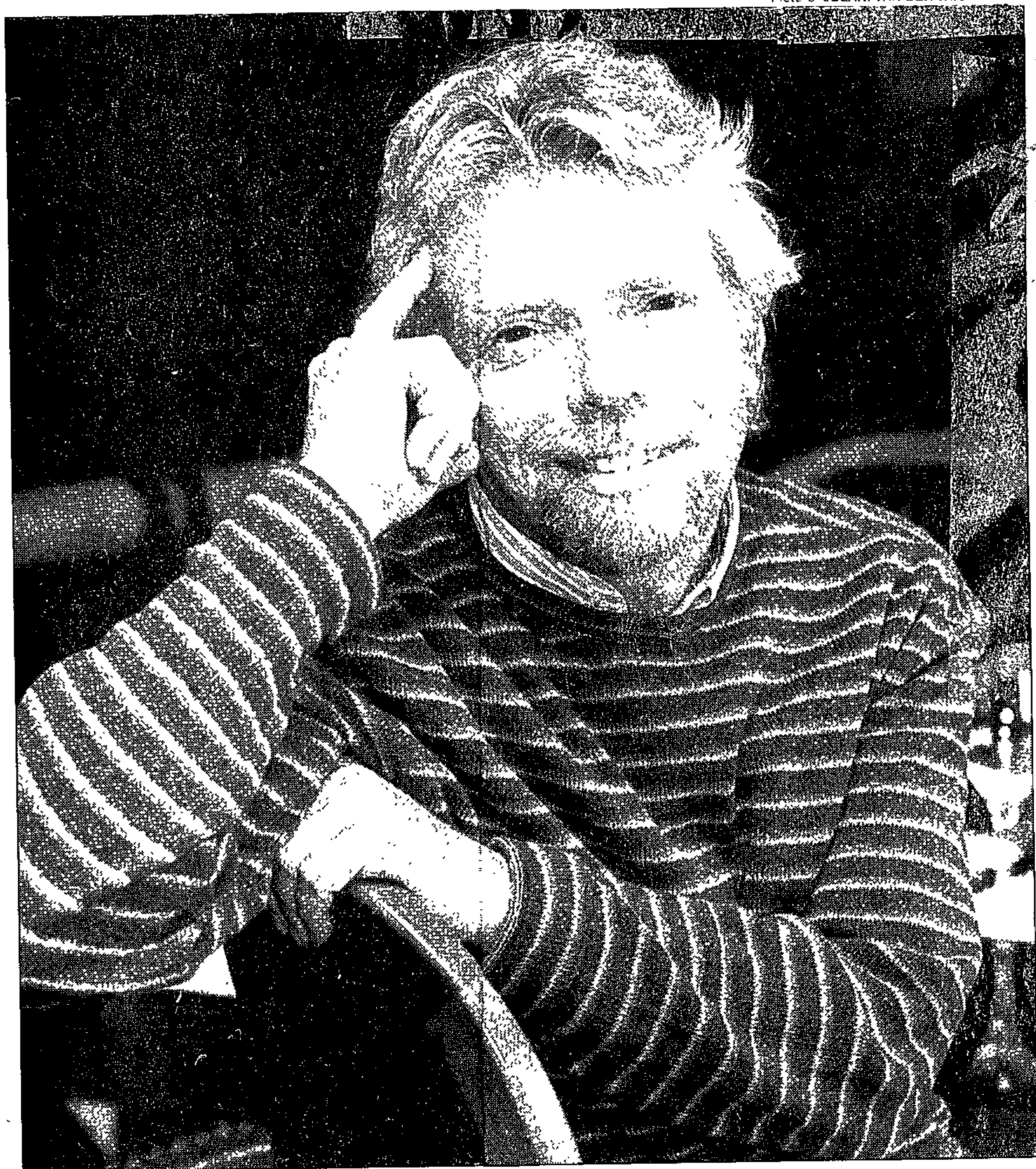
Rainey says Branson is indivisible from the brand and therefore it is unnecessary to use him in the group's advertising. The role of the advertising is to present the products on their own merits.

But Branson has appeared in an ad for Virgin Direct, the joint venture which entered the personal financial services market in 1995. Martin Campbell, in Virgin Direct's marketing department, says Branson enabled the venture to achieve an instant impact. He knows the operation plans to reach a new audience, less interested in financial services. Mobilising Branson would immediately get attention. But he believes the business must avoid being too closely identified with the individual.

"People investing pension money need to feel comfortable and secure for the long term," he says. "We are going to exist for 200 years, and clearly Richard isn't."

Branson's own view is that while his presence will continue to be valuable at the launch of businesses, particularly outside the UK, the brand itself is well established in most cities across the world. However true that is now, finding the right distances between Branson and his branded businesses will be one of the keys to the group's future success. — *Financial Times.*

Picture: JULANI VAN DER WESTHUIZEN



HIGH PROFILE . . . Richard Branson's name is indivisible from his world-famous brand

Nedcor announces string of new deals

BD 23/9/97 (58)

Lesley Stones and Belinda Beresford

THE Nedcor financial services group has gained a foothold in the international information technology sector by paying more than R400m for a 25,1% stake in Dimension Data's Australasian activities.

The Nedcor investment will help Didata fund its R1,3bn acquisition of Datacraft, an Australian information technology systems integration company, and to bump up its holding in Australian networking company Com Tech from 45% to 66%.

Nedcor announced the investment at the same time as plans for a joint venture in domestic financial and retail services with Didata, Wooltru and Old Mutual. The new venture would create a virtual private network.

Punted as the first in the country, the network will offer electronic retail and financial services and enable the companies to share data for highly targeted marketing campaigns.

Nedcor CE Richard Laubscher said the venture would allow the partners to gain in several areas. They would benefit from "network economies" of scale with unit costs of 5 000 ports on a shared network significantly below those on an 800-port network.

The companies would receive payment and settlement economies, providing lower transaction costs. It would provide the ability to create an affinity group, which would reward customers for allowing data on their spending habits to be used.

Other companies such as petrol stations and ticketing agencies were expected to join the network, with the ability to authorise electronic funds transfer from point of sale.

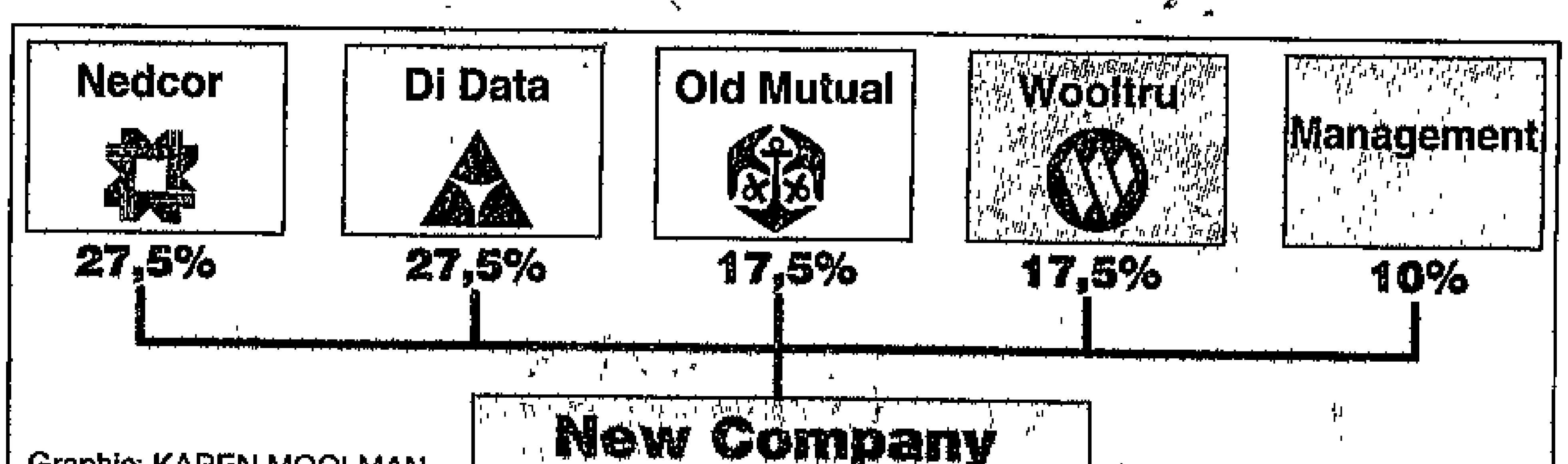
The wide area network would enable the companies to use intelligent data mining tools to compile accurate profiles of customers and their buying habits and offer electronic transactions and delivery of services.

That would help Wooltru stores such as Woolworths, Dion, Makro and Truworths better to meet the needs of customers, said executive chairman Colin Hall. "We expect to be more efficient, better informed and more effective shopkeepers."

Laubscher said the virtual private network would operate as a separate company and was expected to make R50m immediate after-tax profit.

Nedcor and Didata hold 27,5% each, Wooltru and Old Mutual each hold 17,5% and management holds 10%. So far R50m has been invested in setting up the network.

Didata chairman Jeremy Ord said a driving force behind the venture was a shortage of skilled information technology professionals. The partners would share infrastructure, management and technical support teams and keep abreast of new technology.



Graphic: KAREN MOOLMAN Source: BAIN AND COMPANY

Ord said Internet banking had not been as exciting as the banks had hoped, but it was definitely a fast growing area.

To fund its investment in Didata, Nedcor used offshore funds earmarked for new ventures, augmented by the products of a global depository receipt issue worth about $150m. Laubscher said the bank also used some other amounts which were not fully disclosed, and had a few plans for "the change" left over.

The tie-up between Didata and Nedcor was a marriage which would see the companies looking for other global opportunities, Ord said. Having Nedcor as a long-term equity partner gave Didata confidence to explore other opportunities overseas.

The buyout of Datacraft will give Didata a controlling interest in Datacraft Asia, a leading networking systems integrator in Asia. That will allow Nedcor to launch banking services in Asia using high-tech data networks.

Laubscher said the move was "a wonderful opportunity to invest in an economically fast-growing region" with huge potential and using a new delivery mechanism which provided low barriers to entry.

Although Old Mutual, which owns more than 50% of Nedcor, was not directly involved in the Australian venture, future developments were possible, he said.

Nedcor also announced the merger of Nedbank Investment Bank, UAL and Syfrets into one subsidiary.

See Page 18

Nedcor in R400-million Australasian deal

58

ARG 23/9/97

Johannesburg – The financial services group Nedcor has acquired a 25,1% stake in Dimension Data's Australasian network operations for more than R400-million.

Nedcor chief executive Richard Laubscher said the transaction was an excellent opportunity to invest in an economically fast-growing region and in a rapidly expanding industry.

"It also provides a platform for a sophisticated hi-tech data network, which should be seen as a new distribution methodology in a deregulated telecommunications environment."

Mr Laubscher also said that the concept of the Virtual Private Network partnership – a joint venture communications and data service involving Nedcor, Dimension Data, Old Mutual and Wooltru – would in time be used as a prototype in the Australasian acquisition. – Sapa

Merchant bank giant formed by merger

(58)

ARG 23/9/97

Johannesburg - The Nedcor Group is to merge the operations of three subsidiaries, Nedbank, Syfrets and UAL Merchant Bank to form South Africa's largest merchant bank, Nedcor Investment Bank.

The new company is expected to be listed on the Johannesburg Stock Exchange within the next year.

Nedcor chief executive Richard Laubscher said yesterday the merger would enjoy strong profit growth potential through rationalisation and a more structured market focus.

The bank would have the size and stature to command a position of strength in the rapidly changing financial services industry, he said.

Mr Laubscher estimated that the new company could generate profit of up to R400-million in the 1998 financial year.

While the operations would be integrated into a single company, certain branding, particularly in the retail market, would continue.

The bank would seek international partners, although in what form had not been decided.

Nedcor would remain a substantial shareholder, with group chairman Chris Liebenberg on its board of directors. - Sapa

IN BRIEF

Sowetan 26/9/97

South Africans' bad debts (58)

SOUTH Africans are becoming worse at paying their debts, figures released yesterday by the Central Statistical Services show.

In July this year 128 160 civil summonses were issued for unpaid debts, an increase of 18,6 percent on the June figure of 108 082.

The number of summonses issued this July was 7,8 percent higher than in July 1996. The increase was primarily due to substantial increases in the number of civil summonses issued in respect of outstanding rent, the CSS said. – *Sapa.*

Foreign troops invade SA banking sector

(58)

ST(BT) 28/9/97

A survey says foreign banks will have 12 full branches in the country within a year, writes DON ROBERTSON

IN THEIR rush to enter the lucrative SA market, 70 foreign banks have established a presence since amendments to the Banks Act in 1994 and most are confident of growth and development in the next four years, a recent survey conducted on behalf of Price Waterhouse shows.

The 31 banks canvassed include those with branches, representative offices, subsidiaries or joint ventures. They are from the US, Germany, the Netherlands, Japan, the UK, France and Switzerland. There are also banks from Korea and Canada and joint ventures with a broking firm and a merchant bank.

The survey was conducted by Brian Metcalfe, associate professor at the Business School at Brock University in Ontario, Canada.

The report says that with considerable opportunities in the local market, it is likely many of the banks will soon change their status to be more representative.

Three banks with representative offices plan to convert to branches within a year and four more will convert within three years.

Other participants in the survey asked that their intentions remain confidential for strategic reasons.

"Several banks mentioned the possible acquisition of one of the large domestic banks by a foreign bank. The most frequently cited examples were the acquisition of FNB by Hong Kong Shanghai Banking Corporation and a possible re-establishment and realignment of ownership in Standard Bank by Standard Chartered Bank," says the report.

All the banks believe that their market share will eventually level off, with 23 suggesting that market share of the total banking sector will be between 10% and 50%, although most suggest a more modest 15% to 25%.

But while most are happy with their performance, many feel there are too many foreign groups in SA. In total, 26 banks say they believe the market is "overbanked", while 27 say the number of finance houses operating in five years will be unchanged from the current 70.

Banks participating in the survey include the Bank of America, Chase Manhattan, Citibank, JP Morgan, Deutsche Bank, Dresdner Bank, Commerzbank, Sumitomo Bank, Barclays, Hambros, Standard Chartered, Credit Lyonnais, Societe Generale, Credit Suisse, Swiss Bank and Union Bank of Switzerland.

The participants say they expect to raise employment of 1 100 at present to 1 900 in four years. Of the 31 banks, 28 said profit expectations met forecasts or were better, with only two expressing disappointment with results.

Fourteen of the banks expect their assets to increase by 52% from $5.1-billion this year to $13.4-billion by 2001, while 12 of the banks forecast an increase in their profits f to $147.5-million from R37.25-million. The banks that provided data expect their loan portfolios to grow from $5.45-billion to $8.9-billion, with most loans in the $5-million to $25-million bracket.

The major problems facing foreign banks are finding suitable staff, followed by competition among themselves, merchant banks and domestic banks and the regulatory environment in the sector. They all call for the further lifting of exchange controls.

"What is clear is that a year from now we will have a dozen or more branches in the SA market. If the flow of new players entering the market continues, it seems likely that a shake-out will occur. This will lead to polarisation with many small foreign banks focusing on narrow niches and larger foreign banks operating across a broad range of market segments," says the survey.

Better and more flexible industry supervision

Insurance bill to protect public

ET (BR) 2/9/97 (58)

LYNDA LOXTON

PARLIAMENTARY CORRESPONDENT

Cape Town — The ongoing reform of South Africa's financial services to meet modern-day requirements and provide better consumer protection took another step forward yesterday with the tabling of a new bill covering the short-term insurance industry.

The Short-term Insurance Bill and the proposed Long-term Insurance Bill will replace the much-amended Insurance Act of 1943 which has been described as outdated, difficult to interpret and not providing enough protection for consumers from unscrupulous insurance salesmen.

The memorandum attached to the bill said expected future trends in the industry after the lifting of sanctions and the internationalisation of the South African economy made it vital to introduce better and and more flexible supervision of the industry.

Weaknesses in the current legislation had been highlighted by several recent insurance failures. These included the limited ability of the registrar of insurance to prevent failures and malpractices and the lack of clear divisions between the short- and long-term insurance industries.

The bill will make it compulsory for intermediaries to disclose their fees upfront so the public can see how much is charged by the insurer and by salesmen, while policy holders will have to be provided with a copy of the policy sold. This will prevent disputes and ensure policyholders know exactly where they stand.

To protect consumers against aggressive sales tactics, an advisory committee will be formed to draw up business practice rules with the aim of allowing focused, flexible and speedy corrective measures in the event of unacceptable tactics.

The bill will also allow the registrar of insurance to obtain court orders to prevent malpractices, such as misleading advertising, while the present long and cumbersome procedures involved in ending undesirable activities will be speeded up.

(011) 803 1323

Further cautionary announcement

Cosab meets Fivaz, Omar on robberies

(4UF) (CPI) (68) BD8/10/97

Thesy Reuttner

THE Council of SA Banks (Cosab) had been holding regular meetings with national police commissioner George Fivaz in an attempt to combat bank robberies, and had also met Justice Minister Dullah Omar on the legal process, Cosab spokesman Dave Allen said yesterday.

Allen said Cosab CE Bob Tucker had held regular meetings with Fivaz since April after an increase in bank robberies earlier this year.

They agreed on the necessity of close co-operation by the banking industry with the SA Police Service (SAPS) in order to reduce crime.

The meetings took place against the background of the implementation of a SAPS plan of action to combat bank robberies and theft of cash in transit which began in March. Since then 124 suspects have been arrested in Gauteng.

SAPS deputy commissioner B van der Walt, who is in charge of the operation, said the strategy was aimed at enabling the police to act more quickly and thus be in a position to prevent the robberies.

The operation involved special response units focusing only on bank robberies. These units had immediate access to helicopters, aircraft, highway patrol cars, communication channels and a crime intelligence database.

Van der Walt said the publicity given to crime had been of great assistance.

The efficiency of the banks in reporting robberies and their co-operation in using the latest alarm and serveillance technology had also improved.

The banking industry appreciated the police action, but Tucker said he had feared their success was in danger of being undermined by the criminal justice system and he had therefore met Omar in June.

The justice system still operated too slowly, said Tucker, many of the suspects were still on court rolls and the system was not always able to effectively prosecute offenders.

He was also concerned that none of the crime syndicates had been broken. "This, and resolving the problems in the criminal justice system, are the next major steps," he said.

Ministry considers voluntary retrenchments

BD 8/10/97

Stephané Bothma

PRETORIA — The granting of voluntary severance packages and the freeze on forced retrenchments were being examined by the public service and administration ministry as part of an analysis of right-sizing measures implemented to date.

Public Service and Administration Minister Zola Skweyiya said yesterday his ministry had launched a number of initiatives to remove impediments to transformation including the institution of performance accountability systems in all departments.

He told a presidential review commission and Commonwealth seminar on challenges facing public service reform that other projects were legislative reform, transforming service delivery, the development of a new management code and right-sizing.

He said the project on transforming service delivery engendered a customer orientation and held public servants accountable for the services they provided.

"It is about consulting users of services, setting service standards and getting the best possible value for money. Procedures to be put in place will include specification of measurable outcomes, the development of efficiency and cost-effective indicators, the entrenchment of public reporting systems and the institution of effective complaints and grievance procedures," he said.

The project on right-sizing the public service was expected to make recommendations for implementation after March next year, Skweyiya said.

He said the project was conducting an analysis of the right-sizing measures which had been implemented and was examining the abolition of funded vacancies, the granting of voluntary severance packages, the redeployment of supernumerary personnel and the freeze on forced retrenchments.

Skweyiya said legislative reform would see a clear devolution of powers to executing authorities which would ensure powers on aspects such as internal organisation, appointments, promotions, discharges and other career incidents of public servants.

He said the projects would also propose changes to the personnel administration standard to decentralise control over work organisation within government departments and provincial administrations.

Presidential review commission deputy chairman Norman Levy said transformation had to be undertaken incrementally.

"These include the identification and creation of structures that will ensure quality, development and equity that will foster human-resource development planning and ensure that financial planning and management systems are in place to effect savings, avoid waste and improve the quality of delivery," Levy said.

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(58) BD 8/10/97

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Big banks pick on Pick 'n Pay

(58) ET (BR) 9/10/97

VERA VON LIERES

Cape Town — Leading financial institutions warned yesterday that the jump by Pick 'n Pay, the retailer, into the financial services sector would not offer an ideal solution to all shoppers' banking needs.

Alec Grant, the group communications manager for First National Bank (FNB), said Pick 'n Pay had launched a niche product in a niche market.

"We will be watching the trend at Pick 'n Pay with interest, but believe FNB is generally well equipped to meet clients' needs nationwide, with its increased focus on upgrading electronic infrastructure," Grant said.

Charles Chemel, Standard Bank's deputy general manager for personal markets, pointed out that the fact that stores offered only limited shopping hours meant shoppers would make more use of automated tellers and might thereby be charged additional fees for using other banks' automated tellers.

'SMALL' BANKER *Pick 'n Pay's Gareth Ackerman*

In addition, he said customers could incur unforeseen costs, such as stop-order charges, when transferring funds into the Pick 'n Pay savings account. "In many cases, these costs will negate the benefits of higher interest rates," Chemel said. Pick 'n Pay is offering interest rates up to double those offered by South Africa's four leading banks.

But Gareth Ackerman, the managing director of Pick 'n Pay group enterprises, said the company's freshly launched financial products were specifically geared towards the lower-income or smaller bank account sector, including students.

"The products are not aimed at customers at the top end of the A-income market but at people who are unbanked and looking for absolute simplicity and convenience," Ackerman said.

He said customers had objected to high banking costs charged on savings accounts. He pointed out that one of the advantages of the product offered was free banking over R1 000 and lower banking charges of between 20 and 30 percent.

BANKING

(58) 10/10/97

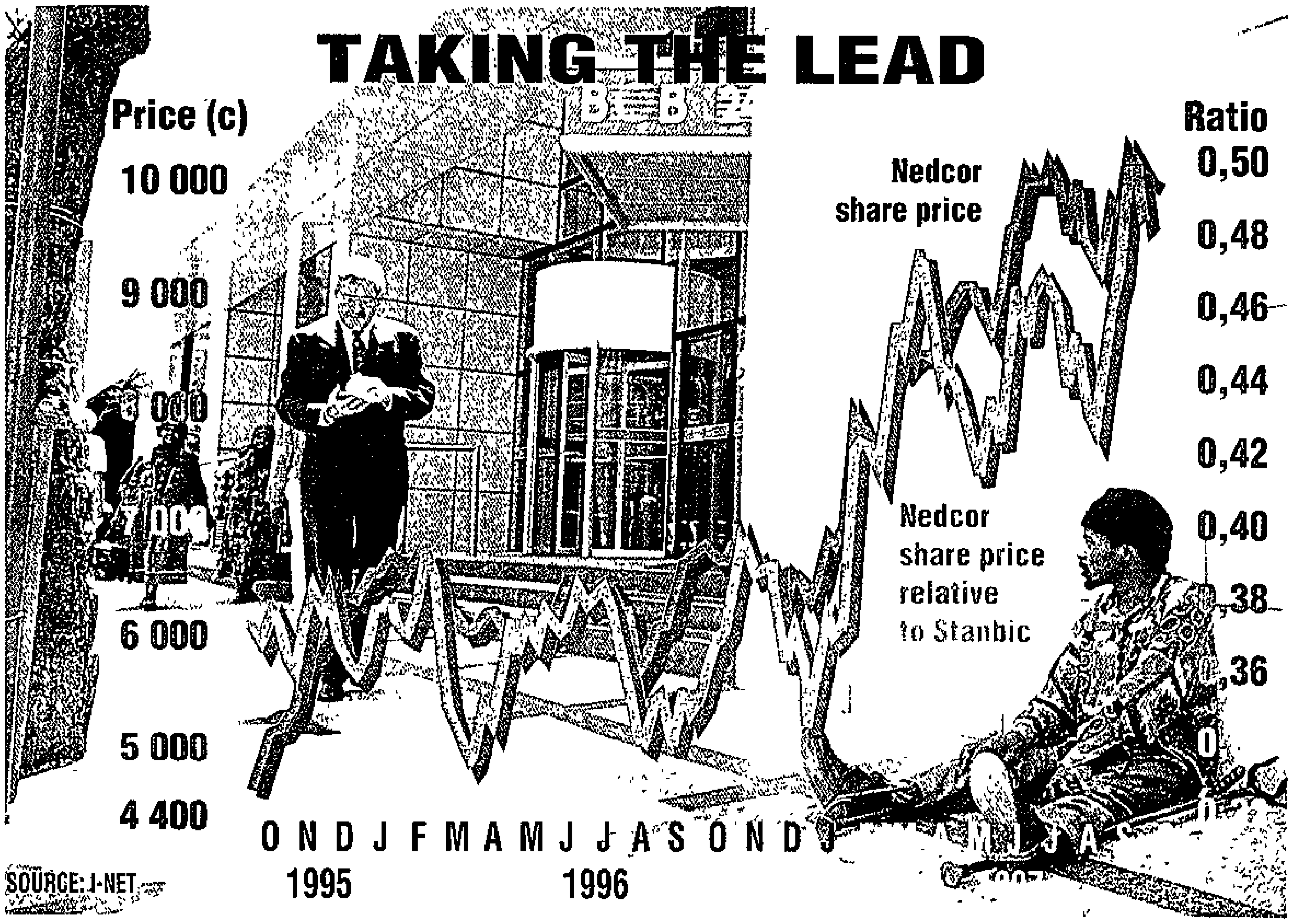
Red carpets for the

The four largest banks are going through a painful transformation process to compete effectively in today's

When everything's going right, it's easy to gloat. One successful banker calls the four large commercial banks dinosaurs "Only they're not clever enough to roll over and die." But it's change, not death, that's occupying the minds of SA's Big Four — Absa, Standard Bank, Nedcor and First National Bank (FNB) They need to change Traditional banking is surrounded by new enemies, all eating away at the foundations

Banking customers used to be loyal, no matter what kind of service they got Now, far more demanding and better-educated consumers have no qualms about shifting their business if their needs are better satisfied elsewhere

At the same time, new technology means other players can move into bank territory using cheaper distribution channels. In the past, banks traded on their branch networks, believing they had a distinct advantage. Little did they know that these cherished networks would become millstones.



Desperately seeking the right niche *. Under Richard Laubscher (opposite) Nedcor becomes SA's best rated big banking group. Rises in the green line show Nedcor stock outperforming previous market leader Stanbic*

Easily pinpointing the big banks' weak spots — costly infrastructure and poor levels of service — smaller, more flexible competitors have moved into traditional big bank territory They've been able to "cherry-pick" the most profitable portions of the Big Four's business, assiduously avoiding the mass market.

Despite the merger of NBS and Boland into NBS Boland, for example, NBS Bank will continue to focus on home loans and Boland on geographic areas.

Investec, BOE Private Bank and Rand Merchant Bank (RMB) have targeted high-income earners, offering advice, personal service and good prices As RMB MD Paul Harris says: "We have the advantage of having no disadvantages" — outdated computer systems and bricks and mortar As well as its private merchant bank, RMB may also use the Internet in future to offer banking products to its clients.

Though it's still a shuffle, market share figures show customers are voting with their feet — and their wallets

According to numbers from Absa, during the period March 1992 to March 1997, the Big Four banks shed 7% of their total deposits market share, 5% in credit card advances, 3% in mortgage advances and 7% in overdrafts and other loans to smaller niche banks. "If nonbank competitors are included in the equation, traditional banks' market share has declined further," says Absa group executive director Nallie Bosman.

But SA banks are not alone in their loss of market share. A banking survey by IBM, *Too many banks in Europe: survival of the fittest*, discovered that from 1990 to 1995, UK banks' share of the financial services market slipped to 56% from 59% while US banks' share of their market slipped to 22% from 27% "Bank margins have been falling and rises in the size of their balance sheets have seldom been able to offset the fall .. competitors with lower costs have been winning financial market share away from banks," the survey says.

The "competitors" here and abroad are a motley but scary crew — including traditional retailers looking to enter financial services and car makers offering competitive hire-purchase financing deals. In SA,

rich

(58) FM 10/10/97

cut-throat market

not even the mass market has escaped the attentions of retailers — particularly in the furniture business — offering and running their own credit services.

Diagonal Street has signalled its belief in the smaller banks and their ability to snatch market share in profitable niches. Smaller banks' p es are far superior to the bigger ones. Nedcor, which is a step ahead in its transformation process, is rated the best out of the Big Four in terms of p e ratio on 18. Standard Bank and FNB have p es of 14,6 and Absa 14,4 BOE, on the other hand, has a p.e of 45,5, Investec 30, Saambou 25,9 and Fidelity Bank 26,4

But it's not only smaller bank competitors that are gnawing away at the big banks' share of the market Retailers like Pick 'n Pay have also jumped on the financial services bandwagon. They're offering banking products at lower costs, and are paying customers higher interest rates on savings — while incurring few additional expenses. They already have infrastructure in place — 140 or so stores and advanced point of sale systems which can accept different types of cards (credit and debit) at the till. The company has also introduced a call centre where account payments can be made by telephone.

Pick 'n Pay Financial Services marketing manager Bronwen Rohland believes the retailer will be successful because "customers have lost faith in the big banks They're seen as unapproachable as well as acting in collusion" Shoprite, Woolworths and other retailers are expected to follow in Pick 'n Pay's footsteps.

In addition to trying to ward off retail competitors, the Big Four are fighting off an attack on their high-margin corporate banking business, which has become the target of international banks. Since SA rejoined the real world, foreign banks have discovered that SA corporates, keen to diversify their businesses internationally, are ripe for the picking.

Using their large capital bases to offer lower prices and selling their worldwide networks, foreigners are snatching both midsize and Top 100 corporate business from the bigger banks. Dutch bank ABN Amro CE Otto van den Bosch boasts he can offer SA corporate clients global services far quicker and cheaper than many local counterparts because of an established global network and experience in numerous countries.

The big banks are fighting back, however Having seen the smaller banks invading well-targeted niches, they're now trying to do it themselves Their salvation, all four seem to have discovered, is market segmentation. No longer are the Big Four aiming to provide banking for the masses, fighting to be the biggest in terms of assets and customers

Broadly, the Big Four have hived off their corporate business from the branches and divided their retail business into income groups — high, middle and low Standard Bank and FNB have chosen a single brand under which to market their retail products and Nedcor has three brands — Nedbank for the middle to upper income groups, People's Bank for the lower and Permanent Bank aiming at the middle market but differentiating itself by rather unbanklike, homely branches.

Absa is somewhat different. When it merged Allied, United, Volkskas and Trust Bank in 1991 and 1992, it decided to retain the separate brand names because of perceived customer loyalty. Now stuck with the costly job of marketing four retail brands, Absa is segmenting its market by income levels under a multibrand strategy.

However, recent developments and a greater acceptance of the Absa brand name have led executive director Bosman to say the group isn't married to its brands. Its first attempt at using the Absa brand name in retail banking is in its new Absa private bank aimed at high net worth individuals.

Nedcor has had a clear head start in the race to segment — one of the reasons it is better rated than its three competitors When Richard Laubscher took over as Nedcor CE, he anticipated the impending shake-out in commercial banking. "We saw technology meant the traditional delivery mechanisms — the branches — would become less important, power would move into the client's hands, banking would become more like retailing, and deregulation of financial services and the opening up of world markets would mean greater competition to the largely unchallenged big banks."

BIG vs LITTLE

Cost to income ratios

Nedcor	61,9%
First National Bank	64,6%
Standard Bank	66,0%
Absa	68,2%
Smaller banks	
NBS Boland	53,4%
Investec	56,2%

Standard Bank and FNB started later, and Absa is still grappling with its five-year-old merger. Only next year will it have completed Absa 2, a computer system which links all its retail banks. Up until the introduction of Absa 2, it will have been operating with three computer systems.

But now that big banks are becoming more selective about their markets — using profitability as the main criterion for choosing them — the low-income markets could soon find themselves even more unbanked than they are already.

That is, unless technology can be introduced to handle this market more cost effectively FNB CE Viv Bartlett says "We're not ready to abandon this market but will experiment with new technology. We'll move out of unprofitable markets if we can't find ways to use technology to reduce costs. For example, low earners draw small amounts frequently, cluttering up branches and ATMs and incurring huge costs. If we could put most of these small earners on a Smartcard, people and paper costs would be minimal" Nedcor has already shed around R2m of its unprofitable customers in its search for greater profits and reduced costs.

Costs are a major headache for the bigger banks. Cost to income ratios are excessive compared to their smaller brethren. Latest figures show Nedcor with the most impressive ratio out of the four at 61,9% while FNB stands at 64,6%, Standard on 66% and Absa 68,2%. NBS Boland, on the other hand, boasts a ratio of 53,4% and Investec 56,2%. The major cost elements are branches and people, which is why both are being slashed.

Most of the Big Four see fewer and smaller branches in the future Nedcor, for example, has cut its branch numbers from 650 in 1993 to about 470. Standard's Charles Chemel sees smaller, more tailored branches which will be used mostly for advice and building relationships while transactions will be made by cheaper electronic methods "Increasingly people are using telephones and computers to manage their everyday lives," he says.

According to Bartlett, selected FNB branches will be closed and those remaining will be transformed into sales and service outlets Administrative functions will be centralised.

Absa is following a similar route. One large branch will be used to service a number of "minibranches" that will have a sales function as opposed to a transactional one Bosman feels rationalising administrative operations will free staff to move into marketing and sales functions.

Staff are also being cut. Absa, for example, has reduced its payroll from 45 000 at the time of its mergers to 37 844; Bartlett predicts a reduction in the number of FNB staff.

"Low earners draw small amounts frequently, cluttering up branches and ATMs and incurring huge costs. If we could put most of these small earners on a Smartcard, people and paper costs would be minimal."

Viv Bartlett, FNB

But while staff and branches face the guillotine, new information technology is being introduced. First came ATMs, where transactions could be made electronically. Then telephone banking. Now newer innovations such as Internet banking, video kiosks and interactive TV banking will enable banks to serve customers at reduced costs.

The banks are also seeking new (and defensive) alliances Laubscher believes Nedcor's recently announced joint venture with Wooltru, Dimension Data and Old Mutual to form a Virtual Private Network is the start of using information technology, knowledge about customers and combined client bases for a competitive advantage

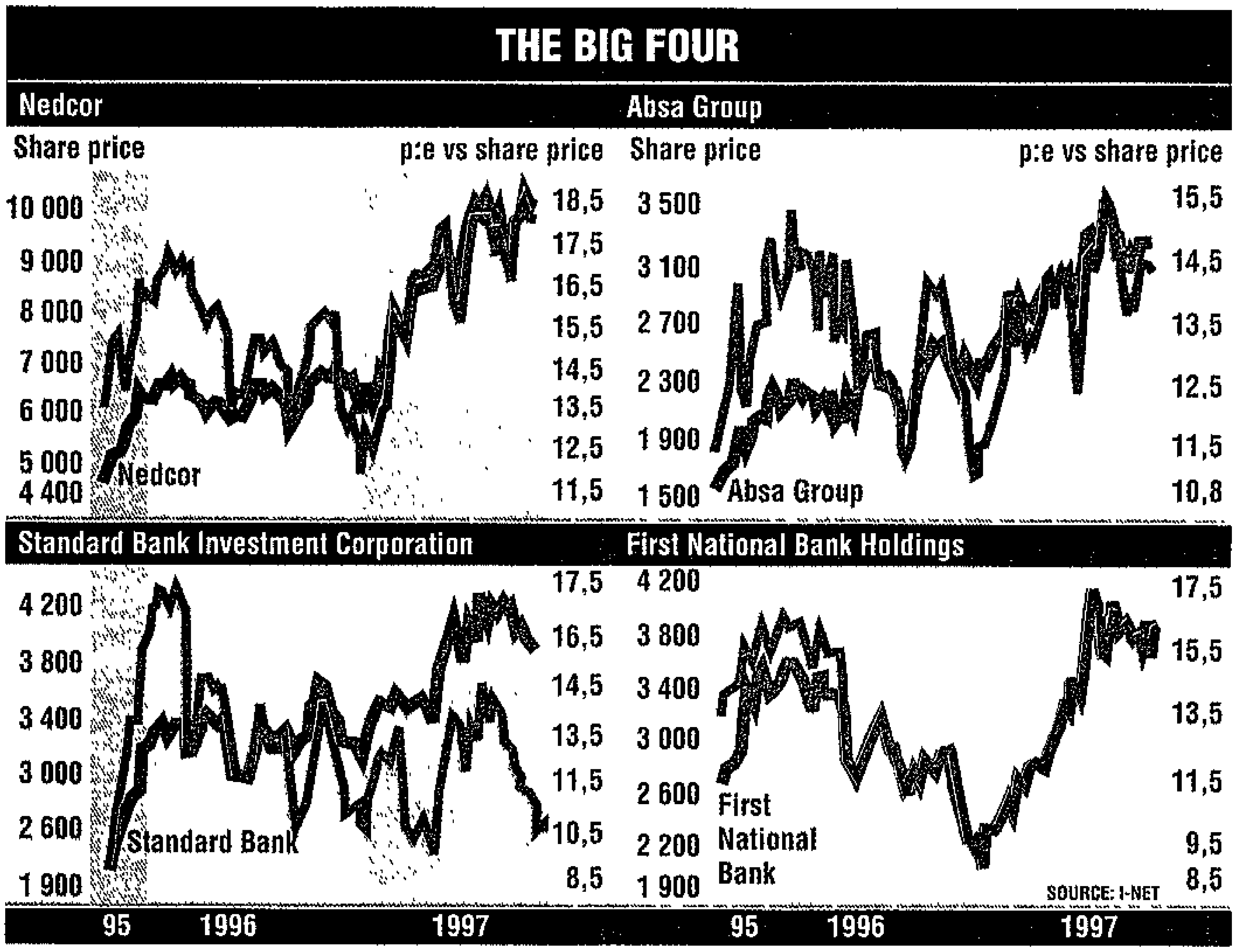
With competitive pressures mounting, the question is whether the SA market can sustain four big commercial banks Or are we ready for what is quaintly termed an elephant's wedding? In the US, deregulation, competition and the spread of telephone and electronic banking reduced the number of banks by 27% between 1985 and 1994. Consolidation has begun in Europe and is continuing.

Though Nedcor and FNB have continuously quashed market rumours that they may merge, both Bartlett and Nedcor executive director Mike Leeming believe the SA market is stretched with four big commercial banks "Better economies of scale could be achieved by fewer," Leeming says.

Bartlett agrees· "A bigger balance sheet enables economies of scale," he says. "If two of the Big Four were to merge, they could save on computer costs and back office space." Though Absa's Bosman doesn't see "a significant increase in the number of mergers of domestic retail banks over the next few years," he predicts joint ventures between domestic and foreign retail banks and other financial and nonfinancial institutions

Despite gloom about high costs and greater competition, the Big Four are forces to be reckoned with. They all have large capital bases and have mostly posted impressive profits. They've also given shareholders good returns.

Over the past three years, Nedcor's and Absa's share prices have risen around 200%, Standard's and FNB's around 100% Recent dips may reflect market uncertainty about how they're coping with increasing competition Proof will lie in reduced costs Profits will follow. **Heather Formby**



Govt 'must pledge road fund deficit'

BD 14/10/97 (58)

Linda Ensor

CAPE TOWN — Government would have to guarantee the deficit of the Road Accident Fund — which would amount to more than R8bn by end-April next year — if the solvency of the proposed new fund was to be secured, officials said yesterday.

In terms of the proposals of the draft white paper on the fund, the existing organisation and its deficit would be ring-fenced, and the new fund, which would come into existence with new benefits and rates from May 1 next year, would operate independently. All claims incurred from then would be paid by the new fund.

However, for this proposal to work properly, government would have to guarantee the deficit of the existing scheme, fund chairman Peter Botbijl told Parliament's transport portfolio committee. "If it is financed by the new fund to the extent that it is adversely affecting the new fund, then government must step in and guarantee this ring-fenced deficit."

Transport ministry spokesman Didi Moyle said discussions were taking place with the finance ministry on the funding of the draft white paper proposals which still had to be taken through cabinet.

To ensure that the new fund became solvent, it was proposed that the fuel levy be increased by 3c a litre next year, to cap benefits, abrogate common law rights to sue for damages and reduce claims expenditure 25%. Also, inflation-linked increases to benefits would be introduced from May 1 1999.

On these assumptions, fund claims manager Annami Roux said it would be possible to achieve cost savings of 48,5% and reduce the deficit to nil by April 30 2008. Without savings, the deficit would escalate to R47,7bn by 2008. RAF CEO Willem Swanepoel said the new fund could loan money to the old fund which would be shown as an asset on the balance sheet.

Real power is economic

Sowetan 15/10/97

Consumers happy hearings delayed

(58)

Fear that insurers can still manipulate the law

Maxwell Pirikisi

PARLIAMENT'S portfolio committee on finance has postponed next week's public hearings on proposed new legislation governing the insurance industry to early next year.

In what is seen as a victory for consumer and other pressure groups that have been lobbying for the delay, an official of the committee told *Sowetan Business* yesterday that the holding of the public hearings next week would have been "premature".

He said a heavy work load had also prompted the committee to re-schedule the date for the hearings. The exact dates were still to be set, he said.

Last week, consumer bodies such as the Consumer Institute South Africa (Cisa) called on Government to delay the process to allow consumers ample time to study the proposed new law.

Interested groups had initially been given until October 21 to prepare their oral submissions.

However, consumer watchdogs claimed they needed more time "to make sense of the 294 pages of legislation".

'Rescheduling hearings is a basic principle of open government'

Cisa argued that South African consumers would be short changed if they were not allowed enough time to review the proposed new Bills on short and long term insurance.

Although the new law was set to overhaul the insurance industry and increase consumer protection, consumers feared that some insurers could manipulate the law and swindle them.

Cisa executive director Diane Terblanche said rescheduling the public hearings to early next year was "a basic principle of open government, and is crucial in the case of complex legislation for a R60 billion industry".

Terblanche, who is also chairwoman of the National Consumer Forum (NCF), said there was little effort made by the authorities to consult consumers about the proposed Bills.

Said Terblanche: "In the list of organisations consulted, it is clear only the insurance industry has been consulted extensively.

"It's also unfair to now ask for consumer input on this subject in a very limited time."

Inadequate

She also said consumers have had to rely on an inadequate system of voluntary regulation of the insurance industry, resulting in many people buying insurance which they did not need.

Cisa wanted more time to determine whether or not the new legislation would serve the best interest of consumers.

Cisa was established early this year as a consumer research organisation with the support of international consumer bodies including Consumer Union USA and Consumer Association UK.

Insurance bills may fail the SA investor

BD 17/10/97 (58)

Pat Sidley

WHILE insurance companies debate how much to tell (or not to tell) their prospective policy-holders, the unwieldy process of passing the insurance bills through Parliament grinds on.

Both the long- and short-term insurance bills were to be debated in the appropriate portfolio committee this month, but this has once again been put on hold, says the Financial Services Board.

That may be just as well as investors were likely to find it difficult to find any useful measures for protection in the bills, which were drafted largely by the insurance industry, says Diane Terblanche, director of the Consumers' Institute, a nongovernmental organisation conducting research on consumer issues.

She has expressed concern over the lack of adequate protection in the bills for policy-holders and the apparent lack of adequate consultation with consumer representatives. Not only is there a lack of protective measures, but points of the prospective legislation have not been carefully thought out and may harm investors as well, Terblanche says.

While the process moves at a snail's pace in SA, the UK faces a new round of regulation to merge nine City watchdogs into a single body in a bid to clean up the financial services environment. This will include several organisations which regulate themselves, as well as possibly several ombudsmen in the financial services industry.

The moves have been prompted by the fact that what were considered in the UK industry to be very tough regulations nevertheless failed to catch disasters such as Barings or the BCCI bank scandals. The UK regulations also failed to stop a major misselling scandal in the UK pensions industry — which cost consumers upwards of R35bn.

Because of regulations which protect investors in the UK, companies caught in the scandal are obliged to make good the problems they caused investors — and are now facing heavy fines (up to R3m) for delaying the implementation of measures designed to assist prejudiced investors.

Terblanche raises several points which need attention in the insurance bills. For instance, where does responsibility lie when a product has been missold? This has not been adequately dealt with in the bills, she says.

There is no attempt to properly discuss and regulate issues relating to commissions: when they are paid, how they are structured and whether or not they should be paid at all. There is also nothing to compel full disclosure.

A specific concern, which she says has also not been dealt with, is the high level of lapsed or surrendered policies. Almost 43% of policies sold are wasted in this way. "We believe this is symptomatic of a much wider (industry) problem which has not been dealt with by the bills."

There are some specific inclusions in the bill, which give rise to some concern. One of these allows for interest to be paid on a loan made against a policy.

The effect of this clause, Terblanche says, is to allow limitless interest to be paid on any size loan, defeating the Usury Act at the same time.

According to the clause a loan of R50 000 could attract interest of any amount well into the thousands of rands. Another "strange" clause is one which would provide for insuring of an unborn foetus.

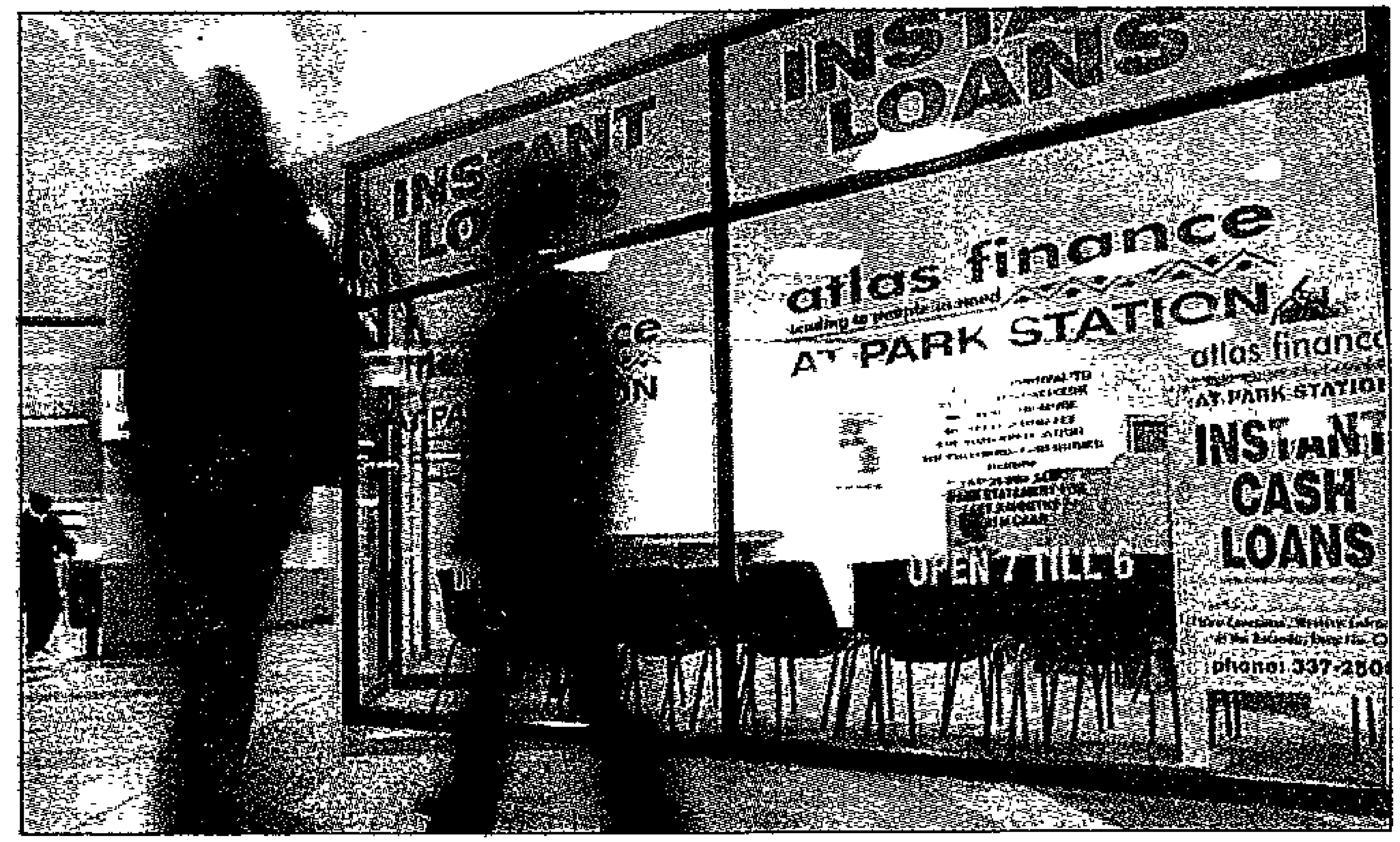
She believes there has not been real public participation in the formation of the bills.

Two organisations apparently consulted in the drafting of the bills do not exist. One, the National Co-ordinating Consumer Council, has been defunct for two years. A black consumer organisation has never existed in the form it appears on the bill.

'Save us from loan sharks' (58)

M+G 17–23/10/97

Micro-lenders accuse government of ignoring recommendations for regulating the industry, writes **Sechaba ka'Nkosi**



Selling your soul: The risky business of loans. PHOTOGRAPH: SIDDIQUE DAVIDS

A row is brewing between a coalition of small-scale development lenders and the government for ignoring proposals that could save millions of consumers from rampant exploitation by money lenders.

The Alliance of Micro-Enterprise Development Practitioners singles out the departments of trade and industry and finance for refusing to heed its advice on a problem that could condemn most South Africans to life-long debt. The alliance says weeks after it submitted a thoroughly researched paper on the regulation of consumption loans, the government has not yet responded, despite the fact that Minister of Trade and Industry Alec Erwin called on stakeholders and the public to make submissions on the review of the Usury Act last year.

The Act provides for the exemption of small-scale borrowers from regulations that govern deposits and loans at financial institutions. The alliance says this gives a free rein to loan sharks who often make huge profits at the expense of consumers. The loan sharks are said to be making an annual turnover of close on R5-billion a year, after charging unsuspecting consumers and mainly low-income borrowers interest rates of up to 30%. A senior official of the alliance says on a loan of R1 000, the consumer ends up paying more than R4 800 by the end of the contract period, usually 12 months.

"This is a sheer rip-off. While we are not calling on the government to outlaw these institutions, we want it to come up with a regulatory framework to control them. Banning them can force the loan sharks to go underground and make more than they are doing on the surface," says the official, who refused to be named.

In the short term, the alliance wants micro-lenders to regulate themselves; longer term, it is calling for an independent authority, including government representatives, established financial institutions and participation from relevant stakeholders.

David Porteous of the National Housing Finance Corporation says this proposal seeks to compel micro-lenders to register at a fee and, therefore, grant them automatic access to exemption from the Usury Act. Porteous says this will make it easier to draw up a code of conduct and monitor practices and complaints from consumers. "We have already raised funds for an infrastructure that would deal with the registration. What we want the government to do is to underwrite the costs because it also has a political obligation to protect consumers."

Executive director of the alliance, Sharda Naidoo, says while it might prove too expensive for the state to monitor all the practices in the industry, it also cannot sit back and allow people to be exploited at will.

"Micro-lending is a phenomenon that no one can wish away in our country. What we need is a clear framework that puts everyone under a common code. That way you would be able to expel people who do not subscribe to the given discipline and, therefore, cut them out of exemptions," says Naidoo.

Both the trade and industry department and the Reserve Bank were unavailable for comment at the time of going to press. But the small-time lenders insist the ball in now in their court.

Big bank fees hamper small businessmen

(FB) CT(BR) 22/10/97

Esann de Kock

Bank charges may come as an unpleasant surprise when you register a Close Corporation (CC) or apply to your bank for a separate account for your small business.

Charges on business accounts are not necessarily the same as those on ordinary accounts.

In some cases they can be lower, in other cases they may be higher.

Since the banks should be competing for your business, search for the bank that offers you the best deal in terms of services and charges.

You may find there could be a charge just to open the account and that service fees on your business account may be higher than on your personal account.

Although not all banks offer special accounts for small and medium business entrepreneurs, some do and you should look at what special services, if any, they offer with these accounts and how much they charge you for them.

Some small business entrepreneurs were caught unawares recently when certain banks put up their monthly service fees as well as service charges for cash deposits.

A service station owner says from the middle of July this year his bank has charged him 127 percent more for cash deposits – the 22c per R100 fee was increased to 50c per R100.

The bank told him that it had increased the fees to discourage cash deposits and decrease its cash holdings in order to discourage criminals.

Another reader said her bank manager informed her that from August 1 the minimum monthly service fee on her Small Business Account would increase from R30 to R101,25.

The bank told her the increase was necessary to ensure that all cheque accounts were profitable or would at least break even.

Banks that offer special services for businesses usually charge fees that differ from those charged on regular cheque accounts. For example:

☐ Standard Bank: Offers a Small Medium Enterprise (SME) PlusPlan Account for small and micro-enterprises that are just starting out and don't require a cheque account.

There is no monthly service fee on this account; R2,50 is levied for each cash withdrawal; you pay 0,605 percent for cash deposits; R4,22 for certified cheques and R2,50 is levied for every account payment.

SME customers can also get a full cheque account which can be linked to an SME AutoBank Card which allows access to the full range of electronic banking facilities.

☐ Absa Bank offers a cheque account to all its business clients that comes with a different fee structure from ordinary cheque accounts.

The product is not offered as part of a branded package, but you have access to all the bank's other products and services and those offered by other divisions within the group.

Products and services available include credit cards, garage cards, international banking, home and building loans, investment services, vehicle finance and electronic banking.

Service fees are determined by the size of the account, but the minimum monthly fee is R17,10.

Allied Bank charges 55 cents per R100 for cash deposits on amounts up to R500; TrustBank charges 0,75 percent on amounts under R10 000 and 0,2 percent on amounts over R10 000; United Bank charges 63 cents per R100 for amounts under R500 and Volkskas charges 0,376 percent on amounts under R10 000 and 0,188 percent on amounts over R10 000.

☐ Nedbank offers a small business cheque account that comes with a range of special services including the NedTel/NedTex range of financial services via the telephone.

A reader complained that the bank recently put up its business banking handling fee for cash deposits to 68 cents per R100 or part thereof.

Charges on the Nedbank small-business cheque account can be negotiated with the branch manager.

Interest on an overdraft is based on the prime lending rate and can be negotiated with branch managers who will consider your credit record, security and the nature of the loan.

☐ Mercantile Lisbon Bank offers small- and medium-business cheque account facilities.

The account is no different from ordinary cheque accounts, although different benefits apply in the case of corporate clients and fees are often negotiable.

Mercantile's standard fee for cash deposits in business cheque accounts (60 cents per R100) is the same as for personal cheque accounts. So are service fees for cheques at 80 cents per R100 or part thereof to a maximum fee of R17.

☐ Boland Bank has no specific product for small businesses, but says it accommodates small business people by making individual assessments of their needs and recommending appropriate products. Fee structures are determined by the client's risk to the bank.

☐ First National Bank also does not have any products or packages directed at small businesses.

It says the small business client enjoys the same services as any other business or professional entity where fee structures and costs are associated with the risk of the business venture.

☐ NBS has a Small Business Unit within the NBS Corporate Division and serves clients in both the small and medium sectors with loans from R30 000 to R2 million. It does not offer cheque account facilities.

Real power is economic

Bank hopes to raise R100-m (58)

Sowetan 22/10/97

African Merchant Bank set to publish prospectus detailing its services

By Maxwell Pirikisi

AFRICAN Merchant Bank (AMB) Holdings Limited lifted attributable earnings by a record 117 percent for the year ended September 30 1997, ahead of its listing planned for next month.

The bank also announced that when it lists on the Johannesburg Stock Exchange (JSE), possibly on November 20, it intended to raise R100 million through a public and-or preferential offer.

The bank raised R300 million through a public placing of ordinary shares with existing shareholders last July.

AMB chief executive Rob Dow said it was almost a foregone conclusion that AMB would raise the R100 million next month and that AMB already had "guaranteed chances for that."

Dow also said his organisation, the largest black-owned merchant bank in South Africa, had strong ties with emerging black groupings and other businesses.

That, he said, together with an exclusive relationship with highly rated American investment bank Donaldson, Lufkin and Jenrette (DLJ), and the increased resources that would be available after the listing, would consolidate AMB's growth opportunities.

He said in 1996-97 AMB's net income increased by 192,3 percent (about R20,4 million) from R10,6 million in 1996 to R31 million, while earnings a share rose by 56,7 percent to 44,5 cents a share.

Dikgang Moseneke

Total revenue increased by more than 200 percent to R60,5 million, while AMB's share capital and reserves grew from R68,5 million to R385,9 million while current assets increased from R71,8 million to R335,2 million.

Dow said AMB's corporate finance division maintained its track record of excellence in providing advisory and capital raising services to both established corporates and emerging empowerment groupings.

It had acted as adviser on transactions totalling about R8 billion.

He announced that AMB was set to publish its prospectus containing information on its services, capabilities and financial performance before the end of this month.

Looking ahead, Dow said: "I anticipate greater opportunities arising from a closer working relationship with Metropolitan Life in areas of preference share financing; equity, fixed interest, and property investment."

AMB chairman Dikgang Moseneke said his bank had grown organically from a grassroots investment of R7 million by New Africa Investments Limited (Nail) to around R400 million in less than three years.

Said Moseneke: "AMB has established a proven track record as an entrepreneurial financial services group which is well positioned for the new millennium."

Black bank planning to raise R100-m

(58)

MAIL 27/10/97

Johannesburg – AMB Holdings Ltd, the largest black-owned merchant bank – which recently posted exceptional financial results – will raise R100-million through a public offer of 1,25-million ordinary shares at R8 each and a preferential offer of 11,25-million shares also at R8 each.

The offer opened today and would close on November 14, a statement said.

The company plans to be listed on the Johannesburg Stock Exchange on November 21.

AMB chairman Dikgang Moseneke said the aim of the offer was to increase the capital base of AMB for growth as well as the ability to provide debt and equity financing as principals.

The offer is being underwritten by New African Investments Ltd.

When the preferential and public offers have closed, Nail will own 53% of AMB, the public 20,5% and management 11%. – Sapa

'S MOVE	DIV YIELD	EARN YIELD
30	4.2	9.6
	4.3	9.0
05	2.6	6.9
-2	5.3	13.0
34	4.6	9.4
	_0	0

SECURITY	RULING PRICE	DAY'S MOVE	DIV YIELD	EARN YIELD
AMMGROUP	155	-5	6.0	18 1
ASEAN	23	-2	.0	.0
BOLWEAR	130		7.1	26.9
BURLINGTN	350		4.3	2.5
CAPSTAR	1050	-50	.0	6 3
CAPSTAR-N	16	+1	0	0

SECURITY	RULING PRICE	DAY'S MOVE	DIV YIELD	EARN YIELD
BONNITA	190		5.0	14 3
BRENMIL	225		.0	10 7
CADSWEP	870		1.7	4 3
CGS-FOOD	7300	-150	2.5	9 8
CHILLRS	90	-4	3.2	11.1
CHOICE	80		0	0

SECURITY	RULING PRICE	DAY'S MOVE	DIV YIELD	EARN YIELD
MEDCLIN	450	-20	2.5	8 3
NETCARE	155	-10	1.8	5.6
NETCARE-N	1		0	.0
PRSMED-D1	620		4 8	.0
PRESMED	450	-10	2.5	10.4
SA-DRUG	3100		2.4	7 0

REUTERS

Crash: a trader 'takes cover' as operations stop in New York

ASSOCIATED PRESS

Pensive: traders react to the numbers minutes before trading was halted in New York

Worry: as the

Black Tuesday

28/10/97 (58)

Investors run for cover

EDWARD WEST AND LLEWELLYN JONES
DEPUTY BUSINESS EDITOR AND BUSINESS REPORTER

Shares recovered some of the R116 billion in value wiped out in early trade on Johannesburg Stock Exchange today, but dealers predicted more turmoil on the market, with waves of selling likely to occur for another day or two.

Local and foreign investors rushed to sell their investments when the market opened today and the all share index dropped more than 13% in the first 90 minutes of trade, the second-biggest loss on the history of the stock exchange.

The JSE's all share index recovered slightly to 6002,1 by midsession, bringing the decline for the day to about 10% so far. The13,5% slide in the first 90 minutes of trading represented a 21% drop in the value of the JSE since last Wednesday.

However, dealers polled by Cape Argus were preparing for another wave of selling today, driven mainly by the fact that there was still considerable pressure to sell shares on the New York Stock exchange when it opens later today.

Markets across world slumped today. Shares plunged more than 13% in panic selling on the Hong Kong Stock Exchange, driven by a growing currency crisis throughout the Far East, and a massive 7% dip on the New York Stock Exchange overnight.

The London Stock Exchange posted huge losses in opening trade today, slashing 8% off the value of Britains leading stocks, while German shares suffered even worse with the leading index, the IBIS Dax, falling nearly 13% at one point during early trade in Frankfurt.

Local stockbrokers said they expected the New York Stock Exchange's Dow Jones industrial index to open at least 150 points lower today – based on future trading trends – with the loss likely to have extended to 550 points at the close of trading.

"It took a long time to recover in 1987 and its probably going to be the same this time round," one dealer said.

The slide on the local stock market began yesterday when shares on the JSE fell by nearly 6%, wiping a massive R78,6 billion off the market's value.

Reserve Bank governor Chris Stals said today "the correction in world markets was not unexpected following warnings by central banks about high levels of asset price inflation", which occurs when speculators push the price of shares to unrealistic levels.

The economic scenario was dominated by the collapse of East Asian economies because they failed to pursue basic elements of sound monetary policy and financial controls, he said.

Cape Town brokers expected the local market to continue taking the lead from overseas markets.

"We have been following the New York and Hong Kong Stock Exchanges for the past month, and there is no reason why it should be any different today," one broker said today.

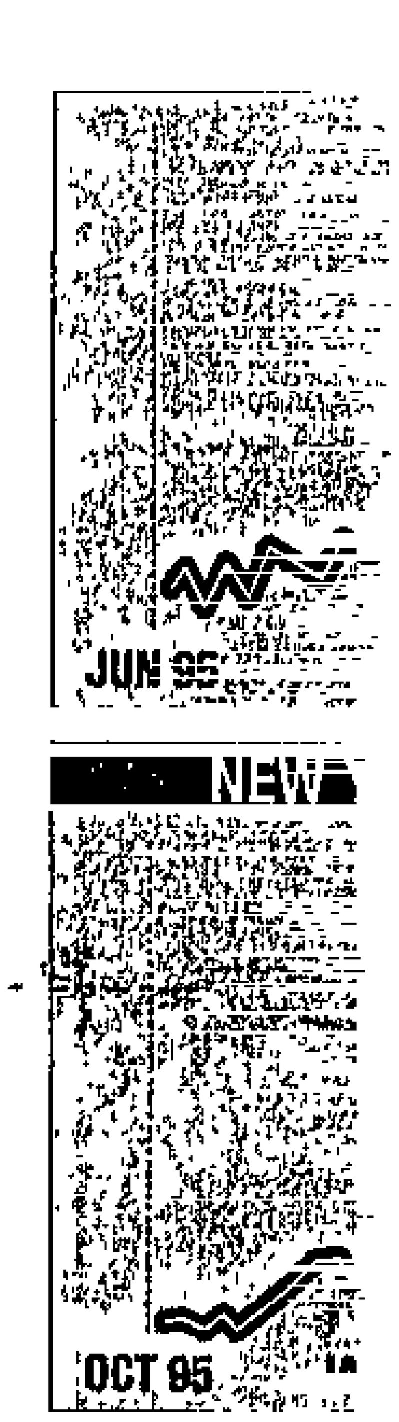
The stock exchange slide is likely to hit anyone invested in unit trusts and the Reserve Bank may be forced to increase interest rates again, less than a month after they were reduced, some experts predicted today.

Pressure had been put on the rand by foreigners who appeared to be selling rand-denominated equities, with R4-billion-worth sold off in only four days.

"The result is that interest rates may have to be raised to keep the rand stable and attract foreign investment back to South Africa," an analyst said.

Standard Equities broker Brian MacMillan stressed the world stock market fall since Thursday should still be regarded as a correction rather than a crash, unless panic set in – in which case everyone would be affected.

"Although it is only paper assets which are affected, psychologically everyone feels poorer after a crash," he said.



Keep calm – and plan new

BRUCE CAMERON
PERSONAL FINANCE EDITOR

Don't panic yet! Financial markets are volatile and go up and down. Every bull market (rising prices) is always followed by a bear market (going down).

Although financial markets go up and down, they have always gone up by more, increasing the wealth of all investors.

If you are a medium- to long-term saver you should not be considering pulling out in panic now. The underlying fundamentals of world markets remain sound.

Many of the panic started, many shares change. New Y nal growth after yesterday 12% real growth inflation – an

JSE growth, is about level on months. The nies are now assets and exp good time to inv

ASSOCIATED PRESS

the numbers minutes before trading was halted in New York

Worry: as the Mexican stock exchange plummets, a broker holds his head in anguish

REUTERS

...esday for JSE

...for cover

ARG 28/10/97 (58)

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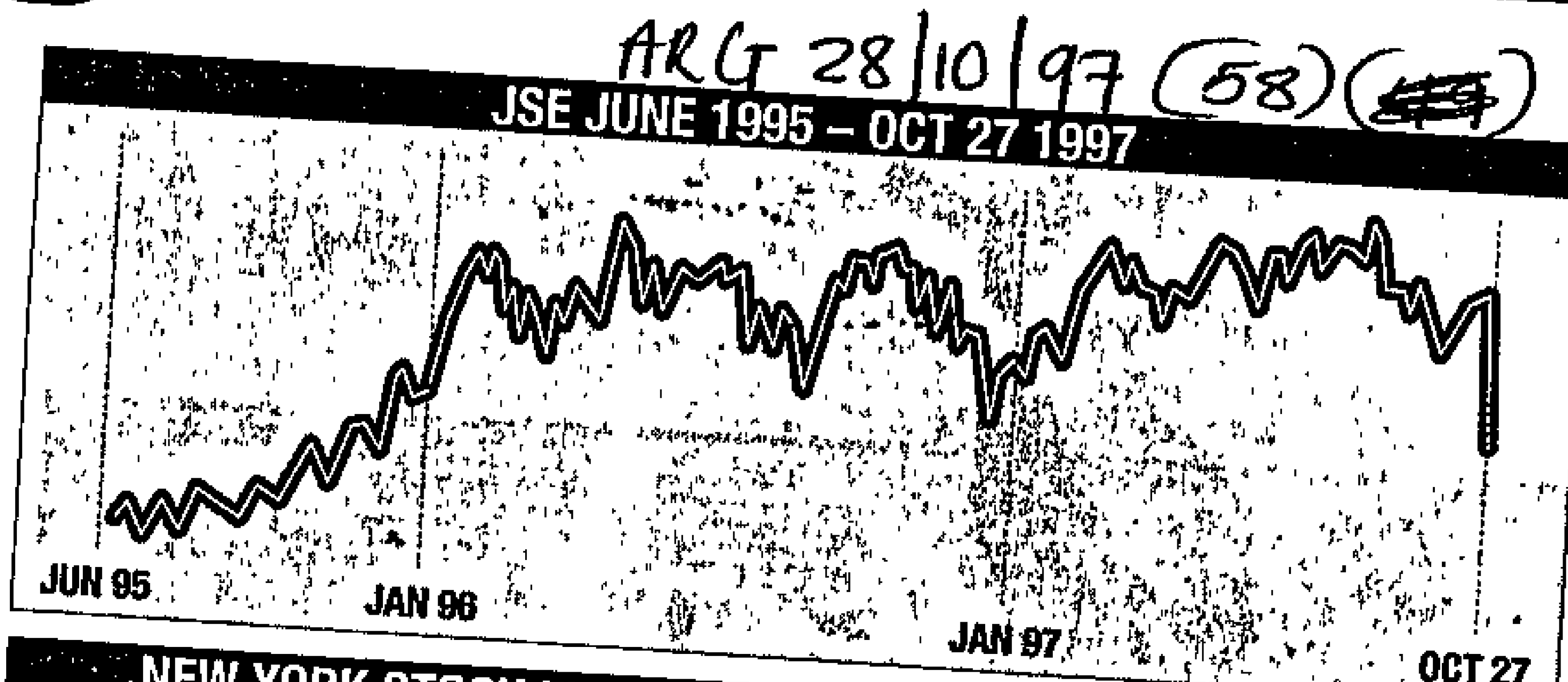
interest rates again, less than a month after they were reduced, some experts predicted today.

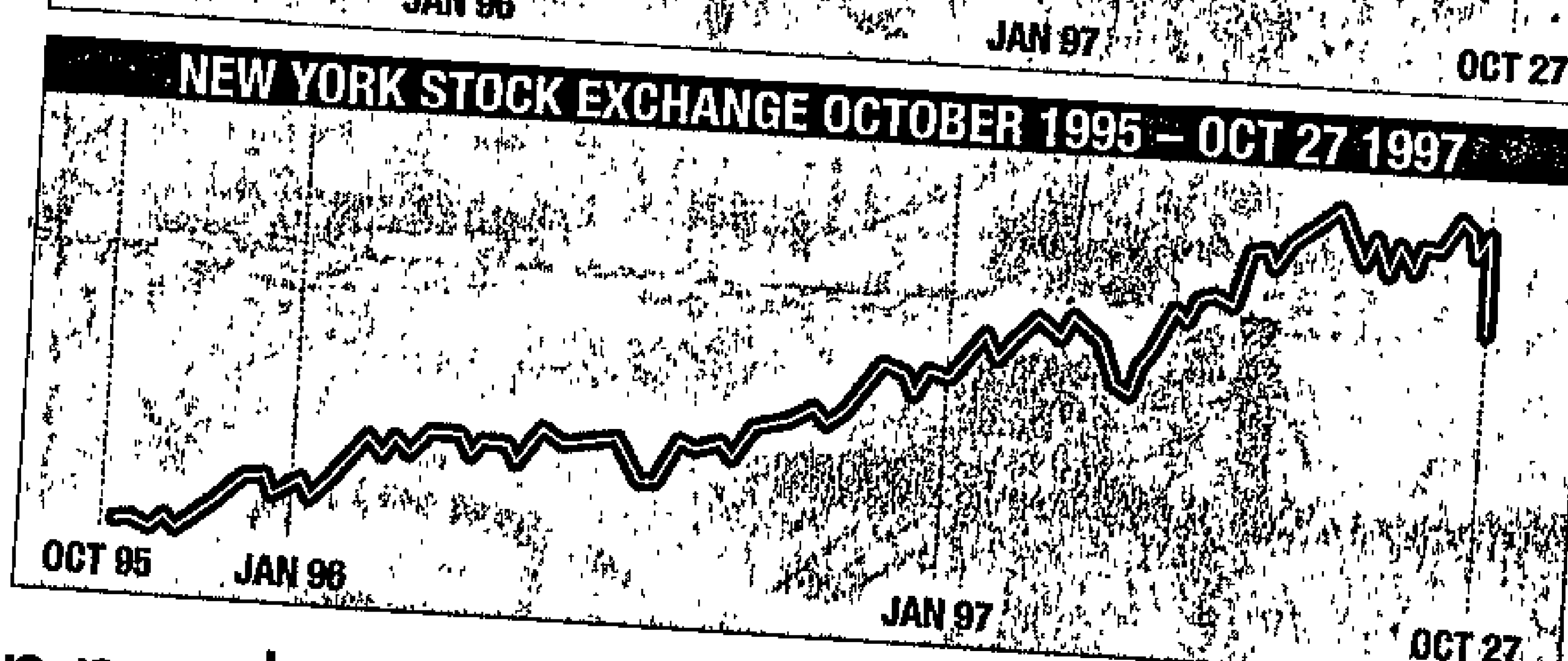
Pressure had been put on the rand by foreigners who appeared to be selling rand-denominated equities, with R4-billion-worth sold off in only four days.

"The result is that interest rates may have to be raised to keep the rand stable and attract foreign investment back to South Africa," an analyst said.

Standard Equities broker Brian MacMillan stressed the world stock market fall since Thursday should still be regarded as a correction rather than a crash, unless panic set in – in which case everyone would be affected.

"Although it is only paper assets which are affected, psychologically everyone feels poorer after a crash," he said.





Keep calm – and plan new investments

BRUCE CAMERON
PERSONAL FINANCE EDITOR

Don't panic yet! Financial markets are volatile and go up and down. Every bull market (rising prices) is always followed by a bear market (going down).

Although financial markets go up and down, they have always gone up by more, increasing the wealth of all investors.

If you are a medium- to long-term saver you should not be considering pulling out in panic now. The underlying fundamentals of world markets remain sound.

Many of the Eastern markets, where the panic started, were over-valued, as were many shares on the New York Stock Exchange. New York was still 14% up in nominal growth from the beginning of the year after yesterday's correction. That means 12% real growth for the year after deducting inflation – an exceptional return.

JSE growth, after yesterday's correction, is about level on the year, but still up over 18 months. The shares of many of the big companies are now under-valued in relation to their assets and expected profits. It should be a good time to invest.

Bank will be able to lend to converted co-operatives

(58)

BD 28/10/97

Louise Cook

PROPOSED amendments to the Land Bank Act which are before Parliament would allow the bank to lend money directly to companies that had converted from farming co-operatives, industry sources said yesterday.

The move would smooth the way for money to reach companies such as Senwes in Klerksdorp and OTK in Mpumalanga, without these companies having to keep a co-operative going as a conduit for the funds.

Up to now the act has required that the bank lend only to co-operatives. This meant that when a co-operative transformed to a company it was disqualified from Land Bank finance unless it retained a co-operative to receive the money.

Land Bank CEO Helena Dolny said half the bank's lending portfolio went to farm co-operatives.

The cabinet had approved the proposed amendments and no difficulties were expected during the parliamentary process.

The large scale economic empowerment of emerging farmers would also get into full swing once Parliament passed the planned amendments, she said. This type of financing would be geared to cut out stringent collateral requirements and provide for new risk management policies.

When the Land Bank took over the financing of emerging farmers from the defunct Agricultural Credit Board three months ago, Dolny refused to take over a R2bn debt portfolio.

The bank said despite its new role as chief financier of emerging farmers, it planned to expand loans to the commercial agricultural sector in the next three years. Industry sources said if the amendments were passed, a range of financial intermediaries would be able to lend to farmers.

Dolny said earlier work on rewriting the Agricultural Credit Act had been stopped and no further loans would be granted in terms of the act.

JSE bounces back after fall

Market takes lead from offshore turnaround

(58)

ARG 29/10/97

BUSINESS REPORTER

Shares on the Johannesburg Stock Exchange (JSE) rebounded today in early trading following its hammering yesterday when a mammoth R108 billion was carved off its value.

The all share index gained 577 points to 6584,4 points in the first ten minutes of trade in the JSE.

The knock-on effect of the stock-market storm in Asia and fears of a further meltdown on New York's Wall Street continued to ripple through the local exchange yesterday, which is viewed internationally as an "emerging market" like its Asian peers.

However, relief may be in sight. Traders heaved a sigh of relief on the New York Stock Exchange yesterday as the market rose a record number of points while a record number of shares changed hands.

The Dow Jones Industrial Average rose a record 337,17 points, or 4.7%. The market had plunged by a record 554,26 points in a shortened trading day on Monday.

NYSE volume hit a record 1,4 billion shares, according to New York Stock Exchange chairman Richard Grasso. An average trading day sees 512 million shares change hands.

Asian stock markets followed Wall Street's lead yesterday, rebounding sharply from the region-wide sell-off that hit Asia early in the week.

Hong Kong's stock market rose more than 16% by the close of the early trading session today..

Dealers and analysts warned that the Hong Kong market would remain volatile. Share prices on the Tokyo stock market also rebounded sharply today in response to Wall Street's massive rebound. The Nikkei Index of 225 leading shares jumped 564,93 points, or 3,4%, from yesterday's close.

On the Johannesburg Stock Exchange, yesterday's 11,2% decline to 6007,4 points was the largest fall in percentage terms since the last world stock market crash in October 1987, when the JSE dived 11,8%.

Meanwhile the rand was quoted at R4,83 to the dollar last night, from Monday's close of R4,78.

The rand was nearly eight cents weaker at its worst level yesterday after a three-cent fall on Monday.

Forex dealers were confused by apparently contradictory statements from the Reserve Bank governor Chris Stals at the Sacob convention in Somerset West.

JSE loses 11% as world bourses plunge

(58)

BD 29/10/97

Lukanyo Mnyanda

THE Johannesburg Stock Exchange crashed by more than 11% yesterday, losing about R108bn of its market capitalisation after huge losses on Wall Street on Monday left world bourses reeling.

However, there was a glimmer of hope after the JSE closed as the Dow Jones industrial index had regained 138 points to 7 299 by 2pm in New York, despite having lost 160 points in early trade.

The JSE's all share index dropped by 756 points or 11,2% to 6 007 — the highest one-day points fall and almost 400 more than the 330 points lost in the "Black Monday" crash of 1987. It was the second-largest percentage fall after the 11,8% plunge of October 1987.

Foreign selling also played havoc with the rand, pushing it to its weakest levels yet against the US dollar and British pound. The rand, joining the downward slide of other emerging currencies, lost more than 8c against the dollar to close at R4,8615 and shed 27,74c against sterling to R8,1753.

Yesterday's global market slide followed a 7% free fall on Wall Street on Monday which caused trading to be halted. Emerging markets took the brunt of the punishment, although European stocks were also hard hit.

London's FTSE 100 index closed 85 points or 1,2% down to 4 755, having recovered from a fall of 458 points earlier in the day.

The Frankfurt DAX gave up 10% to finish at 3 492 points and Paris's CAC index shed 118 points to 2 651.

Hong Kong's Hang Seng index, which sparked the initial crisis with a 10% fall last Thursday, fell a further 13,7% yesterday as the Hong Kong dollar continued to come under speculative attack. Japan's stock market was more resilient with the Nikkei 225 index limiting its losses to 4,3% or 726 points to 16 313.

Comment .... **Page 15**
More reports .... **Pages 18 and 19**

Local dealers described the day's events as "frightening" as fearful investors rushed to retrieve their investments from the beleaguered market.

JSE equities manager Mike Bastenie said the exchange had recorded the highest number of deals in its history at 17 336 in trade valued at more than R1,5bn. But he was reluctant to describe yesterday's fall as a crash, saying it was a "temporary correction". The JSE was unlikely to halt trade in the event of a similar fall today.

Market capitalisation leader Anglo American Corporation emerged as the biggest loser, having shed R34 or 16,2% to close at R176, pushing its losses since last Wednesday to R20bn. It was temporarily dislodged into third place after De Beers and SA Breweries, having gone as low as R169, but recovered to second place.

SA's gilts came under renewed selling pressure as foreigners continued to flee emerging markets, leaving the government R150 long bond above the 15% yield level for the first time since January. It closed 67,5 basis points weaker at 15,105% from 14,430% the previous day and far off the 13,61% it hit last Wednesday.

The futures market recorded its worst losses for the second consecutive day with the SA Futures Exchange posting a record daily turnover of R6bn — almost four times that of the JSE.

Outflow of foreign capital as panic hits

(49) (58)

Greta Steyn

BD 29/10/97

SA HAS experienced huge foreign capital outflows over the past two days as panicky foreign investors scrambled out of emerging markets.

Bond exchange figures showed foreigners sold a net R1,68bn in bonds on Monday after dumping almost R1,3bn on Friday. Yesterday's gyrations in the bond market suggested the net selling continued. Foreign investors were also unwinding long rand positions in the currency market.

"Past equity market crashes have been good for bonds, but the huge foreign participation in the local market has changed that," said Chris Kenny, treasurer of West Merchant Bank. Offshore investors are looking for liquidity irrespective of the fundamentals of the local bond market. There has also been huge speculative activity in the forward currency market, which has caused a liquidity drain."

Analysts said the foreign capital drain had left the money market short of cash, causing interest rates to shoot up as hopes of an early second cut in Bank rate faded. The money market shortage — the cash banks have to borrow from the Reserve Bank to square their books — surged almost R3bn to more than R7bn.

Standard Bank foreign exchange director Willie Potgieter said foreign banks had been unwinding long rand positions and there was strong demand for dollars in the forward market.

Traders said the forward market presented arbitrage opportunities because of the wide gap between money market yields and higher interest rates in the forward market.

Continued on Page 2

Capital

Continued from Page 1

According to ABN Amro, the effective borrowing costs for one month in the forward currency market had surged from 10,06% on October 17 to 17,45% yesterday.

ABN Amro said it believed the Reserve Bank had used the forward market to defend the rand without denting its reserves.

The central bank had sold dollars in the spot market and had at the same time bought dollars in the short end of the forward market. The result had been an "aggressive" rise in forward margins, creating opportunities for market players.

Tim Cohen reports from London that Barclays Capital Group economist Nick Douch said countries with recent high inflows of capital were particularly vulnerable, and as SA had had reasonable capital inflows recently, it had been caught in the wider sell-off. Developing markets were particularly vulnerable and SA was being painted "with a roller brush" as markets were not attending to the finer details.

Standard Bank group economist Nico Czypionka said SA's growth potential was hindered by a low level of domestic savings which was being compensated for by foreign capital inflows. This was a major reason why SA was particularly vulnerable to market movements around the world.

COUTTS BANK

Blue blood bankers target SA's upper crust

(58)

Personal baronial banking now available to certain echelons of the great unwashed

FM 31/10/97

South Africans with sufficient funds may soon be able to boast the same banker as Britain's Queen Elizabeth. That's because private bank Coutts, banker to the royal family, is using its alliance with BOE Private Bank to create new business opportunities "We're increasing our profile in SA in anticipation of the liberalisation of exchange control regulations," says chairman Sir Ewen Fergusson, who visited Cape Town last week.

Though precise amounts aren't set in stone, the ballpark figure for prospective clients is an annual income of about £100 000 (about R770 000) and liquid assets of £250 000.

Coutts' intensified presence in SA is part of its strategy to increase its position as an international private bank. Traditionally a British bank aimed at providing personal financial services to high net worth individuals, it has recently restructured and now has operations in 16 countries. Fergusson says as clients are increasingly demanding global financial services, international private banking is one of the fastest-growing sectors in banking.

The alliance with BOE Private Bank emerged after NatWest Securities bought a 50% stake in BOE Securities, forming BOE NatWest Securities Because Coutts is NatWest's wholly owned private bank, the two were introduced. Though it will offer BOE Private Bank clients global advice, its association doesn't prevent it from encouraging relationships with other financial institutions, Fergusson says.

Coutts was reluctant to become active in SA before the partial relaxation of exchange controls. Now that the complete removal of regulations seems likely, Fergusson feels the bank must make its presence known. "And now that South Africans are trading and working internationally, they have far greater needs for global advice," he says

"We're careful about to whom we offer our services," Fergusson says "We guard our reputation closely and need to know the origin and source of wealth that is placed with us."

It's unlikely Coutts will accommodate individuals who exceed credit limits, though this may depend on special circumstances Correspondence culled from the Coutts' library indicates founder Thomas Coutts indulged the cash-strapped Prince of Wales, later George IV, to the tune of £20 000. The bank couldn't extend further credit to the Prince, but offered to loan him a further £20 000 in his personal capacity. That's personal service.

Heather Formby

***Sir Ewen Fergusson** . . . quick on the draw?*

New Republic's 'good, solid performance'

ET (Pr) 31/10/97 (58)

Shirley Jones

Durban — New Republic Bank yesterday posted a 200 percent rise in taxed income to R8,5 million and a 45,7 percent increase in fully diluted earnings to 15,3c a share in the six months to September.

But Jonathan Scott, the bank's chief executive, said the results were not spectacular. "We don't want to show spectacular profit. These indicate a good, solid performance. I am not interested in ramping the company."

But the performance has cemented the restructuring strategy initiated after SMG Holdings, headed by Malaysian financier Dato Samsuddin Abu Hassan, took over the bank.

New Republic Bank, which was struggling with liquidity problems two years ago, registered a healthy 54,6 percent growth in resources.

Capital adequacy remained well above the industry norm at 22 percent.

The bank's cost-to-revenue ratio also dipped significantly to 64,5 percent against 69,4 percent last year.

Advances grew 31,6 percent over the period, boosting net interest income by 26,6 percent to R24,044 million in the face of continued pressure on margins. This, together with a strong performance from merchant banking, lifted total income by 17,1 percent to R39,179 million.

The provision for bad and doubtful debts was lowered by 66 percent to R3,128 million after the bank's year-end restructuring, leaving pretax income 220 percent higher at R10,771 million.

The reduction in assessed tax losses saw taxation rise while attributable income totalled R8,409 million, a 200 percent increase.

Scott said the bank's performance was achieved by focusing strongly on growth and strong performances from commercial property, rental and structured lending, factoring and invoice discounting, and a notable improvement from its financial services division.

Merchant and investment banking had made a good contribution, while the bank's asset management unit had delivered satisfactorily.

He said the bank's growth was noteworthy because it had been organic rather than acquisition driven. There had also been a significant contribution from the six innovative new senior managers brought on board, and there would be more to come.

The turnaround was "just the beginning" and New Republic Bank had a long way to go, but it was on track to achieving the 30 percent year-on-year growth that had originally been targeted.

COUTTS BANK

Blue blood bankers target SA's upper crust

(58)

Personal baronial banking now available to certain echelons of the great unwashed

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Sir Ewen Fergusson . . . quick on the draw?

SA banks set to introduce cash cards

(58)

BD 3/11/97

Tim Cohen

LONDON — Standard Bank and Absa are set to buy into the Mondex international cash card franchise, paving the way for the widespread use of electronic cash in SA.

Industry sources said negotiations were about to be tied up and the two banks would become the first in SA to join an international smart card standard which would allow credit-card sized cash cards to be substituted for physical money.

Standard Bank media relations manager Erik Larsen confirmed yesterday that talks with Mondex were taking place. Absa could not be contacted for comment.

The advantages of card cash are that transactions are substantially cheaper to process and can therefore be used conveniently for everyday items. They are far more secure than cash as the amount on the card can be locked in with a pin number.

Typically, an amount would be downloaded on to a card at an automatic teller machine or down a telephone line and payment made through a device that is similar to a credit card machine, except there is no need to clear the transaction with a bank.

A particular advantage of the system for the banks is the facility to introduce "add ons", which allow the card to be used for purposes other than providing electronic cash.

The system, which operates off an open platform called Multos, allows the card to be used for such things as access to buildings and to build up store or brand loyalty benefits.

For retailers, the system is more convenient than cash because cashing up is quicker and more precise, says David Birch, a director of consultancy Hyperion. It is significantly safer for banks because there is no need to move large amounts of cash around the country in armoured cars. Small transactions can be handled cheaply, and formal bank accounts are not necessary to own and control smart cards.

Birch said the Mondex system, backed by Mastercard, was considered the most cash-like system available. It was considered more advanced technologically than other systems, although the sector was very competitive and others, notably Visa Cash, had significantly more cards in the market.

Mondex was, however, one of the most internationally used cash card systems, and was backed by leading banks and retailers in 27 countries.

Pilot projects have recently been announced in Australia and New York, while the system is already in use in the UK, Hong Kong, the Philippines, Canada and New Zealand.

Mondex claims to have 500 000 cards in use and says this will rise to 5-million by the end of next year.

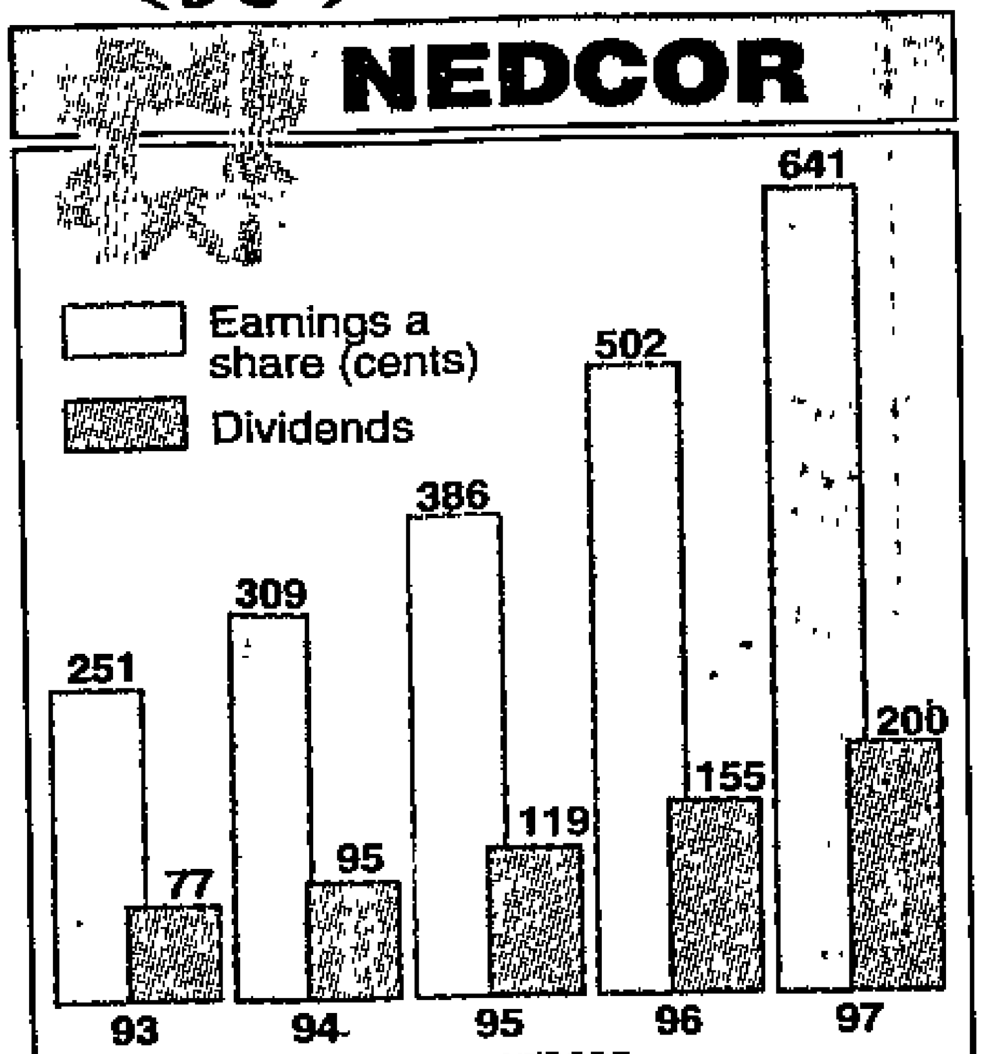
Recently New York's two biggest banks, Chase Manhattan and Citibank, began testing to see how readily consumers and merchants would switch from cash and coins for smaller purchases to the card cash.

Citicorp's Citibank will issue Visa Cash cards to its customers, while Chase Manhattan will go for the Mondex product.

Nedcor wins the race to reduce ratio

BD 7/11/97 (58)

Belinda Beresford



Graphic SARAH EVANS Source NEDCOR

BANKING group Nedcor increased earnings a share by 28% for the year to September and became the first of the "big four" to pull the cost-to-income ratio below the benchmark 60%.

Reflecting higher interest rates, interest expense rose 21% to R10,2bn against a 19% increase in deposits and other accounts to R87,3bn. In a similar vein, interest income rose 19% to R13,6bn while year-end advances of R77,9bn were 17% up on the year.

Chairman Chris Liebenberg said the "barrel had not been scraped" to achieve the results and believed the group still had untapped potential.

CE Richard Laubscher said the group would sign a deal next Monday to take a stake in a Mauritian bank, believed to be State Bank of Mauritius. Nedcor had also been approached by a large US company regarding potential ventures with the SA company's Australasian tie-up with Dimension Data.

Laubscher attributed the group's success to its strategy of segmenting both internally and with respect to retailers and corporate customers. Nedcor had evolved out of the conventional and to some degree unsuccessful need to be all things to all people he said.

The restructuring included closing about 55 branches of the Permanent

Continued on Page 2

Nedcor (58)

Continued from Page 1

BD 7/11/97

Bank and closing or relocating more than 2-million customer accounts.

Reflecting a generally more conservative approach to advances, specific and general bad-debt provisions were raised by 42% to R473m, a notable part of the increase being due to provisions against subsidiary Syfrets' property portfolio. As it was, Syfrets' three-year profit growth record ran out of steam and the subsidiary reported an increase of only 1% to R102m in its contribution to the group's results.

Nedbank Investment Bank had been a star performer and Laubscher expected high sustainable growth. From the beginning of last month, Nedbank Investment Bank, Syfrets and UAL were amalgamated to create Nedcor Investment Bank. An international partner is expected shortly.

After achieving a cost-to-income ratio of 58,7% from 61,4% last year, Laubscher said the group was now aiming for 55% within three years.

Nedcor had achieved a return on equity of 23,2%, but "still had some way to go" given that UK-based Lloyds' had managed 32%. Shareholders' funds increased 28% to R6,9bn. Margins declined to 3,97% (4,10%).

The foreign banks that have arrived in SA in recent years have chosen the corporate finance market as one of their principle targets. Fortunately for SA players, the explosive growth in mergers, acquisitions, management buyouts and unbundling has created a rich deal flow. CIARAN RYAN reports

ST(BT) 9/11/97

(68)

Unbundling makes a big deal out of 1997

ALL records for mergers and acquisitions activity look set to be broken this year, according to a preliminary analysis by Ernst & Young.

The value of the 280 published deals transacted so far this year is almost R70-billion, beating last year's total of R62-billion in 276 deals.

There have been 10 mega-deals (valued at more than R1-billion) with a combined value of R37-billion, as against 18 mega-deals for the whole of 1996 with a total value of R40,1-billion.

The largest transaction announced this year was the proposed R19-billion merger of Gencor and Gold Fields of SA into Goldco, the largest deal in South African history. As it is yet to be concluded, it is not included in the Ernst & Young figures, but would lift the total value of deals so far this year to R89-billion.

Unbundling has been the largest single source of merger and acquisition activity, accounting for deals valued at R19,8-billion (28% of the total) so far this year. In 1996, unbundlings accounted for 18% of activity.

A total of 14 black empowerment deals so far were valued at R1,77-billion (2,5% of the total), including only deals with published values. In 1996, black empowerment accounted for 11% of activity, largely due to three large deals: the acquisition by African Mining Group and HCI of 34,9% of JCI for R2,9-billion; the R1,6-billion restructuring of New Africa Investments and the National Empowerment Consortium's acquisition of 35% of Johnnic for R2,6-billion.

There have not been any black empowerment deals of comparable size in 1997.

Another salutary trend this year is the increase in inward investment by foreign companies. Ten inward investment deals valued at R6,3-billion (nearly 9% of the total) so far this year, compares with inward investment of R4,1-billion for the whole of 1996.

Dave Thayser, corporate finance partner at Ernst & Young, says the rand's stability after the turmoil of 1996 appears to have stimulated inward investment.

Dow Chemicals made a R2-billion bid for Sentrachem, a deal not reflected in the figures, and the SBC/Telekom Malaysia consortium acquired 30% of Telkom for R5,6-billion. SBC's 18% share was valued at R3,38-billion, while Telekom Malaysia's 12% was valued at R2,2billion.

There have been 24 outward investments so far this year with a total value of R4,8-billion, compared to total outward investment of R6-billion in 1996. This does not include Sappi's recent R3,5-billion purchase of KNP Leykam in the Netherlands.

"South African companies are continuing to roll out their international expansion strategies," says Thayser. "The fact that they can now use their domestic balance sheets to collateralise offshore borrowings is clearly helping this process."

Anglo American's R3,38-billion unbundling of its interest in Rustenburg Platinum, followed by the creation of Anglo American Platinum through the merger of Rustenburg, PP Rust and Lebowa Platinum was another giant deal of note.

The Bidcorp pyramid was unbundled by way of a distribution of Bidvest shares to shareholders. Bidvest then acquired the business and trademarks of the Waltons group for R966-million.

Malbak unbundled its interests in SA Druggists in a deal valued at R2-billion. It also unbundled Ellerine (R1,3-billion), Foodcorp (R1,15-billion) and Nu-Clicks (R611-million).

Servgro unbundled its interests in Interleisure and sold various Ster-Kinekor businesses to Primedia for R1,5-billion. It also unbundled its holdings in the Forbes group for R1,2-billion and in Avis for R816-million.

"The increase in unbundling activity in recent years suggests South African business is continuously reshaping itself in a quest for greater efficiency," says Thayser. "Companies are feeling pressure from investors to unlock shareholder value bottled up in control pyramids."

Another notable feature of 1997 has been the pace of activity in the electronics sector. The R2-billion merger of Persetel and Q Data created a new electronics giant, while Dimension Data continued to expand abroad, acquiring Datacraft Australia for R1,1-billion and UK-based The Merchants Group for R230-million.

Another group busy expanding abroad is Mondi, which acquired a further 15% in Mondi Europe for R752-million, while SBC Warburg acquired just under 9% of Johnson Matthey from JCI for R802-million and distributed the shares to foreign institutions.

According to Ernst & Young's 1996 Review of Merger and Acquisition Activity, buyers paid an average price: earnings ratio of 19, slightly lower than 1995's figure of 20. This was still nearly double what they paid in 1991. Buyers paid an average of 112% above the target company's net asset value in 1996, versus 123% in 1995 and 136% in 1994. The premium to JSE share price paid by buyers was 11% in 1996, as against 9% in 1995.

Thayser says recent stock-market volatility may blunt investor appetites for deals and force some companies to put planned deals and listings on hold for the time being.

An all-encompassing service

SOME of the terms used in the financial services sector are understandably confusing to the layman, particularly when the meaning of these terms have changed over time.

Corporate finance, as the name suggests, originally referred to the raising of debt and equity finance by corporations. According to the book *Investment Banking and Brokerage* by John Marshall and ME Ellis, this embraced new share issues (and new listings), rights issues and issues of debt instruments such as debentures and commercial paper (a form of short-term debt instrument issued by companies which can be traded in the money market).

Many overseas banks now refer to their corporate finance divisions as corporate advisory services, reflecting the more general nature of work performed for client companies. They advise clients in new listings, rights issues, debt issues, mergers and acquisitions, corporate and capital restructuring, black economic empowerment (in South Africa), privatisation and anything to do with financing the activities of businesses.

Traditionally, corporate finance was the domain of merchant banks, but competition from commercial and investment banks, stockbrokers, legal and accounting firms has thrown the market wide open. Some corporate finance houses specialise in certain sectors, while some global banks have specialist teams, backed up by research analysts, dedicated to specific sectors and able to advise on finance issues and global trends and opportunities.

Banks with sufficiently large balance sheets will not only advise clients on corporate finance, but may underwrite new debt and equity issues, take up a portion of the equity, and place shares (and debt) with institutional investors.

Where a bank is both adviser and underwriter of a new share issue, there may be a temptation to price the shares to the bank's advantage. Chinese walls are erected between corporate finance and other bank divisions to ensure clients' rather than the bank's interests are served.

Bank plans set of reforms for markets

BD 11/11/97 (58)

Greta Steyn

THE Reserve Bank would recommend that further relaxation of exchange controls occur in March next year to coincide with other sweeping reforms to the financial sector, governor Chris Stals said yesterday.

"The introduction of a repo system in the money market, the appointment of primary dealers in government stock, and further easing of exchange controls more or less at the same time would constitute a mini 'big bang' in the SA financial markets," he said. The Bank still believed in gradual easing of exchange controls, although it was feeling more relaxed about the issue.

Stals was commenting on market talk that he and Finance Minister Trevor Manuel had been "very bullish" on exchange control relaxation at a closed conference held by Standard Bank in Cape Town at the weekend. Standard Corporate & Merchant Bank (SCMB) said in a note to clients the policy makers' statements were a "significant vote of confidence in the anticipated reaction of financial markets".

The comments of Stals and Manuel at the weekend were seen as one of the reasons for the bond market's significant strengthening yesterday. The benchmark R150 stock pierced the key 14,50% yield level from 14,80% on Friday, but closed off its best at 14,57%.

Stals declined to be drawn on what steps would be taken next to ease controls. He said he was encouraged that the total outflow of individuals' foreign currency investments had been only R440m from July to October.

Market sources said the Bank was looking at allowing companies to make offshore portfolio investments similar to those applicable to individuals, although the limits would obviously be much higher. The result would probably be that export proceeds would remain offshore for longer. Sources said the Bank was also looking at allowing foreign companies listed on the JSE to repatriate funds raised locally.

Bond market traders said exchange controls on SA banks' activities in foreign bond markets would have to be eased at the same time. "The playing field between local and foreign banks acting as primary dealers should be levelled. Local banks should also be able to hedge their exposures on foreign markets," an analyst said.

Primary dealers in government stock are scheduled in April to take over the central bank's function of selling stock to fund the budget deficit. A repo system, in which the Bank conducts repurchase agreements for securities at variable interest rates, is to replace the Bank's present system of providing cash to banks at a fixed rate.

Analysts said the three major reforms scheduled for March and April would reduce the central bank and government's control over financial markets — an imaginative and courageous move. The fact that these reforms would take place around budget time and possibly coincide with a Bank rate cut reinforced the strong message of confidence being sent to investors.

In notes prepared for the weekend conference, Manuel said government would like to reduce the income tax

Continued on Page 2

Reforms

Continued from Page 1

rate, but that would be possible only if the tax base was broadened and tax avoidance curbed.

SCMB said Manuel outlined his plans for deficit reduction, emphasising reprioritisation of spending: "For example a phase-out of services for higher income earners, such as education subsidies, and a sharp reduction in defence spending."

The note said the Bank was considering a change in its policy of releasing information after the markets' close, as it was a disadvantage to local market participants.

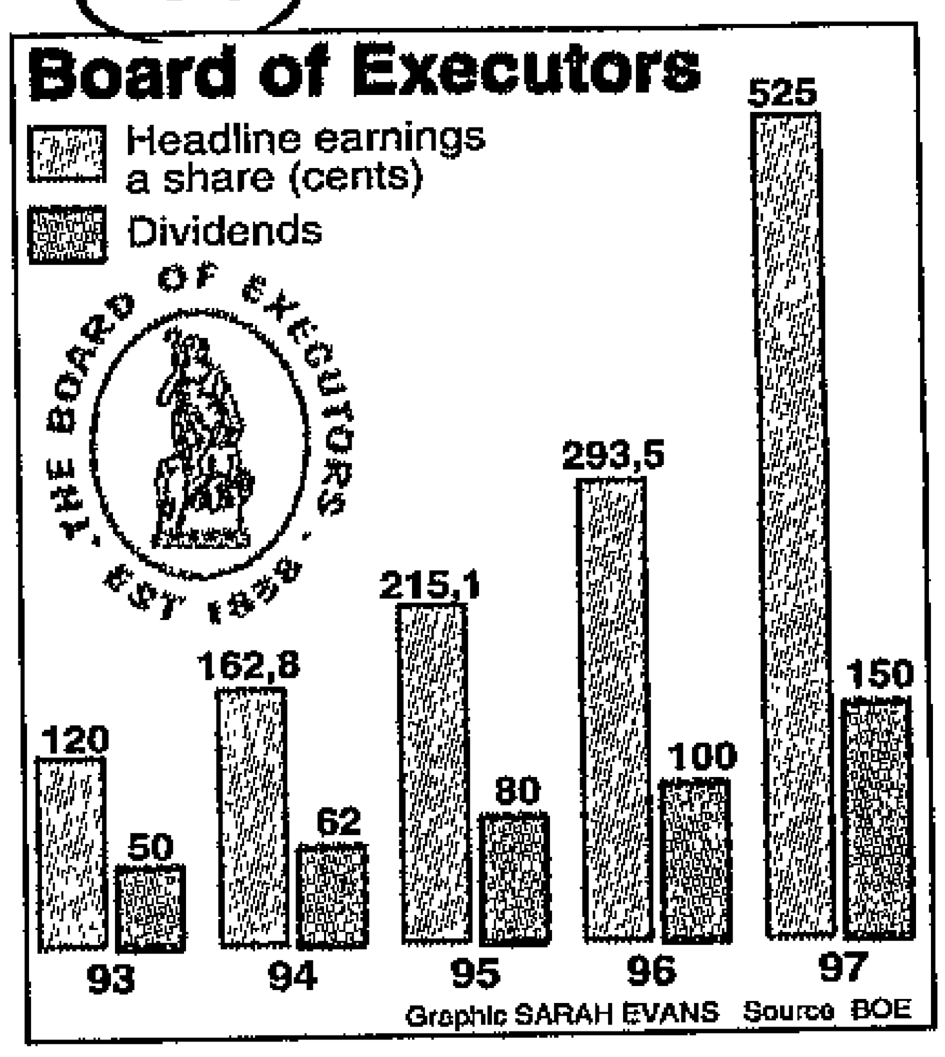
It said participants at the conference had been encouraged by Stals's assurance that the Bank was shifting policy away from the forward book as a means of intervention in the currency market. "Instead, the Bank is moving towards best international practice, using offshore facilities when additional liquidity is needed in the currency markets," SCMB said.

Growth all across the board for BoE

BD 11|11|97

(58)

Samantha Sharpe



CAPE TOWN — The new-look Board of Executors (BoE) reported a 79% surge in headline earnings to 525c a share for the year to September, which analysts said hinted at value unlocked by its partnership with Christo Wiese's group and the creation of investment holding group Orion Selections.

The strong growth excluded the effects of assuming ultimate control of Orion Selection Holdings and effective control of NBS Boland, which took place after year-end.

BoE MD Philip Biden said the latest set of results, which reflected only a half-year contribution from its initial 19% stake in banking group NBS Boland, also indicated substantial new business inflow and excellent performances from core activities.

Assets under administration grew 80% in the period under review, with 35% of the group's attributable income sourced from its core business, 13% from private banking, 8% from its joint venture with NatWest and 44% from its own investments.

The BoE group's net margin rose

Continued on Page 2

BoE

BD 1|11|97

(58)

Continued from Page 1

57% to R91,3m in the period under review, with dividends from long-term investments at R24m compared with R8m at the same time last year.

A 96% increase in fees and other income brought total income 88% higher to R346,3m, which was accompanied by an increase in specific and general provisions to R11,3m from R7m.

Stripped of a 78% surge in operating expenses to R189,7m — "expenses marched up, but at a slower pace than revenue" — net operating income showed a 104% rise to R145,3m. Factoring in the surplus sale of its investment in Norwich Holdings for R19,1m and the share of capital and other items of associated companies, pretax income stood at R204m from R91,8m.

The group's cash balance stood at R89,3m. However, on the pro forma consolidation of Orion Selections Holdings and Orion Selections this would have stood at R6,9bn, providing a strong base for future acquisitions, Biden said. Total assets on a pro forma consolidated basis would have been reflected at R46,8bn compared with the R7,8bn stated in the year-end figures.

BoE executive chairman Bill McAdam said the group was confident of maintaining at least its historic compound growth rate in earnings, as all operations continued to perform strongly and the full effect of post year-end acquisitions and disposals came into effect.

year, also made a healthy contribution. financial year, Ryan said. continued year-on-year growth

Coronation's unit trust management Coronation tapped shareholders for highlight of the period, Ryan said.

African Merchant Bank enjoys fruits of black empowerment

Belinda Beresford

CONTINUED changes in economic ownership, including black empowerment initiatives and demutualisation, should ensure continued success for African Merchant Bank (AMB), CE Rob Dow said yesterday.

AMB is due to list on the Johannesburg Stock Exchange on November 21.

Speaking at an Investment Analysts' Society presentation yesterday, Dow said the company expected a consistent increase in earnings a share of between 25% and 30%. It forecast next year's revenue at about R125,6m from R60,5m this year and earnings of 56,7c a share compared with 44,5c.

Brokers Smith Borkum Hare forecast earnings for next year of 57,8c a share and 74,6c the following year. It based its forecasts on continued, strong black-empowerment deal flows, lower costs structures after set-up costs were completed and a lower effective tax rate as some initial costs were not tax deductible.

AMB shares would be listed at R8, giving a share price to net asset value (nav) of 1,77, Smith Borkum Hare said.

However, given the expected high earnings growth and prices of similar young companies such as Capital Alliance, Smith Borkum Hare said the counter could initially trade at between two and 2,5 times nav, translating into prices of between R9,05 and R11,30.

(58)

BD 11/11/97

Rehabilitation centre boasts globally linked assessment system

Josey Ballenger (SD) (68) (399)

BD 11/11/97

THE FIRST specialised physical rehabilitation unit in SA using an "internationally accepted" assessment system which allows domestic cases to be compared to a database of more than 3-million patient records worldwide was opened formally last night at Johannesburg's Brenthurst Clinic.

The unit is affiliated to 1 200 rehabilitation hospitals in 18 countries. The assessment system, licensed in SA to the Physical Rehab Group, aims to quantify financial and legal implications for employers and insurers and medical aid and lifestyle changes for patients and their families.

The unit assesses a patient's functional ability before treatment using 18 different measurements and predicts the optimum degree of improvement in areas such as self-care, mobility and mental abilities, as well as the cost and duration of treatment.

The service was "invaluable to insurers and medical aid schemes," said Prof Stephen Louw, head of the group's SA academic base at the University of Cape Town.

Louw said although physical medicine and rehabilitation was relatively undeveloped in SA, it was well established overseas. Physical rehabilitation patients are those disabled by strokes, sports, motor or work-related accidents, crime attacks or any activity that brings injury to the brain or spinal cord.

Dr Nilesh Patel, director of clinical services, said the group planned to open more units in Gauteng, Cape Town and Durban, but that it was not financially viable to operate in areas where patients did not have medical aid. The Brenthurst unit, which has been operating for about a month, has treated some 20 patients so far.

Physical Rehab Group is a joint venture between hospitals group Afrox Healthcare and medical aid and clinics group Specialised Healthcare Services.

BoE more than doubles yearly attributable income to R160m

(58) CT(BE) 11/11/97

REAL CONTENDER *Bill McAdam, BoE's executive chairman, says the year has been characterised by changes* PHOTO ANDREW BROWN

Marc Hasenfuss

Cape Town — The Board of Executors, which has emerged as a real contender in the big financial services league, said yesterday it had more than doubled attributable income to R160 million in the year to September 30, with substantial new business inflows and a solid performance from all divisions.

Earnings, diluted by additional scrip in issue, came in 79 percent higher at R7,18 a share.

The dividend was lifted 50 percent to R1,50.

Bill McAdam, the executive chairman, said yesterday the year had been characterised by massive transformation, including the acquisition of a controlling stake in Orion Selection Holdings and effective control of NBS Boland.

He said BoE and its associates, Orion Selections and NBS Boland, remained flush with almost R7 billion of cash on hand.

"But with the volatility in the markets, we are not in a rush to spend our cash resources.," he said.

"We might, however, drive a harder bargain in the local and international acquisitions that have been on the cards."

McAdam noted that if the six-month contribution from NBS Boland and other transactions were excluded from the figures under review, BoE would have still managed a 51 percent increase in earnings from its existing financial services businesses.

"As we promised some years ago, the little old granny of Wale Street in Cape Town has lifted her skirt and started to sprint."

Phil Biden, the managing director, noted that the substantial level of new business inflows brought an 80 percent increase in assets under administration from R18 billion to R32 billion.

"This is what drives growth at BoE, and, coupled to strong inflows in our unit trust division, resulted in BoE Asset Management contributing 35 percent of bottom line," Biden said.

He said BoE Private Bank, which will be bolstered by a R100 million investment next year, also performed strongly.

Despite speculation of a pending break-up, Biden stressed it was business as usual at the BoE NatWest joint venture.

"We are in discussions to realign our relationship with NatWest Markets, but we are entirely relaxed about matters and are not losing any sleep," he said.

Commenting on the marked increase in operating expenses, Biden argued that these were growing at a slower pace than revenue.

"Expenses also include performance bonuses ... so it's a sign of success and not of expenses getting out of control. Our cost ratio is still under 50 percent."

Good Hope (58)
bank sets sights on expansion

ARGT 13/11/97

DEPUTY BUSINESS EDITOR

The 167-year old Cape of Good Hope Bank could take the plunge and spread its wings outside the Western Cape, possibly even overseas, once a process to rectify its weaknesses, mainly in the information technology field, is completed by the end of 1998.

Cape of Good Hope Bank MD Mike Thompson said yesterday the bank aimed to be a world class, niched, regional bank, but its growth would be sustained by expanding markets, forging strategic alliances and identifying and expanding into new market opportunities.

There were no substantial new initiatives in this respect during the year to end-September, but the new year held some promise, Mr Thompson said.

During the past financial year, Cape of Good Hope Bank lifted net income a creditable 24% to R44,6-million.

This was hampered only by the lower than expected profit from the instalment credit and leasing operations which suffered mainly from the effects of high interest rates, low volume growth and a higher incidence of bad debts, particularly in the transport sector.

COMPANIES

African Life boosted by Botswana operation

Belinda Beresford (58) BD 13/11/97

LIFE assurance group African Life has lifted income above R1bn for the first time for the six months to September after revenue from its Botswana operations was included in the results.

African Life CE Bill Jack said he was happy with the figures, which indicated the Botswana deal had been put to bed. "It is a very substantial business. (It is) beginning to turn around already and has inculcated African Life culture."

African Life now has a 57,2% stake in Botswana Insurance Holdings after announcing yesterday it had acquired another 25,4% stake in the company. The Botswana operation contributed about R925m to the group's total assets.

Jack said the company was considering other opportunities both inside and beyond the Southern African Development Community region, but that nothing would be finalised during the present financial year. He said African Life was considering extending operations outside its traditional lower-income market.

Jack said African Life had produced compound growth of about 40% over the past 10 years. Although he did expect growth rate increase for the life company to soften eventually, he was confident the group would produce similar growth rates in the future. One of the reasons for the move into Botswana was to compensate for future slackening in the growth rate of the core SA business.

Cape bank plans growth

(58)

BD 13/11/97

Samantha Sharpe

CAPE TOWN — Nedcor subsidiary Cape of Good Hope Bank could soon stretch its wings beyond the borders of the Western Cape as part of its future growth strategy, MD Mike Thompson said yesterday.

Thompson said its current niche position as a strong regional player would not sustain the bank through to the next century.

"There is no clear growth path, but we know we might have to move beyond our traditional Western Cape base ... and we are currently preparing for that."

Increasing competition from foreign banks had resulted in local players traditionally operating an the top end of the corporate market moving into the Cape of Good Hope Bank's own market segment, Thompson said.

Increasing information technology-related efficiency was also compensating for otherwise poor service, eroding the bank's traditional advantage in the area of good service provision.

The Cape of Good Hope Bank had decided to enhance its position in the Western Cape and beyond, and together with alliance partners, to exploit new market niches in a totally unique way, Thompson said.

He said market talk that the bank had already entered into a deal with Portuguese banking group BCP was unfounded. "We have spoken to them, but we have been talking to a lot of people, although none of these talks have come to anything."

But it was likely that tie-ups with a number of parties could come to fruition in the new financial year. "We continue to tap into products offered by other people, which we can bring to our clients."

In preparation for future growth, the bank was in the process of beefing up its technology platform, with information technology spend at between 15% and 16% of total expenditure compared with 10% previously.

Enhanced delivery processes and operational systems would serve to maintain a competitive position in the market place.

Empowerment fund debut is uneventful

Business Day Reporter

BD 13/11/97

SA EMPOWERMENT Fund made an uneventful debut yesterday on a Johannesburg Stock Exchange, knocked by renewed weakness in Asian markets, with just more than 1,6-million of the 211-million shares in issue changing hands.

The share price edged up by 15c to 116c from the 100c issue price as shares valued at R1,9m changed hands in 143 deals.

Reuter reports that a trader said the share was unlikely to stage a significant run until the general mood improved.

On Tuesday the fund said its 5-million-share public offer was oversubscribed 2,85 times. The fund is a joint venture between the National Empowerment Corp, Coronation Asset Management and certain trade unions. It aims to benefit a broad base of historically disadvantaged people.

Cape bank to shift focus

(58)

MARC HASENFUSS

CT (BR) 13/11/97 CAPE EDITOR

Cape Town — Cape of Good Hope Bank, Nedcor's Western Cape-based subsidiary, looked set to break out of its traditional market confines, Mike Thompson, the managing director, said yesterday.

"The Western Cape will remain our main area of business that we've done quite a lot of strategic planning and have realised that although regional banking is our strong point, this focus won't sustain us through to the next century."

Thompson stressed that no clear expansion path had been drawn up but the bank could make inroads into other regions in the country as well as offshore developments. "It would be very interesting to clone the bank's operations and drop it into other markets around the country."

He argued that setting up cloned banking operations "from scratch" in other regions would also be cost-effective. He played down speculation that the bank was on the verge of securing an agreement with BCP, the Portuguese Bank.

Aflife breaks R1bn barrier

CT (BR) 13/11/97 (58)

RICHARD STOVIN-BRADFORD
BANKING EDITOR

Johannesburg — African Life (Aflife) Group's total income broke through the R1 billion barrier for the first time in the half-year to September 30, leaping 274 percent to R1,06 billion, the life insurer said yesterday.

The interims also included the results of Botswana Insurance Holdings (BIH), in which the group achieved a 57,2 percent controlling position earlier this week.

"We've made some dramatic changes to BIH, and the steps we've taken are beginning to show through," said Bill Jack, the chief executive.

"We've added another engine and not another carriage," he stressed, commenting on the upside potential of BIH.

"However, the real motor of Aflife's growth is still the local individual life business."

Total individual life recurring premium income climbed 65 percent to R259,9 million at group level, of which R237,5 million was generated in South Africa. Total recurring premium income rose 68 percent to R311,9 million, helped by R52 million of group benefit business.

Aflife wrote R525 million in single premiums compared with R45,7 million last year.

At company level, Aflife's foray into employee benefit business in the local market had led to the acquisition of R396,2 million of new single premium business. Also at company level, individual life single premium business grew by 176 percent to R126,1 million.

Jack drew attention to a change in the accounting treatment of investment income, which soared by 324 percent to R224,6 million at group level and by 47 percent to R77,7 million at company level. Investment income now included realised and unrealised changes in the market value of investments, making the assurer compliant with forthcoming changes in accounting policy.

Group total assets rose 132 percent to R2,8 billion, well above the March 31 year-end figure of R1,3 billion.

The share closed up 5c yesterday at R35,05.

INSTITUTIONS *Not a single query voiced on demutualisation*

All quiet on Old Mutual front

eT(BE) 14/11/97 (55)

Marc Hasenfuss
CAPE EDITOR

JOLLY GOOD FELLOWS *Mike Levett, the Old Mutual chairman and group chief executive, and Dick Goss, the deputy chairman, share a joke at the end of the AGM yesterday* PHOTO ANDREW BROWN

Cape Town — If silence is golden then hordes of Old Mutual policyholders are expecting to hit the jackpot when Africa's biggest financial institution demutualises and lists on the JSE.

This was deduced when not a single inquiry was voiced by the 1 000-strong audience during question time at Old Mutual's 152nd annual general meeting yesterday.

It seems policyholders — despite the speculative froth generated about the benefits of demutualisation — stayed away in droves. Most of the audience were Old Mutual staffers and executives.

Observers were surprised by the muted response from policyholders, considering that Old Mutual's decision to demutualise ranks as one of the most significant financial developments in South Africa this century.

Initially, the media and Old Mutual, judging by the surfeit of security personnel at the Pinelands head office, were expecting a far bigger turnout from policyholders. In fact, the media were advised to arrive early to avoid queues of policyholders.

In his address, Mike Levett, the chairman and group chief executive, said in view of the complexities surrounding demutualising, it could take up to two years before policyholders were presented with a scheme for scrutiny.

"Demutualisation requires detailed investigation, dealing with legislation in other countries, the development of a scheme and an independent evaluation."

Levett stressed that the final decision on demutualisation would be taken by policyholders.

Esann de Kock

Smokers cough up more for life policies

(58) Star 15/11/97

THE COST OF SMOKING: A LIFE POLICY PREMIUM COMPARISON

	SMOKER	NON-SMOKER	DIFFERENCE
SOUTHERN LIFE EXCLUSIVE LIFE POLICY	R288.21	R224.07	28.6%
OLD MUTUAL MAXIMUM COVER POLICY	R269.90	R191.40	41.01%
SANLAM ONE POLICY	R262.00	R182.50	43.6%
NORWICH BEST LIVES POLICY	R317.18	R184.00	72.4%
HOLLARD BEST LIVES POLICY	R333.50	R221.50	50.6%

*The above rates are intended to serve as examples and have been based on specific scenarios. They cannot be absolutely guaranteed.

Graphic: BRANDAN REYNOLDS

These premiums are based on the following scenario: a whole life policy to the value of R500 000 for a 40-year-old man with no serious illnesses and no history of serious family illnesses.

Your smoking habit may cost you dearly – not just in health and the price of tobacco – but also when it comes to your life assurance premiums.

If you've taken out a life assurance policy lately, you have probably had to answer a number of health-related questions, including whether or not you smoke. As a smoker, you could be paying between 20 to 50 percent more for your life cover than a non-smoker.

This is because research, locally and overseas, has shown that smokers have a higher mortality rate than non-smokers.

Chris Thompson, Product Development Actuary at Southern Life, says overseas studies have shown that it is justified for life assurers to charge different rates for smokers and non-smokers. Southern Life has been charging differential rates for smokers and non-smokers for over a decade and so have most other life assurers.

Thompson explains that life assurers simply had to follow suit once one player in the industry started charging differential rates.

If one company was able to offer lower premiums to non-smokers, smokers would inevitably have approached other companies where they were not charged more for life assurance.

This would have landed the other companies with a riskier class of assured lives.

Doug Clothier, Marketing Manager at Old Mutual Actuarial, says although Old Mutual considers socio-economic factors, such as education and income, as criteria in establishing your life assurance premium, smoking is also an important factor.

Clothier says Old Mutual's experience indicates a fairly significant difference between smoker mortality and non-smoker mortality and the company applies completely different prices to smokers and non-smokers.

"At the moment, we have to rely on what people disclose to us when they answer a standard set of questions at the time they take out life cover.

"The questions include information about their smoker status."

But Old Mutual is also investigating the introduction of scientific health tests that can be used to test the level of nicotine in a person's blood.

Sanlam actuary Riaan Heynemann says he envisages that most South African life assurers will make use of some form of testing in the near future – even if they only do so on a random basis.

This could include a saliva test which is apparently popular in the United States and blood tests – possibly one of the most appropriate forms of testing in the South African market where people are already exposed to blood tests to check for the HIV virus.

Heynemann says it is important to keep the level of testing high enough to cut out passive smokers.

He says underwriters of life policies are inclined to send people who smoke about 40 cigarettes a day for lung function tests and perhaps even X-rays. If there is evidence to suggest that smoking is negatively affecting your life policy premiums.

Clothier says although Old Mutual does carry out some checking at the claims stage, it is generally difficult to find out if someone has lied about his or her smoker status.

"There will be situations where something triggers a closer investigation by the claims assessor.

"If it is established that someone lied about being a non-smoker, the cover paid out will be adjusted to include the difference between the premiums paid and premiums that would have been paid had the person been honest."

Clothier says it is not a great system because there is an incentive for you to try and get away with lying about your smoker status.

He says the incentive lies in the fact that there are different rates for smokers and non-smokers and the reality is that rates for non-smokers are therefore probably not as low as they could be.

If people were aware that a scientific test would be done to establish whether they smoked or not, they might be more honest about it.

Warrick Bloom of Hollard Direct Solutions says although smokers will pay substantially more than non-smokers for whole life insurance and term life cover, Hollard believes its renewable term life policy, Life Solution, more accurately addresses most people's need for life cover.

The rates for this product for R500 000 of life cover for a 40-year-old man with no serious illnesses and no family history of serious illness are R215,50 for a smoker and R133,50 for a non-smoker.

Bloom says term life cover means you pay only for the life cover you need.

"Most people who are 65 years old, whose property is paid off and who have no major debts, don't need whole life cover."

DEFINITIONS

If you take whole life cover it means you assure your entire life, no matter how long you live. The policy pays out on the day you die.

Term life cover, on the other hand, assures your life for a fixed period.

The policy matures on a specific date, for instance on your 65th birthday. With this policy you also have the option to extend the term of cover.

SETTING THE PACE

Earlier this year South African life assurer Hollard set the pace for its bigger rivals by offering people who are in ill health a better deal when it comes to paying annuities.

It pays better annuities to the chronically ill who invest a minimum of R25 000.

Similar products have been around for some time in Europe. In Britain a special annuity was also introduced for smokers.

Users win when power becomes a commodity

CT 18/11/97 (58)

RICHARD STOVIN-BRADFORD

At the other end of a videoconferencing link from Rand Merchant Bank's (RMB) head office in Sandton lies RMB Australia (RMBA), the investment bank's wholly owned Australian subsidiary.

Over the years it has grown from being a government debt trading and broking house under the Australian Gilt Securities banner to a fully fledged merchant and investment banking operation. RMB was the first South African investment banking group to set up shop in the Australian market.

"RMB saw Australia as a natural stepping stone for South African corporates," says Michael Brogan, the Australian chairman of RMBA.

"And we're the only South African bank that provides corporate finance support between the two countries."

But RMBA has not stopped at merely providing the conventional services of an investment bank. After becoming involved with structuring a deal for Eskom and Alusaf in 1992, parent company RMB recognised that electricity was a commodity just like the other products traded in its dealing rooms.

"In looking at how we could achieve a competitive advantage in the Australian market, we saw the opportunity to deploy RMB's natural financial skills and trading culture in the deregulation of the Australasian electricity markets," says Sandy Wilkinson, a senior colleague.

It is in the creative application of experience gained in the financial derivatives markets to the energy market that RMBA has carved out a unique niche for itself. "Now we're seen by local banking groups as the leading energy house in Australasia," Brogan says.

In the Australian electricity market, RMBA is a wholesale trader and retail licence holder in New South Wales, allowing it to trade wholesale financial and physical delivery contracts to end-users. It has also formed a joint venture with Energy Group, called RMB Energy Group, which specialises in energy management.

RMBA is also a market participant trader in the New Zealand electricity market, where it trades financial contracts with participants to help them manage price risks.

New Zealand was the first market in the region to deregulate its electricity industry. Ownership of the generation and transmission assets remained with the state but distribution assets were placed in community-based power companies.

"We decided we wanted to pay our school fees there so we could develop our risk management tools around the New Zealand phenomenon, and then migrate these skills to New South Wales and Victoria as the Australian electricity market deregulates," Brogan says.

RMBA soon became involved in electricity futures and derivatives in New Zealand. Then, last month, it cut its teeth in the physical market with the acquisition of PowerBuy Group, a wholesale electricity buyer, in a joint venture with Energy Group NZ, the Wellington-based energy consultancy. Together they created a new company, RMB Energy Group NZ.

The joint venture purchases about 10 percent of all wholesale electricity traded through the New Zealand market. It now provides New Zealand retail energy users with low-cost access to the wholesale energy market and a range of risk management and information services. Over time, it will offer access to energy-efficient technologies and advanced metering and analysis systems.

"We wanted to establish our New Zealand focus around a business opportunity," Wilkinson explains, "and we can source our future client flows from it."

Meanwhile, in Australia, RMBA is active in the gradually deregulating national electricity market. It has already established the RMB electricity index, quoting prices for the New South Wales and Victoria markets. Last September it launched the first trade in electricity futures on the Sydney Futures Exchange. A New Zealand index is expected to follow.

In Australia, deregulation in the electricity market commenced in Victoria. The national market will be fully deregulated by March 29 next year.

In Victoria, deregulation soon led to the privatisation of the infrastructure through trade sales. The State Electricity Commission of Victoria was split into five distribution companies, five major generators and one transmission company.

The distributors and generators fetched high prices, and the transmission company is being sold at present. As a result of deregulation, industrial and commercial consumers can now choose their preferred supplier.

The government in New South Wales split Pacific Power into three competing generators and one transmission company. There used to be 28 distribution companies, but these have now been amalgamated into six power corporations.

In both New South Wales and Victoria, 40 percent of customers in the medium-to-large industrial sector have been able to switch from their host supplier to a competing retailer as a result of deregulation.

"This has in turn led to a 40 percent reduction in electricity cost," Brogan explains.

What are the lessons for South Africa? "Deregulation and privatisation will only occur where electrification is complete," Brogan says.

"But with our experience in Australasia we are well positioned to assist and influence how the South African market develops," he says.

RMBA's corporate finance division also has a strong energy and natural resources flavour under Michael Shonfeld, the managing director, who comes from a resource banking background. "In the resource sector, we're ahead of the local field thanks to the competitive advantage our African experience gives us," Shonfeld says.

"There's a natural business flow of Australian mining houses moving into Africa, and a lot of top-class South African corporates are also moving into Australia," Brogan says.

"We understand these corporates from a South African perspective and can take good care of them here using our one-stop shop approach — we identify the deal, advise our client and often finance it," he says.

"Above all we're viewed as an 'independent' adviser," Brogan explains. "We're on a mission to educate Australian boardrooms about South Africa."

Recent examples include Wooltru's purchase of 20 percent of Country Road, the clothing retailer, and Plessey South Africa's acquisition of the electronic business of AWA.

RMBA, which identified the AWA opportunity, also co-invested with Plessey to the tune of 20 percent in Plessey Asia Pacific, the vehicle which was created for the deal.

News

DBSA and Cosab agree on dispute resolution measure

(58) CT (PR) 19/11/97

Christo Volschenk
Economics Editor

Cape Town — A permanent forum would be set up by the Development Bank of Southern Africa (DBSA) and the Council of Southern African Bankers (Cosab) to resolve disputes arising out of the competition between the DBSA and other banks for infrastructure finance, Nico van Loggerenberg, the general manager of Cosab, said yesterday.

The permanent "court" was part of the agreement of understanding negotiated by Cosab and the DBSA to define each others' operating territory in the infrastructure finance market.

The DBSA changed its focus about 18 months ago from financing development in the now-defunct homelands to financing infrastructure development in southern Africa.

Cosab had insisted on an agreement of understanding to define the position and role of the DBSA earlier this year, when the DBSA tabled a bill in parliament to receive the legal status of a company. Cosab said then it was concerned that the DBSA had obtained its funds at a lower average cost than other banks.

Van Loggerenberg said Cosab and the DBSA were "very close" to signing an agreement of understanding that would define the roles of the players and provide for a dispute-resolution structure to handle conflicts.

"At Cosab we are, in principle, in favour of the idea that the DBSA finance infrastructure development, but the banks want to be sure where and how in the market the DBSA wants to operate," Van Loggerenberg said.

He said the panel would consist of representatives of banks and the DBSA, but the government would not be represented.

"The DBSA is an autonomous statutory institution which should be allowed to fight its own battles," Van Loggerenberg said.

He said a draft agreement of understanding had been received from the DBSA which was "quite acceptable to Cosab but for a few minor points. We will go back to the DBSA in the next few days to sort those points out and then an agreement will be signed," he said.

It had not been decided yet whether the agreement's contents would be made public.

Permanent Bank invites you in for coffee

CT (BR) 19/11/97 (56)

RICHARD STOVIN-BRADFORD

The significant change that has taken place since Permanent Bank shook off its building society past has been the advent of a sales culture, explains Gustav Preller, the bank's executive general manager.

The bank, a wholly owned subsidiary of Nedcor Bank group, has been through an exhaustive repositioning exercise which led to closing a substantial number of its less profitable branches and re-branding others under the banners of its sister banks in the Nedcor family, Nedbank and People's Bank.

It also closed or moved a number of customer accounts to its siblings. Many of these accounts were dormant or did not match Permanent Bank's profitability criteria.

"Basically, 30 percent of our customers used to account for 95 percent of the bank's value," Preller says.

However, the real success of Permanent Bank's transformation is not so much the number of branches it has closed or clients it has moved, but rather how it has transformed its whole approach to retail banking

"Retail" is really an apposite label now, since the branches are no longer full of tellers and queues but have all the references of an upmarket department store.

As you enter a typical Permanent Bank branch, you are welcomed by a staff member as you walk past an ATM, an enquiry desk and three teller positions before finding yourself in a hospitality area offering a coffee machine and a magazine rack.

Transactions of a more personal nature are discussed with financial advisers in the intimacy of small cubicles or screened-off areas.

Preller believes clients who want quality time to make their more important or complex financial decisions should be able to do so in appropriate surroundings.

The atmosphere is deliberately non-confrontational, a radical departure from the conventional banking hall. Most of the bank's "open-door" branches are now to be found in shopping malls and other retail environments, away from the traditional main street locations.

The cheerful colours and smart furnishings are the idea of an international design company which was brought in to redefine the branch interiors.

"In November last year I saw the first designs, and we have managed to redesign the branches within the year, keeping to world-class standards," Preller says.

"At the moment, the branches do look a bit like shops, but the products are not all on display yet," he says. "You'll see in the next few months how the shelves will be filled with financial products, including a money market fund and Permanent Bank unit trusts.

"You're not seeing the merchandising yet, but it's coming," he says.

But the branch redesign was not the only transformation Permanent Bank has undergone. "At the outset, we only had old-fashioned building society products and had to make ourselves compatible with a retail banking philosophy — and now we are," Preller says.

"We have changed from a transaction-based bank, in which 70 percent of transactions were deposits or withdrawals, to a bank which sells its products through long-term customer relationships and good service.

"We have done all of this to create capacity within our branches to be able to offer superior selling, cross-selling and service," he explains

"Because our key objective now is to retain clients."

Permanent Bank is clearly a foretaste of how Nedcor wants to position itself generally in retail banking. "Nedcor recognised that to service its customer base effectively it could not be all things to all people," Preller explains.

"This led to process segmentation and now you've got three niche banks, each with its own reason for existence.

"Nedcor is about putting the right customer in the right bank," he says. "But that's not to say that one bank in the group is viewed as being better than another."

For example, People's Bank is emphatically not a second-class bank; it rather serves a different market segment, he explains

Of the three, Permanent Bank has undergone the most radical transformation and has moved away from being a mainstream bank. It is a bank for individuals and not for companies or businesses, Preller says.

"We still offer current accounts, credit cards, savings accounts and asset-based finance and life assurance, but we are not a traditional high street bank

"Our target markets include the 25 to 45 age group, to which we can offer home loans, while we are also aiming at the over-45s who need investment advice," Preller explains.

Although a number of banks are moving towards remote and virtual banking, Preller believes Permanent Bank's clients prefer not to transact through ATMs, the Internet or telebanking.

"They typically seek face-to-face personal service and have an extraordinary desire for customer satisfaction," Preller argues.

Many people are saying that branches are dinosaurs, explains Preller "But in the US, branches are on the increase. Branches won't disappear, it's just that their function is changing.

"You've also got to get people inside the branches to work differently and you've got to leverage staff capacity," he stresses. "We're in a big hurry to do this "

Despite the upheaval, the transformation has been achieved in a cost-effective manner "Our cost-to-income ratio is below 45 percent and falling," Preller concludes.

Restructuring dampens Southern Life's results

BD 20/11/97 (58)

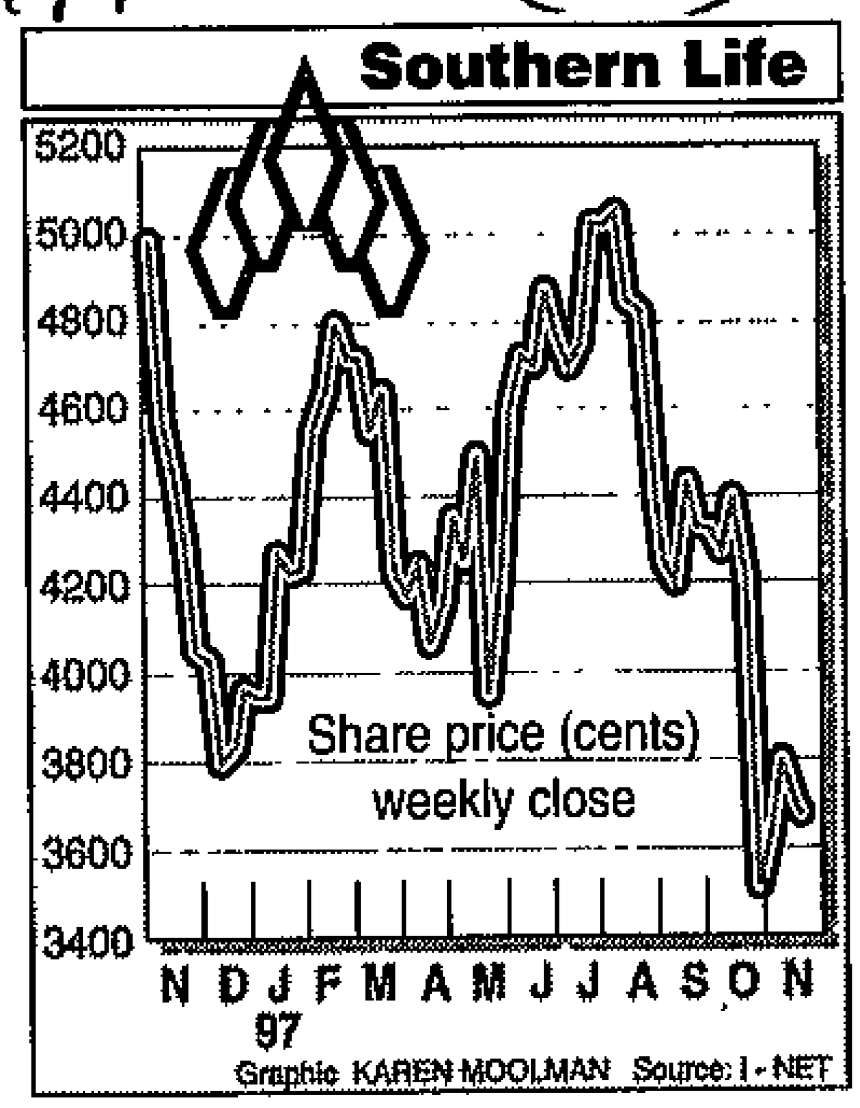
Belinda Beresford

SOUTHERN Life increased attributable earnings 25% to R250m in the six months to end-September on a 4% rise in total income to R3,13bn.

Southern CE Jan Calitz attributed the relatively lacklustre performance to the fact that the company was undergoing a major restructuring process. He said Southern's restructuring would be complete in about nine months time, although the full effect would be felt over a longer period.

The increase of assets over liabilities was a positive development. This excess had shown a "significant" rise over the six months on improved performances from strategic investments such as African Life and First National Bank (FNB).

Costs had been contained to a 4,6% increase excluding transformation costs. Southern aimed to push its cost to income ratio down to 13% within three years. At the last set of full year results the ratio was more than 17%.



Graphic KAREN MOOLMAN Source: I-NET

Calitz said a major part of the restructuring was a change in market focus. Southern had previously targeted the whole market, resulting in a wide, complex range of products which made customer service difficult.

The company would now concentrate on clients in the "lower-middle to lower-upper" income range. It would look also at pulling out of areas of business which were not adding to shareholder value, he said.

Net premium income rose 7% to R2,2bn in the six months under review on 10% growth in recurring premium and a 3% increase in the more volatile single premium income. In new business, employee benefits saw a 28% fall in single premium income to R307m, while recurring premium income lifted 23% to R110m.

A one-off deal helped the individual life, single premium income rise 34% to R597m, while the individual recurring premium "declined marginally" to R217m.

On changes of shareholders, Calitz said major shareholders FNB and Anglo American had both indicated that they were long-term holders of Southern shares. "From time to time people approach the major shareholders and they afford them the courtesy of listening," he said.

Liberty's restructuring kicks off with R1,5bn in Libhold purchases

CT (BR) 20/11/97

(58)

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — Liberty Life, South Africa's largest listed life assurer, yesterday took the first step in its restructuring process by purchasing Liberty Asset Management, Liberty Properties and 50 percent of Guardbank from Liberty Holdings (Libhold), its own holding company, for R1,51 billion in shares and cash.

The move comes after Liberty Life promised in August to "reduce the number of pyramids and unlock shareholder wealth".

Liberty Life said yesterday the purchase consideration translated into a surplus of R900 million, or R18,5 a Libhold share, over the carrying value of the companies. Liberty Life will issue 9 million ordinary shares at R124 a share and pay a further R394 million in cash. This will increase Libhold's effective interest in Liberty Life to 53,3 percent of the equity from its present 51,6 percent.

The acquisition would have no material financial effect on its net asset value or on the earnings a share of Liberty Life and Libhold.

The deal leaves Libhold with only one other investment, a minority stake in Guardian National Insurance. Its announcement follows shortly after Liberty Life purchased 50 percent of Guardbank Asset Management from First National Bank.

The issue price of the 9 million Liberty Life shares was the closing price on November 4, when the transaction was concluded, but is at a substantial discount to the range at which Liberty Life shares were trading prior to October's market correction in which Liberty Life shares plunged to a year low of R102,20.

Liberty Life shares reached a year high of R151 in mid-July and traded above R135 for much of the third quarter.

Liberty Life said a further announcement on the restructuring would be made soon. Yesterday its shares lost 80c to close at R114 after reaching a high of R115,60.

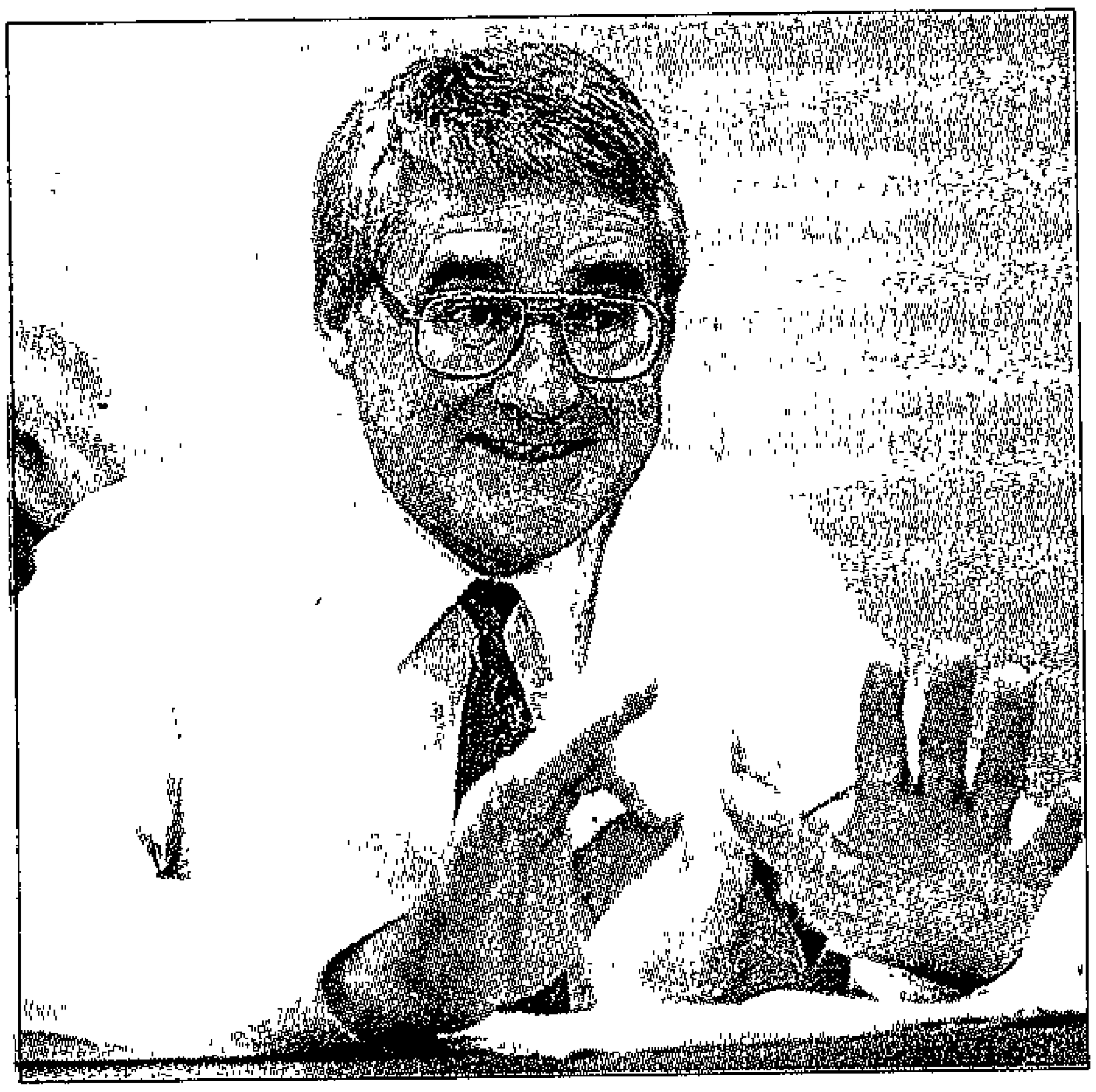
Shares worth about R20,3 million changed hands in 130 moves.

Dealers said news of the restructuring was positively received by a market weighed down by negative sentiment on Asian markets.

INSURANCE *No quick fix when a company re-engineers itself, says analyst*

Southern Life back on track

CT (BR) 20/11/97 (58)



TRANSFORMING *Jan Calitz, Southern Life's chief executive, is pleased with the group's low cost increases* PHOTO JOHN WOODROOF

RICHARD STOVIN-BRADFORD
BANKING EDITOR

Johannesburg — Southern Life reported yesterday a 7 percent increase in premium income to R2,2 billion for the six months to September 30 Recurring income rose 10 percent to R1,3 billion.

Individual life recurring business rose 12 percent and group recurring income was higher at 7 percent. Encouragement came from the 23 percent increase in employee benefits new recurring business to R110 million, but employee benefits single premium business fell 28 percent to R307 million.

"If you compare Southern Life to the rest of the sector, they're not looking too good, but if you compare the performance with what they've done in the past, it's not their worst," said one analyst, who nevertheless conceded that the assurer was making steady progress in the refocusing of its businesses.

"I'd have liked it (premium income) higher," Jan Calitz, the chief executive, said. He attributed the lower-than-expected growth to the group's concentration on investing for the future.

"There's a lot of re-engineering going on there, and when you focus inwardly, you lose market share," said the analyst. "But there's no quick fix."

"What has been pleasing about the transformation programme is that we've kept our cost increase to 4,6 percent, excluding the transformation costs," said Calitz.

Southern Life was on track to achieve its targeted cost-to-income ratio of 13 percent by 2000.

Strong performances in the share prices of Southern Life's strategic investments, particularly the 35 percent rise in First National Bank's shares, boosted the group's excess of assets over actuarial liabilities.

Archbishop calls for mutual bank to cater for the poor

Louise Cook BD 21/11/97 (58)

CAPE TOWN — Anglican Archbishop Njongonkulu Ndungane called yesterday for the establishment of a bank to service the needs of the poor.

At the opening of a session of the synod of the diocese of Cape Town, Ndungane said that if financial institutions and the government could not act in a concerted way to solve the housing shortage, then the time "may have arrived" for the church to act.

He said a programme should be launched for the creation of a mutual bank for the poor. Mutual building societies in SA were disappearing and banks had stringent lending criteria, he said.

"The cry for ordinary people to own land persists. Various schemes have been launched but, by and large, government and the financial services industry have failed dismally in responding meaningfully and comprehensively to this call."

People were trapped in a vicious cycle by a new socioeconomic milieu with high interest rates, slower than desired growth and volatile markets.

"I therefore call for a system in which the mutual and trustworthy use of communal funds can be applied to solve a national crisis," he said.

CONSUMERS AND MONEY

Banks create their own credibility gap

(58) FM 21/11/97

Clients say the rules of the game are complex, hidden and applied inconsistently. Banks are losing their most valuable asset: trust

Financial institutions spend large sums on marketing and advertising campaigns — but throw away the benefits by treating customers indifferently.

People who have difficulty reconciling the quality of service offered in print, radio and TV, and their own experience with financial institutions, will find they are not alone in their confusion.

One of the findings in a recent qualitative survey, among B and C income groups, of consumer attitudes towards money, is that clients of banks and short-term insurers are deeply dissatisfied.

Research agency Resonance's *Money Report* reveals that "financial advertising lacks credibility, financial advice is overly complicated and customer service is virtually non-existent — and seen as a measure of banks' total lack of regard for their existing customers."

The research was conducted over three months in Johannesburg, Durban and Cape Town It was carried out through 10 focus groups, each with about 10 people, representing a cross section of SA society, says Resonance CE Kerrin Myres, and through a series of in-depth interviews with 11 individuals

> *And she said to me* **"but this happens to all the cheques we lose."** *And I said* **"how many cheques do you actually lose?"** *and she said* **"Oh, we have a whole department trying to sort it all out."** *I went ballistic I can tell you.*
>
> Comment from a B income group consumer

Perhaps the most damning finding for banks, which are both strategically and politically vulnerable to public perceptions is that consumers believe the rules of the game are complex, applied inconsistently and hidden from them.

One of the few inducements banks can offer is security But this is being eroded by the belief that fraud inside banks is rife And customers complain that banks (and short-term insurers) are notoriously unwilling to accept responsibility for their own errors

These perceptions expose banks to the loss of profitable customers, which can have an exponential impact on the bottom line. And it lays them open to inroads by new competitors, says the *Money Report*

Short-term insurers are even less well thought of than banks — many customers are convinced the only way they can get a fair deal is to actively defraud their insurance providers.

At the heart of the matter is the perception that service providers rely on their customers' ignorance. And that they are "suspiciously unwilling to provide them with the right information in the right way at the right time"

To appease aggrieved consumers, financial institutions may have to fragment themselves In the past, the convenience of one-stop shopping outweighed the disadvantages "But there is a growing awareness that the retailer is all too ready to exploit the consumers' captivity to convenience. Better the small, specialist store that is willing and able to deliver reliably high-quality products and service Even if this is at a premium the consumer perceives better value for money

So much for universal banking **Ethel Hazelhurst**

'Banks' earnings could grow up to 30%'

BD 21/11/97 (58)

Samantha Sharpe

CAPE TOWN — SA banking stocks had room for further robust growth in the next 12 months, boosted by the move to increased noninterest income and reduced operating expenditure, Old Mutual Asset Managers said yesterday.

Portfolio manager Kokkie Kooyman said banks were expected to show earnings growth of between 20% and 30% in the next year, with recent results not yet showing the benefits of widening interest margins after the recent cut in interest rates.

"This is probably due to the volatility of the money market, but I expect the full benefit to be felt over the next 18 months."

The banking sector put in an impressive performance following the recent correction in the stock market, which would lead to the sector featuring highly on institutional buying lists.

"With interest rates likely to decline further next year, their growth should easily exceed that of the blue chip industrials and the sector may yet top the performance ratings in 1998."

Turning to Old Mutual's recently launched financial services unit trust, Kooyman said he was still optimistic that the fund could achieve a performance in excess of 20% in its first year, despite recent stock market volatility.

To enhance local performance, the fund had moved into offshore banking stocks in Mexico and Europe, with the former country expected to yield strong growth.

Kooyman said the R170m financial services fund planned to have an offshore banking content of about 10% by year end, with only R7m invested offshore as on November 20.

More consumers avoiding banks — survey

Belinda Beresford (98) BD 21/1/97

AS CHANGES surge through the financial services industry, a small revolution may be brewing among SA consumers, who are increasingly flexing their muscles over consumer rights and are prepared to move in search of better service, an independent survey has found.

The Resonance money survey found a small but increasing number of "banking lepers". These are disillusioned individuals who have minimal loyalty to financial institutions, are readily seduced away by new competitors or products, and prefer to have little contact with the banking industry.

Resonance CE Kerrin Myres said financial services institutions needed to understand this increasing alienation, and factor it into strategic planning.

Myres said another interesting aspect of the report was the change in priorities for family spending. Education had now even overtaken housing as the highest spending priority.

Myres said the report was commissioned to get strategic information about consumer trends and behaviour. Clients receiving the reports could then use them for strategic planning.

Rumours of strife plague banking merger

Belinda Beresford (58) BD 21/11/97

THE creation of Nedcor Investment Bank (NIB) would go ahead despite strains in merging finance houses Syfrets, UAL and Nedbank Investment Bank, the group said last night.

Rumours have been rife about problems with the merger, with speculation that it could be delayed or derailed.

Speculation has been particularly strong about antagonism between the Syfrets and UAL asset management teams, with several analysts saying they had heard the entire Syfrets team had threatened to walk out.

Nedcor CE Richard Laubscher said the merger was "categorically not" going to be derailed, and he had not been informed of possible mass walkouts.

Joint NIB MD Christopher Beatty said there had been no thought of stopping the merger. It "would be naive to have proceeded with a merger and not expected certain stresses and strains". A wide range of issues needed to be resolved, such as investment philosophies and geographical distribution.

Sowetan 2/11/97

Call to start the poor's bank

ANGLICAN Archbishop of Cape Town the Most Reverend Njongonkulu Ndungane called for the creation of a bank for the poor to relieve the housing shortage.

Opening the 58th session of the Synod of the Diocese of Cape Town yesterday, the Archbishop noted the demise of mutual building societies in South Africa "and the ascendancy of banks, with their stringent lending criteria."

"But the cry for ordinary people to own land persists. Various schemes have been launched but government and the financial services industry have failed in responding to this call."–*Sapa.*

LOA's moves to abolish commission limits put on hold

ARG 22/11/97

(83)

Bruce Cameron

Moves by the the Life Offices Association this week to remove limits on some commissions paid to insurance agents and brokers to allow the life assurance industry to compete more equally with other sectors of the financial services industry have been put on hold until next year.

The removal of commission limits has been delayed because the government has insisted that there should be wider consultation and that the input should not be based only on input from the insurance industry and broker representatives.

The LOA request to scrap the commission limits at a meeting with the Financial Services Board (FSB) this week was supported by the Federation of Independent Financial Advisers (Fifsa), which wants the total abolition of commission regulation.

Meanwhile, the recently formed, privately funded Consumer Institute of South Africa has voiced its opposition to the LOA's move.

Diane Terblanche, chairperson of the Consumer Institute, said consumers would bear the cost of paying higher commissions.

"The relaxation of commission limits in the United Kingdom led to a rapid explosion of commission levels (which rose) by about 30 percent.

"Exactly the same result is almost certain to happen here."

Terblanche said if the FSB was concerned about the life assurance industry suffering from unfair competition as a result of higher commissions being paid to brokers by so-called product factories, which are not subject to commission control, "the solution is to control the commissions payable by product factories rather than to create a general escalation of commission at the expense of the consumer".

Terblanche said she was particularly concerned that brokers "who are supposed to offer their clients the best products rather than the ones that pay them the higher commission, can only be convinced by the offer of higher commissions that they should be selling life assurance industry products rather than those of the product industry".

Terblanche also condemned the LOA for attempting to make a trade off – the disclosure of more information about its products in return for the lifting of commission regulation.

However, Jurie Wessels, director of the LOA, says the association is working on proposals for the implementation of full disclosure regardless of whether or not commission deregulation goes ahead.

Lewis Chesler, who represented Fifsa at this week's meeting, said Fifsa's view is that total deregulation of commissions works together with full disclosure of costs.

"The public is entitled to know how much money is working for them so they can work out net return on an annual basis."

However, Chesler says Fifsa does not feel that commission costs should be declared separately from total costs.

He claims research done by the financial services industry shows that investors are not particularly concerned about commissions paid.

In any case, he argues, if commissions had to be declared, companies would find a way around this by paying commissions in different forms.

Wessels says while limitations on commission are a disruptive interference in the market, disclosure is aimed at overcoming the main shortcoming in the retail market for financial services, namely the unequal availability of information.

"At this stage, it is not clear if we will incorporate our intended proposal in the LOA's Code of Conduct or if we will submit it as a suggestion to the Department of Finance."

Wessels says as the FSB has the statutory duty to protect the public interest, "we appreciate that it will probably be necessary to involve the formal consumer movements".

Watchdog tails pyramid organisations

(58)

ESANN DE KOCK

ARG 22/11/97

If you plan to get rich by participating in money revolving schemes, often referred to as pyramid schemes, take note of the Business Practices Committee's intention to investigate these schemes in terms of the Harmful Business Practices Act.

The committee announced its intention to investigate money revolving schemes in a notice published in the Government Gazette on October 31.

It defined a money revolving scheme as a scheme:

◆ Where participants are required to contribute money towards the scheme, part of which is used to reward both the promoters of the scheme and the participants who introduced new members;

MORE REPORTS PAGE 3

◆ Where promoters, the participants or both are entitled to receive rewards out of contributions made by successive participants;

◆ Where the rewards of the promoters or participants or both are directly correlated to the number of new members recruited directly or indirectly by the existing promoters or participants; or

◆ Where a majority of participants will not recoup their contributions, irrespective of the stage of the life cycle of the scheme; when the scheme comes to an end; or at what stage the participants joined the scheme.

People have been invited by the committee to give a response to the proposals within 30 days.

Payouts for Islamic Bank clients

(58) ARG 22/11/97

EDWARD WEST

Investors with deposits at Islamic Bank will be compensated – up to R50 000 – by the Reserve Bank for any losses arising from the bank's financial difficulties.

The Reserve Bank said yesterday the Registrar of Banks had applied to the High Court for the provisional winding up of Islamic Bank. There was a possibility, the Reserve Bank said, that depositors with money in Islamic Bank might suffer financial losses.

Reserve Bank figures showed that at the end of September, Islamic Bank had assets worth R191-million, while its liabilities totalled R1,8-billion. The compensation to depositors would be paid in the interests of financial stability and in the absence of deposit insurance protection in South Africa, the Reserve Bank said.

Bold plan to unlock Liberty's treasure chest

Roy Andersen has brought vibrancy to a company with a staid image, writes JULIE WALKER

ST (BT) 23/11/97 (58)

ONLY eight months after he was recruited from the JSE by Liberty Life chairman Donald Gordon, Roy Andersen has made his mark on the country's third-largest life assurer.

On Friday Liberty Life's board approved in principle Andersen's seven-point plan to restructure Liberty and unlock shareholder wealth. The plan will be evaluated next year.

Key aspects of the plan include a possible London or Wall Street listing for Liberty and delisting certain of the company's complex pyramid companies. Control by the Gordon family remains intact.

However, within his short spell at Liberty Andersen has injected vibrancy into a company widely criticised for its poor investment track record.

The market approved of the measure, driving up the shares of all the Liberty companies.

In terms of the proposal there could be bonanzas for shareholders in investment company Libsil, Liberty Holdings and First International Trust (Liberty's UK-based offshore arm) over coming months as discounts at which they trade to net asset value are eliminated before possible delisting.

Friday's announcement follows the August cautionary statement to shareholders. But because of the recent financial market turmoil and the fact that Liberty has a December year-end, investigation and evaluation of the proposals will be resumed in the second quarter next year.

Andersen, who took office as group CE only eight months ago, has focused on four avenues since joining: unlocking shareholder value through restructuring, new product development, strategic positioning and identifying the next generation of management.

On Friday Liberty laid out the draft of the plan:

□ The acquisition of the 46% of FIT not owned by Liberty Life.

□ The acquisition of the outstanding 18% of Libsil.

□ The possible delisting of Libhold — holder of 53.3% of Liberty Life, 45.4% of Guardian National and a cash pile following this week's R1.51-billion transfer of its asset management companies to Liberty Life. Libhold could be unbundled through a pro rata distribution of its Liberty shares.

□ Repositioning the Guardian stake within the group.

□ Positioning Liberty Life subsidiary Charter Life Insurance to develop the market sectors not catered for by Liberty.

□ The possibility of listing the consolidated vehicle in London or New York to facilitate international expansion. Inclusion in the FTSE 100 gives access to cheaper capital.

□ Further initiatives in black economic empowerment, possibly in asset management.

Andersen says it is too soon to forecast what the final structure will look like. Chairman Gordon's family interest is housed in listed Libvest — conspicuously excluded from this set of proposals.

The reason so many instruments have been created was to entrench family control — a format not favoured among the international investment community, as Gordon must know. The decision on whether to release *de jure* control from here still rests with him.

It is surprising that the discounts at which FIT and Libsil trade has not begun to close, as the intention was spelt out three months ago.

This week FIT was trading at a 20% discount to a book net asset value which is due for revaluation. FIT holds 36% of Liberty International which has 100% of Capital & Counties plc, a portfolio of commercial property to be revalued. Liberty International also has 72% of Capital Shopping Centres plc, also to be revalued.

Libsil — a strategic company bearing investments in SA Breweries, Standard Bank Investment Corporation and Premier Group — has traded at a 20% discount, and is around 12%. Liberty Life won't be able to offer less than the net asset value of these shares to entice minorities to accept.

Libhold will also benefit from the unbundling — Friday's trade of 120 000 shares was about half the average monthly trade and it is odd that so many are selling at this low price.

The share prices did begin to adjust after Friday's announcement: FIT added 275c to R21.50, Libsil 50c to R16.70, Libvest 50c to R19.50, Libhold up 700c to R311 and Liberty Life 340c to R117.

Andersen says international investors require a simpler structure to understand Liberty. Fewer entry points will eliminate discounts and the new structure will remove potential for conflict of interest and facilitate product development.

Another spinoff for investors is that the new Liberty will have greater direct interest in sterling-generating components of the group, giving a greater rand-hedge element.

From humble beginnings, Liberty has grown into a leading financial institution ranking in the top five JSE companies with market capitalisation more than R30-billion. Total assets top R100-billion and including those housed within the subsidiaries and associates, the group counts R300-billion under administration.

Picture: JON HRUSA

MAKING A MARK . . . Roy Andersen's strategy has won the market's approval

'Poor decisions' led to the collapse of Islamic Bank

(58) BD 24/11/97

Shareen Singh
and Belinda Beresford

THE liquidation of the Islamic Bank was the result of poor investment decisions and management problems rather than the concept of running a bank along Islamic principles, which include interest free loans, sources said yesterday.

The Pretoria High Court has placed the bank on provisional liquidation and its depositors are to be compensated by the Reserve Bank to a maximum of R50 000 each. This is expected to cover 90% of depositors.

Sources said the Islamic Bank had lost large sums of money by investing heavily in property developments such as townhouses in Mayfair, Johannesburg, which did not pay off.

Furthermore, many Muslim investors had started to withdraw their money about a year ago following a decision by the Council of Muslim Theologians (Jamiat Transvaal) to disassociate themselves from the bank. The bank had been set up with the backing of the Jamiat more than 12 years ago to grant interest-free loans to Muslims. The Jamiat had withdrawn its support for the bank alleging that it had ceased to run according to Islamic principles — in particular, that interest was being charged indirectly.

Sources said the bank's failure could not be attributed to the lack of interest on loan financing as Islamic banks in other parts of the world were successful.

A Reserve Bank spokesman said the liquidation order and measures to bail out depositors was designed to maintain confidence in the banking system. "It would be harmful if people were to lose their deposits and the Reserve Bank is not going to take all the loss. In the long run the only loss will be the excess of liabilities over assets, so the loss is not R50 000 times the number of depositors. However small the deficit may be, we cannot allow an insolvent bank to continue. It was not so marginal that we could have nursed it back to health. The loss (was) less than R20m," he said.

He called on depositors with Islamic Bank to stay calm. "Depositors can either take chances with the Insolvency Act and hope to get a dividend from the final liquidation or they can take the lifeboat figure which will cover 90%. If they are going to lose anything they have already lost it, there is not much we can do now," he said.

IBCA analyst Mark Young said statutory returns indicated the Islamic Bank had a capital base of R26,7m and assets of R191,3m. This gave it 0,04% of market share in asset terms, compared with SA's largest bank, Absa, which had 24,8%.

A banker said part of the problem was that Islamic Bank had been run on very specific principles, which had contributed to its problems. "(It was) not diversified enough, had poor decisions and lost a lot of money," he said.

The Reserve Bank and the finance ministry are looking at setting up a deposit protection scheme.

Liberty Life restructuring 'to benefit chairman and Stanbic'

CT (POR) 24/11/97 (58)

Richard Stovin-Bradford
Banking Editor

Johannesburg — The main beneficiaries of Liberty Life Group's restructuring could be the family of Donald Gordon, its chairman, and Standard Investment Corporation (Stanbic), analysts said at the weekend.

Liberty Life Group, South Africa's third largest life assurer, last week presented a radical seven-point vision for its "restructuring, simplification and consolidation". The proposals are likely to leave the Gordon family's control unscathed at JSE-listed Liberty Investors (Libvest).

Analysts and investors have long criticised the Gordon family's apparent obsession with control.

Roy Andersen, the managing director of Liberty Life and Liberty Holdings (Libhold), yesterday said "the family will benefit no more than any other shareholder" from the restructuring.

If the proposals were carried out, both Libvest and Stanbic would get a bigger share of any upside in the rerated group that would emerge, analysts said.

Liberty Life, the operating company in the group, said it intended over time to streamline the listed components of the group by eliminating and integrating as many of them as possible.

Liberty Life admitted that it had a "complex control structure" and the time had come to increase its thrust and efficiency to the levels that would be required by the competitive financial markets and customer demands in the new millennium.

"Overseas investors are not wildly keen on control structures," said Egon Trampitsch, the banking and insurance analyst at ING Barings.

Liberty Life recognised that the group's multifaceted nature added considerably to its complexity for management and investors. It was also a barrier to establishing the simplified structure that was a "fundamental requirement for future progress and the unlocking of value both in South Africa and internationally".

The group, itself 53,3 percent-controlled by JSE-listed Libhold, controls a listed portfolio comprising Liblife Strategic Investments, with interests in Stanbic, Bevcon/SAB and Premier, First International Trust and Liberty International, which itself controls London-listed Capital Shopping Centres.

Apart from creating a more efficient and focused structure, Liberty Life wanted to reduce the number of "investor entry points" into the group to improve marketability, liquidity and investor relations.

BANKING *Ninety percent of depositors will be protected, says Stals*

No rescue for Islamic Bank

CT (BR) 24/11/97 (58)

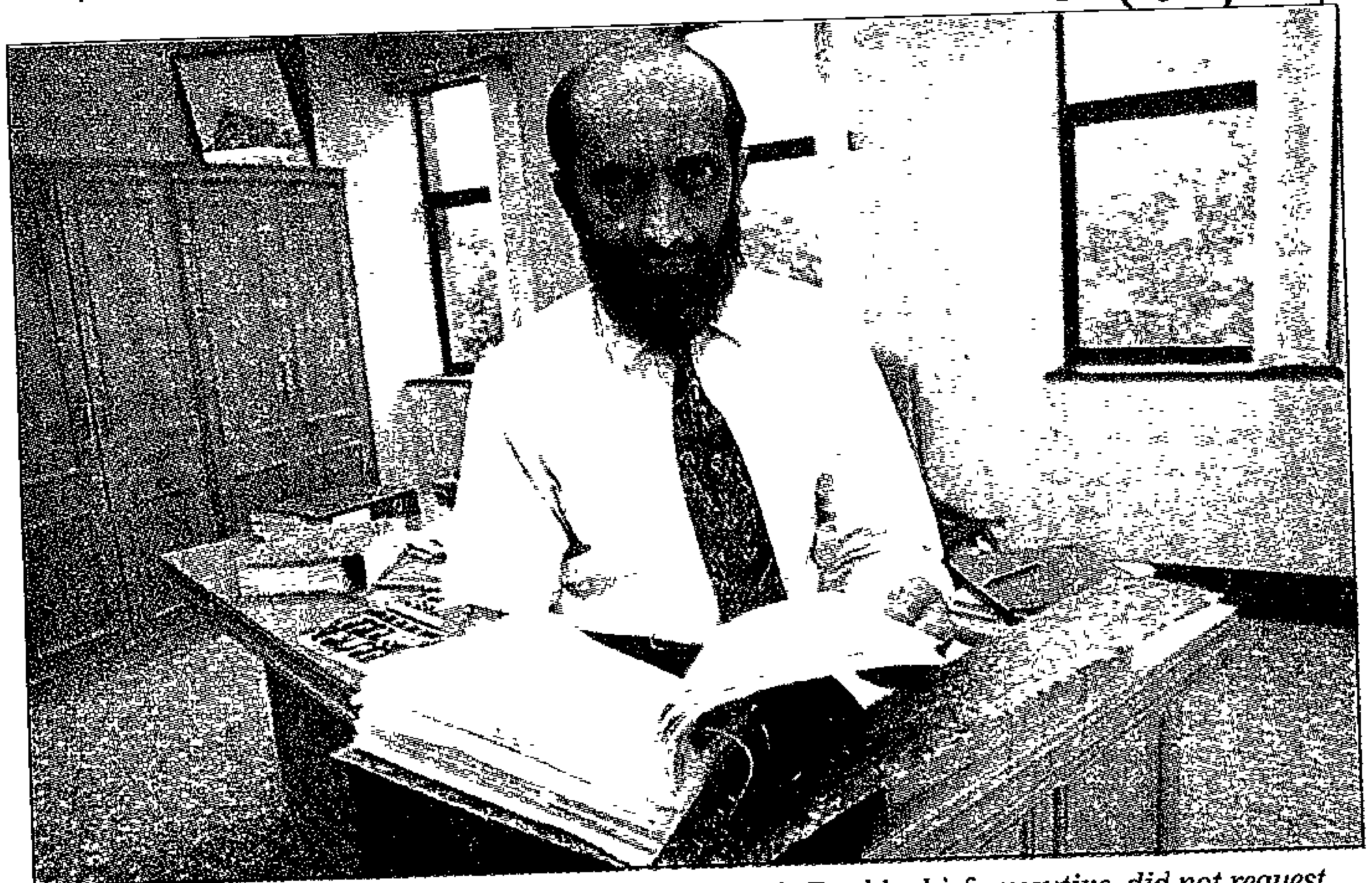
MATT GETZ
MARKETS EDITOR

Johannesburg — The Islamic Bank, which had an order for its liquidation lodged in the high court on Friday, was in such a poor financial state that it could not be saved, Chris Stals, the governor of the Reserve Bank, and Christo Wiese, the registrar of banks, said yesterday.

Wiese said his office had been in close contact with the bank for two years. "It had been on the intensive care list," he said. "We were monitoring the type of business it did and the credit it was extending." He said he had realised the bank was in trouble, and during that period had extended it liquidity assistance. "We allowed it to draw down on its liquid assets, sometimes as much as R5 million."

Finally, he appointed KPMG to audit the bank's finances. "They used a Moslem partner because we had been told we did not know what kind of business they were doing," he said.

The auditor's report last week was damning, claiming the bank's accumulated losses were greater than its capital and reserves, making it insolvent.



MISPLACED CONFIDENCE *Ebrahim Karsany, Islamic Bank's chief executive, did not request curatorship because the board believed the bank could be saved* PHOTO JOHN WOODROOF

"We can't allow a bank to keep going when it is insolvent," said Stals. He said its problems were even greater than those of African Bank, whose capital adequacy had fallen under the minimum ratio of 8 percent when it was placed in curatorship in 1995; Islamic Bank's capital adequacy was negative.

Wiese said he had not been able to put the bank into curatorship, because the managing director or the chairman have to request it. But the bank's board had thought the bank could survive. Wiese could see no concrete reason for their confidence.

He said the bank, with a capital base of R27 million and assets of R191 million, got into trouble through bad lending practices, especially overinvestment in property.

Islamic Bank does not operate on regular banking principles. Because Islamic law prohibits earning interest, the bank treats all its deposits as inputs in a pool, which is then used for investment. Further in accordance with Islamic law, the bank shares in the profit or loss of any loan it makes. If it makes a home loan, for example, it acts in part as a landlord, collecting rent in lieu of interest and gaining from any appreciation in the property's value.

The Reserve Bank said on Friday that it would cover deposits up to R50 000. Stals said that would cover about 90 percent of depositors, making it a larger package in terms of a number of depositors than the bank had ever provided before.

The registrar and Reserve Bank have in recent years had Pretoria Bank, Cape Investment Bank and African Bank put into liquidation or curatorship, with differing degrees of support.

They gave Trust Bank a R1 billion lifeboat in 1992, but Wiese said that was a different case because Trust Bank's size meant that its collapse could have a large effect on the country's banking system.

Risk pays off for Start-Up Fund – four-year record of surplus income

ARG 25/11/97 (58)

ALIDE DASNOIS
BUSINESS EDITOR

The success of the Start-Up Fund, which has lent out R10-million to nearly 10 000 clients across the country since its launch in 1993, proves that it's possible to lend to people no one else will touch – and not lose money.

For the fourth year in a row, the fund chalked up a surplus in the year to September 30, with income topping expenditure by a hefty R411 473.

Yet its clients are the high-risk people in the population, micro-entrepreneurs with no jobs.

"We have never turned anyone away," says the chairman of the fund, Tony Davenport.

"We are not going to play God. We have no idea who will succeed and who won't."

To qualify for a loan, people must meet three criteria:

- They must have completed the One-Up Business Training programme, known as the "township MBA", through one of the 30 training organisations linked to the Start-Up Fund.
- They must put down a refundable deposit of R100.
- They must open a bank account into which the money can be transferred electronically – the Start-Up Fund does not handle cash.

Mr Davenport, whose organisation lends to "people even the loan sharks won't touch", insists that there's no magic in the Start-Up Fund's formula for success.

"We get back every cent we pay out," he says.

'At the end of the year, the trust pays out a bonus to all clients who are up to date with their loans'

The vast majority of clients pay voluntarily, encouraged by the incentive system the fund has put in place.

"We have a loan ladder. The first rung is a small loan of R300 and once that's been paid off the client can apply for a bigger loan. The top of the ladder is a R12 000 loan but it takes a long time to get there."

But though most people pay, Mr Davenport says, "inevitably there are some who fall by the wayside".

"There are always little businesses which haven't succeeded though the borrower has tried very hard."

These failures are covered by the Group Indemnity Trust, a fund which belongs to the borrowers as a group and which is fed by a small percentage premium on each loan.

"The borrowers collectively provide group surety for the individual," Mr Davenport explains.

"At the end of the year, the trust pays out a bonus to all clients who are up to date with their loans. In 1996, the bonus was 27% of repayments."

"It works like a big stokvel."

Interest rates charged on loans are high – 3,25% a month on loans under R6 000 and 2,4% a month on bigger loans.

The fund's income also comes from grants from big business such as Anglo American and loans from institutions such as the Development Bank and Khula Enterprise Finance.

Though he's proud of the fund's four-year record, Mr Davenport insists that the real credit must go to the micro-entrepreneurs who make a success of their business against all odds.

"The real heroes are the people who climb up the ladder," he says.

Albaraka in good shape, says CE

Bank has seen a steady growth in profits and assets

ARG 25/11/97 (58)

LLEWELLYN JONES
BUSINESS REPORTER

Islamic banking principles have been firmly defended by Albaraka Bank chief executive Ibrahim Vawda.

Interviewed after news that the Islamic Bank might go into liquidation, Mr Vawda said Albaraka Bank, which also operates according to Islamic principles, was in a sound financial condition, with assets of R341-million and liabilities to depositors of R308-million.

The South African Albaraka Bank was established in 1990 as a joint venture between the Saudi Arabian Albaraka Bank and local Muslim businessmen. The bank has two Cape Town branches, and others in Durban, Johannesburg and Pretoria.

'It's the way Islamic banking principles are applied and the way the bank is managed that counts'

While he was not prepared to comment on Islamic Bank's failure, Mr Vawda said it could not have been the principle of Islamic banking that brought it to its knees.

"It is the way the principles of Islamic banking are applied and the way the bank is managed that counts – there are many successful Islamic banks throughout the world," he said.

Albaraka Bank has seen a steady growth in its profits and asset base since it was established.

Mr Vawda said Albaraka would also be able to turn to its Saudi Arabian parent if it faced a cash squeeze.

Islamic banks do not operate according to Western banking principles because Islam prohibits charging or earning interest.

Depositors invest funds on a profit-and-loss-sharing basis. The bank generates income in a number of ways, mainly buy-and-sell operations.

For example, the bank will buy equipment for a business and sell it on to that business at a higher price.

Reserve Bank governor Chris Stals and the Registrar of Banks, Christo Wiese, applied for the liquidation of the Islamic Bank after an audit report claimed that its accumulated losses were greater than its capital and reserves, making it insolvent.

Mr Wiese said the bank had got itself into trouble through bad lending practices, especially over-investment in property.

He said the Reserve Bank had closely monitored the Islamic Bank's business and its credit extension policies for two years.

Mr Wiese could not put the bank into curatorship because the chairman or managing-director must request it. The bank's directors did not ask for curatorship because they believed it could trade out of its difficulties.

Islamic Bank's Long Street branch: the Registrar of Banks has applied for liquidation

Bank collapse triggers debate on depositors' insurance

BD 20/11/97 (58)

Belinda Beresford

THE collapse of Islamic Bank was likely to heighten debate about insurance for bank depositors in SA, analysts said.

The Reserve Bank announced it would compensate Islamic Bank depositors to a maximum of R50 000, but said the action should not be seen as a precedent.

However, this was greeted with scepticism by analysts, who said bank rescues were done on an ad hoc basis.

Varying levels of support had been seen, ranging from TrustBank receiving a R1bn lifeboat in 1992, to encouragement for private rescues in other cases. One analyst said a case in point was African Bank, where the private sector rescue package would have been unlikely if government had not guaranteed all nonperforming debt.

Analysts are divided about the merits of deposit insurance. One said it had "very mixed results worldwide. It was part of the reason for the savings and loans debacle in US, and can lead to lending without due credence."

He said it was important for an emerging market country to be seen to have a stable and well capitalised banking system, and the answer was in the prevention of crises.

IBCA analyst Mark Young expressed reservations about the Reserve Bank's decision. Government bail-outs increased the potential for reckless management, he said.

Boland Financial Services wants black business partners

eT (BR) 26/11/97 (58)

Marc Hasenfuss
Cape Editor

Cape Town — Boland Financial Services (BFS), which is 60 percent owned by NBS-Boland, has been approached by a number of suitors, mainly black empowerment groups, Henk Rossouw, the executive director of BFS, said yesterday.

Rossouw pointed out that both management and Christo Wiese (a major shareholder in NBS-Boland and its holding company Orion) wanted to introduce black business partners into BFS, as such a move would help advance black economic aspirations and bolster the company's position.

"We are quite comfortable in the Christo Wiese stable, but an empowerment partnership makes sense," he said.

Rossouw said a black economic empowerment deal would inevitably dilute both management's 40 percent and NBS-Boland's shareholding in BFS.

He conceded that a separate JSE listing of a new-look BFS was on the cards.

Rossouw could not identify the potential empowerment partner or offer details on the structure of the deal. The source, however, said a black empowerment group could be offered between 25 percent and 40 percent of BFS. This could be achieved through a sizeable share issue in which BFS and NBS would relinquish their rights.

Discussions were apparently in progress, and a transaction was likely to be concluded early in the new year.

The source discounted speculation that the pending empowerment deal would be a precursor to a complete BFS breakaway from NBS-Boland. "They have a good association with NBS-Boland and the enlarged Orion group, and there are advantages to retaining the links."

Speculation of a BFS breakaway stemmed from the creation of Orion, the financial services holding company, which has a surfeit of merchant banking interests. These include BoE NatWest, the NBS Corporate division and a minority stake in Rand Merchant Bank, which suggests opportunities to merge some or all of these operations.

The source said initial plans for BFS in the Orion stable included a tie-up with the NBS Corporate division with a view to forming a merchant banking operation in the longer term. Attempts to link BFS with BoE NatWest were also discussed.

However, Rossouw stressed that for the moment these alternatives were not being pursued.

He said BFS, whose management was known for its entrepreneurial and independent spirit, would for the time being retain its independence.

"Part of BFS's success is the substantial stake held by management in BFS, which will continue to act as an incentive to management and staff as well as instilling confidence with our clients," said Rossouw.

African Development Bank shareholders may recapitalise it for growth

African lender looks to future

CT (BR) 25/11/97 (58)

Abidjan — African Development Bank (ADB) shareholders may be ready to provide the organisation with an increase in capital, and a proposal could be ready for the next annual meeting in May, reported Omar Kabbaj, the bank's president, at the weekend.

Kabbaj said "very good progress" was made at a meeting held last month. "I can't give you details because there are negotiations under way between the shareholders, but I feel at this stage that we are really on course to be in a position to finalise the capital increase."

Western shareholders in the development bank had wanted an increase in their voting power in return for further investment, a move that met resistance by some African states who insisted that African shareholders should remain dominant.

Asked if the recent progress meant African opponents were shifting ground, Kabbaj said a few states were "clearly not in favour" of the changes, but the position was "evolving".

A committee meeting scheduled for February will hear discussion on the capital increase and replenishment in 1999 of the African Development Fund (ADF), the bank's soft-loan arm.

Kabbaj said the ADB group would need between $2,5 billion and $3 billion a year for operations over the next four to five years. About half of this is earmarked for crucial concessional ADF loans.

"We need on average every year something around $1,2 or $1,3 billion," he said. ADF reports show that 39 African countries rely solely on these concessional resources.

'I feel at this stage we are really on course ... to finalise the capital increase'

Only 14 states are eligible to borrow from the bank itself, which, with its AAA rating status, offers loans at just 50 basis points (half a percentage point) above market rates and does not charge normal commercial market fees, Kabbaj said.

At the ADB's last annual meeting, some African states complained that the bank's lending criteria were too strict, allowing them access only to the limited pool of ADF money.

But Kabbaj said unwise lending was the source of the bank's problems in the early 1990s, and the cause of a rift then with western shareholders.

Western funding of the ADF had been suspended for three years while the bank introduced sweeping changes. Kabbaj, who became president in August 1995, has been credited with turning the bank around over the past two years.

He said $2,5 billion in loans was cancelled in agreement with shareholders because "these projects were obviously either not going to be implemented nor have any development impact".

This represented 20 percent of the bank's portfolio at the time.

No change in the country classifications was likely soon, since the 39 dependent nations were well below the rating thresholds at which non-concessional lending was permitted, Kabbaj said.

The bank had also tackled its arrears problem, Kabbaj reported. The level had fallen slightly in 1997, whereas earlier in the decade it had been growing at 20 to 30 percent a year.

At the end of 1996 arrears were around $800 million, with over half of this owed by former Zaire, now the Democratic Republic of Congo.

The bank has recently upgraded its private sector lending window into a full department, and is recruiting specialists to run it. But Kabbaj said this represented only 5 percent of non-concessional bank lending, and its main impact would be as a catalyst to attract other capital to viable African projects.

"I don't foresee for the near future more than 10 percent of activity being devoted to this private sector activity," he said. — Reuter

BD 26/11/97

East London Land Bank staff protest against Dolny

(58) (59)

EAST LONDON — All 30 staffers at the Land and Agricultural Bank of SA's East London branch picketed yesterday against the "radical changes" instituted by national MD Helena Dolny.

This followed nationwide protests on Monday.

The regional secretary of finance union Sasbo, Adrian Coetzee, said the staff were outraged by radical, unilateral changes introduced by Dolny since she joined the bank six months ago.

He said Dolny's unwillingness to negotiate the changes, which were part of the affirmative action process at the bank, could drive the mostly conservative employees of the bank to strike. This option would be discussed at a national Sasbo meeting with the bank's management today, he said.

Coetzee said the main grievances were that senior personnel had to reapply for their posts, but there was no indication what would happen if their applications were unsuccessful; and English would be the official language of the bank, although Coetzee said 70% of the bank's employees and clients were Afrikaans-speaking. — ECN.

African Bank shows R35,4 million profit

sowetan 27/11/97 (58)

Bank survives curatorship after restructuring and rationalisation

By Isaac Moledi

AFTER going through the hardships of curatorship, African Bank appears to have regained its financial footing, with reports of profitability.

The banking group yesterday declared a R35,4 million pre-tax profit for the 18 months to September 30 1997, making it the first local bank to survive curatorship.

The curatorship, placed on the bank about two years ago, was lifted in April last year after the rescue mission by New Africa Investment Limited (with 21 percent shareholding), Metlife (21 percent), NBS Boland (formerly NBS Holdings, 38 percent), Government (15 percent) and individuals (five percent).

African Bank, which prides itself on a predominantly black client base, also increased its deposits and savings by 45 percent to R421,5 million (March 1996: R291,5 million). This was boosted by a 200 percent increase in the corporate division's book.

Investment rose from R2,2 million to R52,4 million, largely as a result of the liquid government assets the group must retain in terms of the Banks Act.

Advances grew 27 percent to R494 million (March 1996: R389,4 million) and the provision for bad debt was R28,1 million. This amounts to 5,4 percent of the advances book which the group said "is more than adequate".

Managing director Chris Beazley, who said the group was comparing an 18 month period to September 1997, against a 12 month period to March 1996, said one of the reasons why the bank survived even under curatorship was because of its loyal client base, which increased deposits, instead of deserting the bank.

"During the first six months of the period under review, the group reflected a R353 000 loss," said Beazley.

He argued that the group had made a profit of R35,8 million if these six months were removed from the equation and a parallel between the last 12 months of the 18 months and the 12 months to March 31 1996 was drawn.

The profit for the 12 months includes an R8 million operational profit as well as exceptional items totalling R27,3 million

"While the 18 months under review have been both strenuous and challenging, African Bank has refocused on reinforcing its controls, downsizing its distribution network and restructuring its administration," Beazley said.

These steps, he added, took precedence over growth in business, and the subsequent restructuring did result in a high staff reduction (nearly half of the bank's 420 staff), which was carried out through voluntary retrenchment in accordance with terms agreed with the union.

To enhance the group's levels of service, Beazley said the bank outsourced important functions such as administration of branch risks, the appointment of external auditors to assist the internal audit department and the property valuation function.

New technology was also introduced to improve the data processing function.

Future plans include a programme to introduce in-store banking in alliance with suitable retail partners.

"We are also aiming to expand our target market to incorporate high net-worth people and are currently investigating the implementation of an automatic teller network for the bank."

Micro loan scheme becomes a winner

(58) Sowetan 27/11/97

By Shadrack Mashalaba

START-UP Fund – the micro lending institution that grants loans to the "unbankable sector" – has reported satisfactory results with a surplus of income over expenditure amounting to R411 473 for the fourth year in succession.

According to the organisation's audited results for the year ended September 30, Start-Up Fund has again experienced no losses. This, it said, was achieved despite lending to South Africa's smallest and poorest emerging entrepreneurs.

Start-Up Fund chairman Tony Davenport said the fund was poised for a new era.

"The success of the Start-Up Fund goes to show that people who are generally written off as unbankable and unreliable can prove their critics wrong if they are provided with a ladder of opportunity which is suitable to their needs and abilities," Davenport said.

The fund was established four years ago. Currently, it has 10 000 clients throughout South Africa, 65 percent of whom are women. Total advances since the start of lending in October 1993 amount to R10 million, and the Start-Up Fund is rapidly expanding its outreach nationwide.

The fund has been described as one of the success stories in micro-lending. It is a non-governmental organisation registered as a Section 21 company which relies on grants and loans from the corporate sector, Khula Enterprise Finance, Development Bank of Southern Africa and the Independent Development Trust.

Tony Davenport, chairman of the Start-Up Fund, a successful financing facility for the "untouchables" of the banking sector.

"Now that the Start-Up Fund has proved itself with four years of solid results, and with our technology working superbly, we are planning a major expansion of our loan programme throughout South Africa," said Davenport.

Homeowners won't lose out, says spokesman for Islamic Bank liquidators

Star 27/11/97 (58)

By Melanie-Ann Feris and Tefo Mothibeli

Homeowners who bought their houses through the Islamic Bank, which is in the process of being liquidated, will not lose their homes.

This was the assurance given by a member of the liquidating team yesterday. Home buyers could continue paying their monthly instalments on their home loans.

"We will not ask people for the full outstanding amounts of their loans," he said.

An auditor's report last week indicated that the bank's accumulated losses were greater than its capital and reserves, making it insolvent.

According to the liquidation team member, the bank had about 13 000 depositors, of which 9 800 had less than R10 000 in their accounts and 2 000 debtors owed the bank R150-million, through home loans, car loans and other finance deals.

Clients of the bank have been asked to fill out claim forms for deposits totalling not more than R50 000, and the Reserve Bank has said it would cover the deposits up to this amount.

Throughout the day yesterday at the bank's headquarters in Fordsburg, Johannesburg, there was a steady stream of anxious clients hoping to get some information. Instead of friendly staff members, they were faced with an empty banking hall.

Huge piles of claim forms had been set out on a table alongside an unattended cardboard box, where claimants could deposit their completed documents.

Notices pasted to the walls informed clients that full details would be given in a statement in the Sunday Times this weekend, but this did not seem to satisfy clients.

According to one man: "They knew what was happening. ... Why did they still take deposits from us on Friday if they knew they were going to be liquidated? How do we know that we will get our money back?"

However, another client said: "It is a test from God ... money is not everything".

R10m loan may be cause of Islamic Bank's demise

CT(DR) 27/11/97 (58)

Christo Volschenk
Economics Editor

Cape Town — A R10 million property development in Mondeor, Johannesburg, would be the focus of the investigation into the demise of the Islamic Bank after "initial explanations given by the developer did not stand up to scrutiny", Andrew Wilkins, the provisional liquidator of the Islamic Bank, said yesterday.

The Mondeor property development of two buildings with 30-odd apartments each was launched in 1995 and is now thought to be the biggest reason for the Islamic Bank's demise.

The Reserve Bank lodged an application for the liquidation of the bank in the Transvaal High Court last Friday and appointed Wilkins as provisional liquidator.

Wilkins would not comment yesterday on the suggestion that the developer of the Mondeor project was a senior employee of the Islamic Bank who had developed the project for his own account.

Wilkins said he would have to "scrutinise the books of the development thoroughly" before he could comment on a suggestion that the Islamic Bank, with a capital base of R25 million, lent the employee R10 million at 15 percent interest to finance the Mondeor development.

Apparently the developer still owed the bank a sizeable amount of the loan.

Islamic law prohibits the payment and receipt of interest on loans.

"In some inexplicable way", Wilkins said, the whole Mondeor project was bonded to First National Bank (FNB), which was "refusing transfer of the apartments in the development until the security issue had been sorted out."

CAPE ARGUS, FRIDAY, NOVEMBER 28, 1997

Founder of Islamic Bank hides after death threats

(58)

Let law take its course, investors urged

ARG 28/11/97

ARGUS CORRESPONDENT AND BUSINESS STAFF

Durban – The founder and head of the Islamic Bank, Ebrahim Kharsany, has gone into hiding after death threats prompted by the bank's R161-million crash.

About 900 of the bank's 12 000 mainly Muslim investors are based in Cape Town and 2 000 in Durban.

Neither Mr Kharsany nor any of his relatives has been seen at their home in Langlaagte, Gauteng. A woman who claimed to be a domestic servant said she had no idea where the family had gone. They had left about a week ago.

A spokesman for the Reserve Bank said the bank did not know where Mr Kharsany was. But he confirmed that angry investors had telephoned and threatened to kill Mr Kharsany.

A committee of eight under advocate Mahomed Chohan, which is looking after the interests of the community, also does not known where he is.

Mr Chohan called on investors to behave responsibly and not to try to take the law into their own hands.

"It is vital for us to behave correctly and allow the law to take its course. We have a justice system and nobody needs to resort to violence," he said.

Gora Nagdee, a community activist on the committee of eight, said 12 500 investors had been affected by the crash – some of them widows and orphans who now had no income.

Some Muslim educational and social welfare institutions could not pay for services and staff or continue with projects.

"I am looking into a rumour that big investors were tipped off before the bank crashed and pulled out large sums of money," said Mr Nagdee.

It has been established that investors stood to lose at least R90-million.

The man handling the collapse from the Reserve Bank side, advocate John de Jager, will begin sifting through documents from Monday.

Meanwhile, the committee of eight has established that a departure from Islamic banking practices, coupled with mismanagement and poor investments, led to the collapse.

It is believed that an R80-million property development deal turned sour when there were no takers for the project at Ormandale, Gauteng.

Large loans were granted without proper controls and some of them have not yet been repaid. There may also still be problems in trying to recover all the money.

Andrew Wilkins of Deloitte and Touche, the provisional liquidator, said Mr Kharsany had been due to meet him on Wednesday.

His assistant, Ahmed Hassan Jaffer of the audit firm KPMG, is helping to assess the losses and establish the causes of the bank's crash.

processing division to a new co-operative of wattle growers, Wattle Extract Manufacturing Co-operative Limited (Wemco), for R45m.

Wemco will trade as NTE and NTE management and staff complement of 520 people will transfer to the co-operative, the membership of which includes the majority of about 2 000 black growers in the wattle industry.

Following the acquisition, Wemco would be the largest wattle extract manufacturer in SA.

Harmony may reverse cash loss

HARMONY Group was poised to reverse most of the September quarter's R37m cash loss in the December quarter despite losing R7m-R9m in revenue as a result of a wildcat three-day strike, MD Bernard Swanepoel said yesterday.

With about a month of the quarter left to run, recoveries at Harmony's Free State section had returned to above 4g/t and with the gold price at about R47 000/kg, cash profits were still possible, Swanepoel said. However, the group had entered into forward sales contracts for an eight-week period. This was structured to come into effect if the gold price fell below $300/oz.

Mustek to pay R9m

INFORMATION technology distribution company Mustek is to pay R9m for a 7% stake in Atio Corporation.

Mustek said on Wednesday that it would pay R4,5m for a 10% stake in Atio, but corrected the figure yesterday, saying the R4,5m was an upfront payment to Theta, current holders of the shares. The balance would be paid direct to Atio over the next two years.

REPORTS: Business Day Reporter.

Muslims fight to refloat troubled Islamic Bank

(58) BD 08/11/97

Belinda Beresford

CONCERNED Muslim community members are attempting to save troubled Islamic Bank from permanent liquidation by arranging a rescue package which could contain a deal with one of the big SA banking institutions.

Islamic Bank was placed into provisional liquidation last week after an application from the Reserve Bank. The niche bank is reportedly insolvent, with debts estimated at between R25m and R90m.

Goldman Judin & Werner partner Haroon Laher said an ad hoc committee of accountants and lawyers was formed last weekend after "representations made by a substantial number of depositors" of Islamic Bank. The committee was formed to look after depositors' interests, and to facilitate the flow of information from the provisional liquidator and the Reserve Bank.

The Reserve Bank has indicated its intention to compensate individual depositors up to a maximum of R50 000 each — which was likely to cover all the losses of between 80% to 90% of those affected. Laher said the terms and conditions of this compensation package were likely to become clear next week.

He said a major concern was that bank clients continued servicing their loans, to maintain the bank's goodwill and the principle of Islamic banking.

Laher said his preliminary assessment from court documents was that it was "not Islamic banking which is flawed, but the way it was managed in this particular instance that caused the bank to collapse".

The bank's position had been affected by a number of runs on the bank, triggered by rumours and a decision by religious authorities to remove their approval of the institution's activities.

Laher said he had heard a number of western-styled banks had indicated an interest in Islamic Bank, with First National Bank (FNB) and Absa among those mentioned.

FNB spokesman Alec Grant said the company could not comment on the issue since Islamic Bank was a client and therefore entitled to client confidentiality. Absa MD Nallie Bosman said the bank had not been approached to form a rescue package.

The ad hoc committee is holding a meeting about Islamic Bank on Thursday next week.

Iscor is considering plans to scale down its steel output

David McKay

ISCOR is considering scaling down the output of its steel division, part of an attempt by the iron and steel producer to revive its flagging fortunes.

The division suffered a two-thirds drop in net operating income in the year to June due partly to depressed markets.

Steel division MD Louis van Niekerk said options were being considered in a strategic review due for completion in March, one of which was to downscale production at its Vanderbijlpark works. Steel grades would to be pruned, allowing Iscor to make certain value-added products.

Iscor is in the top echelon of world iron and steel producers, but the group's overall strategy is to expand its mining division. Analysts say the steel division is vulnerable to the cyclical-downturn in steel markets. Its mining division is more diversified, which makes it less price-sensitive.

Iscor's mining division signed an agreement this year to develop a copper mine in the Democratic Republic of Congo and has expressed a desire to prospect for gold to add to its coal and iron ore product lines.

Van Niekerk said steel grades at its Newcastle works could be reduced to about 50 from the current 296 grades, allowing the company to concentrate on building value-added product lines and increase output over 18 months. Discussions with buyers of threatened product lines were under way, while retrenchments at Iscor's steel works were a possibility.

Iscor recently halted production of steel slab at its Pretoria Works due to the low demand. The works will produce about 360 000 tons of pig iron a year instead.

Van Niekerk would not disclose to what level Iscor's steel production could fall. It produces about 5,6-million tons a year.

Iscor did not exclude the possibility of finding a value-adding partner from the steel or mining sector to buy a stake in the company.

BD 28/11/97

FINANCIAL SERVICES (58)

What free trade will mean to SA

FM 19/12/97

From 1999, worldwide trade in banking, insurance and fund management services will be restructured for easier access Though this could create exciting possibilities for the big SA clients, low value customers may lose out

The trade deal, agreed by the World Trade Organisation's 132 members last weekend, will mean significant changes for some developing countries and those which still pursue protectionist policies.

But for SA, says Registrar of Banks Christo Wiese, the impact will be minimal. The agreement is "basically confirming something that is already in place."

It's already the responsibility of the bank regulators to ensure "that there is competitive neutrality between all institutions conducting business in SA." So Wiese doesn't think the SA consumer will see much of a change following the WTO deal.

But Council of SA Bankers CEO Bob Tucker argues a freer global financial services environment may well have an impact — to the benefit of high value customers and the detriment of low value ones.

"Financial services, perhaps more than any other industry, are part of the global village," says Tucker. "A broker with a modem on a Caribbean island can sell you a Hawaiian life policy, a Japanese cash management account and a tax facility in the Cayman islands, attractively packaged together, sold through the Internet and charged to your credit card account."

High value clients (because they are the ones foreign institutions are interested in) will see a broader range of offerings at keener prices

The flipside is that, for local institutions, tougher competition in the high end of the market will reduce profitability — which will reduce the scope for cross-subsidising customers at the lower end

And that will make it harder for banks to achieve the objective of expanding the delivery of financial services to "the full spectrum of SA society" **Adrienne Roberts**

No Saudi lifeline for sinking Islamic Bank

ARG 1/12/97

ARGUS CORRESPONDENT (58)

A high-powered delegation of Muslim businessmen has refused to bale out the troubled Islamic Bank of South Africa.

The group met in Durban on Friday night and it was hoped that a Saudi Arabian bank would take over and make good the R90-million deficit. However, after lengthy negotiations it was decided to ditch the Islamic Bank.

The 2 000 local investors still do not know what their fate is going to be. Some of them have been going to the bank's offices in West Street daily, but the doors remain closed.

This means that the only hope investors have is the Reserve Bank, which is believed to be offering up to R50 000 to every one of the 12 500 depositors who lost money.

The Reserve Bank's advocate Johan de Jager is due to meet the committee of eight who are representing the investors either this evening or tomorrow.

A full report of the bank's financial position and the Reserve Bank's response will be given to the investors on Thursday evening at a meeting in Mayfair, Johannesburg.

There is still no sign of the bank's Ebrahim Kharsany. A spokesman for the committee said that while a Sunday newspaper purported to have carried an interview with him, none of them had seen him.

Many South Africans have to replan their pilgrimages to Mecca as they have lost their savings.

Liquidated Islamic to pay out 'in two weeks'

(58)

MATT GETZ

CT (OR) 1/12/97

Johannesburg — Depositors in the provisionally liquidated Islamic Bank could get their money back within two weeks, Haroon Laher, a lawyer at the head of the ad-hoc committee looking after their interests, said last week.

"We met with the liquidators to facilitate the transfer of information. We are in the best position to talk to them," Laher said.

The committee met again yesterday to prepare for the public meeting planned for Thursday evening with the broad-based customers of the bank. It expected to meet the Reserve Bank today or tomorrow.

"(The committee) is working on a voluntary basis to meet community needs. We'd love to relaunch the bank," Laher said.

"If Islamic banking is to survive in this country, it will have to be through the assistance of the larger depositors. But their money has to be kept in and we have to find out how much support people will give."

Between 80 and 90 percent of depositors will get all their money back under the Reserve Bank's offer to cover deposits up to R50 000, but larger depositors will suffer.

First National Bank, the bank's banker, could lose up to R5 million, depending on the proceeds of the liquidation or the rescue plan — if there is one.

Laher said the bank's troubles had been predicated on poor management, not its style of banking. There were three main types of problem loans, all of which had to be collected.

"If the bank is to survive, it's fundamental for these debtors to pay their dues to the bank," said Laher.

"We want to keep the community going and keep the flag of Islamic banking flying, but we need immediate action; pilgrimage is in April."

SA banks 'are stable'

58

Peter Kenny

CT(BR) 2/12/97

Tokyo — South African banks were not susceptible to many of the destabilising influences rocking both southeast Asia and Japan, Standard Bank's group economist Nico Czypionka told Asian investors yesterday.

"We have a more cautious approach to bank lending than many other countries. The banking system in South Africa is highly stable and well supervised," said Czypionka.

Compared with other countries viewed as emerging markets Czypionka said South Africa was not strongly vulnerable to non-performing bank loans. He cited South African Reserve Bank figures showing that South Africa has an even lower percentage of non-performing loans at 2,4 percent than Singapore, considered the star of the Asian tigers, which last year had 3 percent in non-performing loans.

This contrasts with Malaysia, which last year had a rate of 15 percent of non-performing loans, Indonesia with 17 percent, and the Czech Republic with a whopping 36 percent. Czypionka said South Africa had a relatively low proportion of external debt, far lower than the Asian tigers.

Last year South Africa's external debt amounted to 26 percent of its gross domestic product as against 39 percent for Malaysia, 50 percent for Thailand, 53 percent for Indonesia, and 62 percent for the Philippines.

Czypionka said the figures for those countries were probably higher after the recent financial crises. In Japan during November three financial institutions collapsed. The biggest to fail was Yamaichi Securities, ensnared in a $23 billion credit crunch during a scandal involving illegal payoffs.

"My bank will not pay anybody for anything," said Czypionka when he was asked about corruption and banking and financial transparency.

"Corruption in South Africa," he said, "is mainly abuse of influence and not usually bribery." Czypionka warned potential Japanese investors that South Africa was not a country for entrepreneurs seeking high returns to depend on labour. — Independent Foreign Service

BMW launches unique client insurance policy

Sowetan 3/12/97 ~~192~~ (58)

By Morgan Naidu

THE rising costs of car insurance and the loss of customers after low insurance payout settlements has prompted BMW South Africa to launch its own unique insurance scheme.

Announcing the launch of the fully comprehensive insurance plan in Johannesburg this week, BMW's Erich Papke said the aim was to minimise costs for their customers while improving the company's overall competitiveness.

This is the first time in South Africa that a major motoring manufacturer has embarked on such an ambitious insurance scheme. However, while BMW's insurance plan will include everything from audio equipment cover to theft and hijacking and customer protection, the scheme will not be bogged down by insurance bureaucracy.

Papke said that while BMW will have overall control over the insurance plan, the management will be outsourced and the dealers will sell the policies. The incentive for dealers is a profit-sharing deal with BMW.

BMW first entered the insurance market in 1994 when the rate of car theft and hijacking appeared to be on the increase.

The company was spurred into action when some prominent people were hijacked and killed while driving BMWs.

"One of the consequences was that insurance premiums for luxury vehicles – and in particular BMWs – became unrealistically expensive. The general perception created in the marketplace was that BMWs were a target for theft and hijacking," Papke said.

BMW owners can now enjoy the luxury and comfort of their sedans, cabriolet or sports machines with a sense of security after BMW South Africa launched its own unique insurance scheme this week.

Rural body aims for big growth in its loan book

BD 4/12/97 (58)

Robyn Chalmers

THE Rural Finance Facility aims to grow its mortgage and micro-enterprise loan book to R520m within five years from its current loan portfolio of R33,5m, says MD Chris Höck.

He says the organisation, one of the biggest lending organisations in the low-cost housing and micro-loan rural sectors, aims to grow significantly over the next few years.

"We have covered Gauteng effectively and also have a presence in the Free State and the Eastern Cape. We are now looking to grow into Mpumalanga and KwaZulu-Natal over the next few years," he said.

The Rural Finance Facility has disbursed about 18 000 loans totalling R60m since it started lending in 1993. Its borrowers are low income people, mostly self-employed rural women with no previous access to formal finance and skilled or semiskilled men in the manufacturing sector.

Höck said overall repayment rates had been maintained at about 99%. Finance for low-cost housing loans was offered at a fixed interest rate of 22% — lower than other retail finance lenders, many of which lent at rates above 30%.

Fixed interest rates were easy to apply and borrowers were aware of the exact repayment amount each month.

Many of the micro-enterprise loans were small — under R10 000. It was believed that one loan in three created a job.

Höck said it was estimated that about 75% of the housing loans provided were invested in rural areas, even though more than two-thirds of the borrowers were based in urban areas with families in outlying places. Micro-enterprise loans were all invested in rural areas.

With housing loans, Höck said, the organisation went the payroll deduction route and the loans were backed by employees' provident or pension fund contributions.

He said there was a gap for a specialist lender with stable and reasonable interest rates at the bottom end of the market, and the organisation aimed to develop into that market.

More power for life industry ombudsman

(58)

ARG 6/12/97

CHARLOTTE MATHEWS

New rules to beef up the powers exercised by the Ombudsman for Life Assurance will come into force on January 1.

The move occurs against a background of an increasing number of complaints from the public on a variety of issues concerning life assurance policies.

According to the Ombudsman's 1996 annual report, his office received 160 complaints a month in the first four months of 1997 against 117 a month in 1996 – an increase of more than a third.

In terms of the new rules members of the life assurance industry which subscribe to the ombudsman's office – about 99 percent of South African life assurance companies – will have to abide by his rulings.

The new rules will also enable the ombudsman to make complaints public if he considers them to be in the public interest.

Previously his rulings were not binding on members and he was not permitted to bring complaints to the notice of the press.

Judge Jan Steyn, the current Ombudsman for Life Assurance, said that the ombudsman's office exists because the judicial process is too slow, too expensive and too complicated a mechanism for resolving disputes for the majority of South Africans.

The ombudsman's services are free to the public. The office is funded by life assurance companies with the purpose of ensuring that policyholders are not treated unfairly.

"It is important that the procedures we adopt must not echo the problems that consumers face in the courts and that we must be accessible, quick, simple, cheap and flexible," Judge Steyn said.

"Our approach should be to settle disputes, not to act as regulators."

The ombudsman has to be able to demonstrate independence from the life industry, consumers and regulators and when he makes decisions, these must bind the industry.

CONTACTS

You can write to the Ombudsman for Life Assurance, Judge Jan Steyn, at:
PO Box 4967
Cape Town
8000.
His telephone number is:
021 461 5010
His fax number is: 021 45 3769

When the ombudsman receives a complaint he must investigate it, take whatever advice seems necessary, and give both the complainant and the member of the life industry, his written advice on the resolution of the issue.

He will not deal with complaints that are about the underwriting of a policy, in other words its pre-set conditions; or the actuarial tables used; calculation of surrender and paid-up values of the policy; bonus rates; or, in the case of linked contracts, the performance of the portfolio to which the policy is linked.

But if it seems that the policyholders' benefits are so inadequate that it raises the suggestion of fraud or negligence on the part of the life assurance company concerned, or the possibility that there were misrepresentations, the ombudsman has the power to investigate and advise on the matter.

The ombudsman can recommend that a policyholder is paid up to R10 000 for "inconvenience, distress or other limited financial loss sustained as a result of an error, omission or maladministration on the part of the subscribing member".

He can also require a member to pay interest to the policyholder.

If the recommendation or award is more than R250 000 or the issue is of considerable public interest, or so complex as to require independent opinion, he may refer the matter to a panel of adjudicators which will be established from time to time.

He can also refer a matter on which he has given advice which is not accepted by the complainant to the panel and the panel's advice will be binding.

If the ombudsman decides it is in the public interest to make known any aspect of a complaint, he can do so, but he has to give both parties 21 days in which to object.

Objections will be considered but will not necessarily halt publication of the matter.

Life insurance ombudsman to get more authority

(58) BD 8/12/97

Samantha Sharpe

CAPE TOWN —The Ombudsman for Life Assurance would soon enjoy greater authority to settle disputes between policyholders and the life insurance industry, the incumbent, Judge Jan Steyn, said at the weekend.

The move formed part of a series of new rules aimed at enhancing the ability of the ombudsman to keep the scale in balance between the rights of policyholders and those of subscribing industry members. The rules come into effect from January 1.

Steyn said although the new rules would increase the authority of the ombudsman where complaints could not be resolved by conciliation or mediation, these would form the primary methodology of the office.

"The right of the ombudsman ultimately to make binding decisions can only be employed where mediation and conciliation have failed. Experience indicates that this should be a rare occurrence. However, without ... (it) we believe the ombudsman's intervention will tend to be a soft option and seen as a comfort zone for the industry."

Steyn said the ombudsman's office existed because the judicial process was too slow, too expensive and too complicated to resolve disputes for most of the population. Neither were they readily accessible to the average policyholder.

"It is important that the procedures we adopt must not echo the problems that consumers face in the courts and that we must be accessible, quick, simple, cheap and flexible. Our approach should be to settle disputes, not to act as regulators."

Wider powers for life assurance ombudsman

CT (BR) 8/12/97 (58)

LYNDA LOXTON

Cape Town — Judge Jan Steyn, the life assurance ombudsman, has negotiated with the life assurance industry for wider powers for his office as it becomes increasingly involved in mediating disputes between firms and policyholders.

Steyn said on Friday that as from January 1, the decisions of his office on disputes would be binding on the 26 companies which subscribed to his office; all secrecy rules would be lifted; and provision had been made for the appointment of a panel of adjudicators in certain cases.

But his office could not consider complaints about underwriting policies, actuarial standards and principles, the calculation of surrender values, bonus systems and the performance of equity-linked contracts unless there was a clear case of misrepresentation, he said.

The adjudication panel would be appointed in claims of more than R250 000, or in sensitive cases such as determining the extent of a person's disability when making disability claims.

These moves, Steyn said, would strengthen the ability of his office to mediate quickly and decisively in disputes. He said the details had been painstakingly negotiated with the industry over the past year, to save consumers having to deal with the slow, expensive and complicated judicial process when settling claims.

Steyn's office was established by the industry as a self-regulator in the 1980s. It places great stress on its independence.

Steyn admitted that brokers, "who can cause a great deal of anguish" by misrepresenting policies and benefits, still remained beyond his reach and were often used by insurance companies as an excuse not to pay claims.

But he said there were now "moves afoot for the organised intermediary (brokering) industry to submit themselves to the jurisdiction of this office".

The move had been welcomed by the Financial Services Board, which was considering legislation on intermediaries, Steyn said.

Prima Bank pay-off revealed

CT (BR) 8/12/97 (58)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — The Reserve Bank paid R5 million to Prima Bank in 1991 to get its support for the liquidation of Cape Investment Bank, the Nel Commission into the collapse of Masterbond said in a report released on Friday.

This emerged in the course of a section 417 inquiry into the affairs of Prima Bank.

The Reserve Bank did not want the payment to be reflected in the books of Prima Bank, and therefore a so-called American call option was given to Prima Bank on April 16 1991 to acquire securities before noon on August 1 1991 for R21,4 million.

The option was exercised by Prima Bank on April 17 1991, and the next day the securities were resold to the Reserve Bank for R26,4 million.

The donation of R5 million to Prima Bank followed similar "simulated transactions with Cape Investment Bank and Bankorp (later Absa) in which the Reserve Bank donated R15,37 million to Cape Investment Bank and R1,1 billion to Bankorp/Absa," the commission said.

Prima Bank bought the controlling share in the beleaguered Cape Investment Bank in December 1990, but soon afterwards the Reserve Bank decided the Cape Investment Bank was in dire straits and should be liquidated.

"The Reserve Bank wanted the acquisition agreement to be cancelled. When the Reserve Bank agreed to pay R5 million, Prima Bank undertook not to lodge claims upon liquidation of Cape Investment Bank," the commission said.

The Nel Commission said supervision of financial institutions was "fragmented, inadequate and underfunded". It suggested a single supervisor be established and properly funded by the institutions to be supervised. "It was not unreasonable to expect the investor to contribute to the costs of supervision."

It suggested life insurers pay about R50 million — about 0,05 percent of their total annual income — towards the funding of the supervisor. Banks should pay R40 million, which was about 0,01 percent of the R400 million on deposit with banks, and short-term insurers should pay R22,5 million or 0,125 percent of their total annual premium income.

"An annual registration fee of R200 per private company and closed corporation would generate R110 million per year to be used by the office of the Registrar of Companies for the proper carrying out of its functions," the commission said.

The commission was appointed in 1991 by the then-president FW de Klerk.

NUM to fill its thinning ranks

CT (BR) 8/12/97

FRANK NXUMALO
LABOUR CORRESPONDENT

Johannesburg — The National Union of Mineworkers (NUM) would embark on a massive recruitment drive in the coal, platinum, diamond and energy sectors of the mining industry, Kgalema Motlanthe, the NUM secretary general, said at the weekend.

This move was to counter the potential loss of thousands of members in the crisis-stricken gold mining industry, which economists have estimated could shed as many as 100 000 jobs because of the falling gold price.

Motlanthe said the gravity of the situation was compounded by the hedging contracts — which had been cushioning the industry and were calculated at $340 an ounce — having to be renegotiated soon. He said under the present circumstances, buyers were in a far stronger position than sellers, who might have to accept the current price.

UPBEAT *NUM's Kgalema Motlanthe is leading a union recruitment drive* PHOTO OSCAR G

Motlanthe said the mining industry as a whole employed 495 000 workers, of which 300 000 were paid-up NUM members.

He said gold mining could soon come to an end, as the central banks of most industrialised countries continued to sell the metal as they divorced their currencies from it.

"Switzerland has been advised to hold a referendum in 1999 to assess whether they maintain their gold standard," Motlanthe said. "The possibility is that 800 tons of gold could be sold and the implications ... are frightening."

However, he said, the NUM could emerge stronger, as other mining sectors were doing relatively well. "As revolutionaries we see solutions in the bleak picture relative to the overall (mining) workforce. We are not fully organised; there is potential for the NUM to grow."

Four banks vie for SAA privatisation role

(58)

Robyn Chalmers

BD 10/12/97

GOVERNMENT has short-listed four merchant banks for lead transaction adviser to oversee the partial privatisation of SA Airways (SAA), expected to be completed by October.

The candidates are Goldman Sachs, Merrill Lynch, SBC Warburg and UBS Real Africa Durolink, with the winner to be announced on December 18. Public Enterprises spokesman Wandile Zote said the adviser would oversee the process, including determining a share value, controlling the tender process and managing legal aspects.

A second adviser — likely to be a local black merchant bank — was being sought to oversee the employee share ownership scheme and the transfer of an unspecified stake to the National Empowerment Fund (NEF). It remains unclear how much of SAA will be sold, although government will retain a majority stake. It is estimated that 25% to 30% will go to a strategic equity partner, between 5% and 10% to employees and up to 10% to the NEF.

SA attracts more new banks, says registrar

(58)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

CT (BR) 18/12/97

Cape Town — Applications for new banking licences had been rolling in this year, Johan de Jager, a spokesman for the office of the registrar of banks at the Reserve Bank, said yesterday.

The registrar of banks received 14 applications for new licences between January and December this year. Three were from foreign banks wanting to open branches, De Jager said.

Local branches of foreign banks must comply with the same prudential requirements as banks, but they may only accept deposits bigger than R1 million from individuals and companies.

The Reserve Bank does not reveal the identity of applicants for licences. De Jager did not say how many of the 14 applications were still pending and how many had been rejected.

He admitted that the number of licences issued could "increase significantly" in the coming year, as applications were approved.

De Jager said applicants had to satisfy the registrar that they had managers with banking experience and directors with risk management skills.

Commentators in the financial sector suggested that the number of banking licences issued might climb by up to 25 percent in the next few months.

The 1996 annual report of the registrar of banks shows that 39 registered banks and 6 local branches of foreign banks were operating in South Africa at the end of last year, and 58 foreign banks had representative offices.

Local banks have to obtain written approval from the Reserve Bank before acquiring stakes in foreign banks or any other ventures.

De Jager said the Reserve Bank had approved a long list of such foreign investments by local banks.

BMW to underwrite insurance on its cars

58

Belinda Beresford

SA CAR manufacturer BMW is to offer and underwrite comprehensive insurance to its customers in conjunction with the specialist insurance company Guardrisk in what is being seen as a pilot project for the international group.

BMW new business development manager Erich Papke said the company's main aim was to facilitate sales of its cars. Research had shown rising short-term insurance premiums were exacerbating car ownership costs, which in turn were deterring customers from buying BMWs.

However, Papke said the insurance scheme also had to become profitable in its own right. The car manufacturer was carrying the risk, while splitting the profits with its dealers, who acted as brokers, he said.

Within five years BMW anticipated between 30% and 50% of dealership income could be from insurance profits.

The target market for the policies were BMWs produced since last year which had been fitted with the electronic drive-away protection system. BMW was looking for market penetration of 15% to 30%, Papke said.

He said this was the first time BMW had underwritten insurance, instead of finding an underwriter to provide a product which the car manufacturer then distributed. "We've put in money and capitalised an element of a cell using Guardrisk's licence and we actually do the underwriting, so BMW carries the risk and operates fully as an insurer."

The scheme complied with financial regulations, since the underwriting was done through Guardrisk's captive cell system.

Safrican to 'target' low-income groups

Patrick Wadula (58) BD 11|12|97

FUNERAL insurance group Safrican plans to expand and grow through its existing businesses and acquisition of stakes in other life assurance companies enabling the group to reach almost R400m in value in the new year.

Safrican MD Sandile Mbili said yesterday the group was seeking opportunities to expand its existing market by targeting low-income groups, particularly trade unions. "We applied for licences to provide other products and these were granted."

Safrican is 51% owned by Insika Investment Holdings and Fedsure holds 49% of the group. Insika is a consortium headed by Thebe Investment Corporations' Msele Financial Holdings which has 50% stake, while almost 30% is in the hands of three trade unions. The rest is held by funeral insurance brokers Themba Afrika and Mor-Mthem, a joint venture set up set up by Japie Moropa and former New Age Beverages head Khehla Mthembu.

Mbili said the planned expansion within the group would help increase its premium income to R170m for the year to end February 1998 from R89,9m for the previous year.

Insurance funds were also expected to reach almost R60m from R44,3m and profit after taxation were envisaged to rise to R13,2m from R7,3m.

Mbili said previously employees benefits were handled directly by the employer through Safrican.

"However the group would like to offer employees benefits that might not have anything to do with the existing employers benefits," he said.

CT(BR) 11/12/97

Get Ahead's unit aims at 30 000 jobs

(58)

ROY COKAYNE

Pretoria — Get Ahead Financial Services (Gafs), the pioneer of the group or stokvel lending method on the African continent, aimed to create 30 000 new jobs in the year to March, Mpumzi Pupuma, the managing director of Gafs, said yesterday.

He said this meant Gafs would be sustaining or creating 70 000 jobs in the year to March 1998, compared with 40 000 jobs in its previous financial year.

Pupuma said this growth would be achieved through an expansion programme supported by international aid organisations, such as USAid and Swedish International Development Agents (Sida), and local organisations, such as Khula Enterprise Finance.

"With the help of USAid, Sida, the Belgian government, Khula Enterprise Finance and many others, we have managed to grow our stokvel lending programme.

"By the end of November this year, this programme was already reaching 17 000 individual borrowers. Our aim is to reach 22 000 individual borrowers by March 1998. The structures have already been set to achieve this goal in the form of more offices to cover South Africa," Pupuma said.

He said Gafs' annual financial statements showed that the organisation's loan book for the year to March 1997 was almost R20 million. Research had shown that one job was created for every R450 lent.

He said Gafs' aim of creating or sustaining 40 000 jobs in its past financial year should be compared with the net gain of only 15 000 jobs in the formal sector of the economy, according to the 1995 Reserve Bank annual report.

Gafs was part of Get Ahead, a Pretoria-based small business development organisation operating on a national scale that recently unbundled on the advice of international consultants.

Investors lose as regulation makers snooze

ARG 13/~~H98~~ 12/97 (58)

CHARLOTTE MATHEWS

Fragmented regulation of financial institutions, dishonesty and inefficiency among auditors, lack of prosecution of crimes and inadequate control over intermediaries are only some of the reasons identified by the Nel Commission for investor losses in a number of schemes.

The Commission investigated the collapse of Masterbond as well as other companies and schemes where investors lost money such as the Owen Wiggins Group, Cape Investment Bank Group of Companies, Supreme Group of Companies, Alpha Bank and Prima Bank, and Equity Brokers Clearing AG (a company which solicited money from investors in Europe and South Africa for investment in South African stock).

PERSONAL FINANCE CAMPAIGN

In South Africa a holistic approach needs to be taken towards regulation because there are too many grey areas, the Nel Commission recommended.

A holistic approach would mean a new body modelled to a certain extent on the US Securities and Exchange Commission or the UK's Financial Services Authority.

Such a body in South Africa should have much wider powers than those of the present regulators to act effectively at an early stage.

"An adequately staffed and efficient inspectorate which can carry out its duties fearlessly is an essential part of supervision," the report said, but concluded that, generally, this does not exist in South Africa.

The Reserve Bank carries out few inspections because it lacks the staff; the Financial Services Board has an inadequate budget and a handful of inspectors; and the Companies Registration Office has become "little more than an antiquated filing room which cannot cope with the demands of modern commerce".

The Nel Commission was particularly harsh about the part played by auditors.

It said the "saga" of dishonest or inefficient auditors which emerged during its investigations "belied the generally perceived honesty, integrity, efficiency and independence of auditors".

It became apparent that auditors believed their job was not only to audit the books of a company but also to protect management as far as possible.

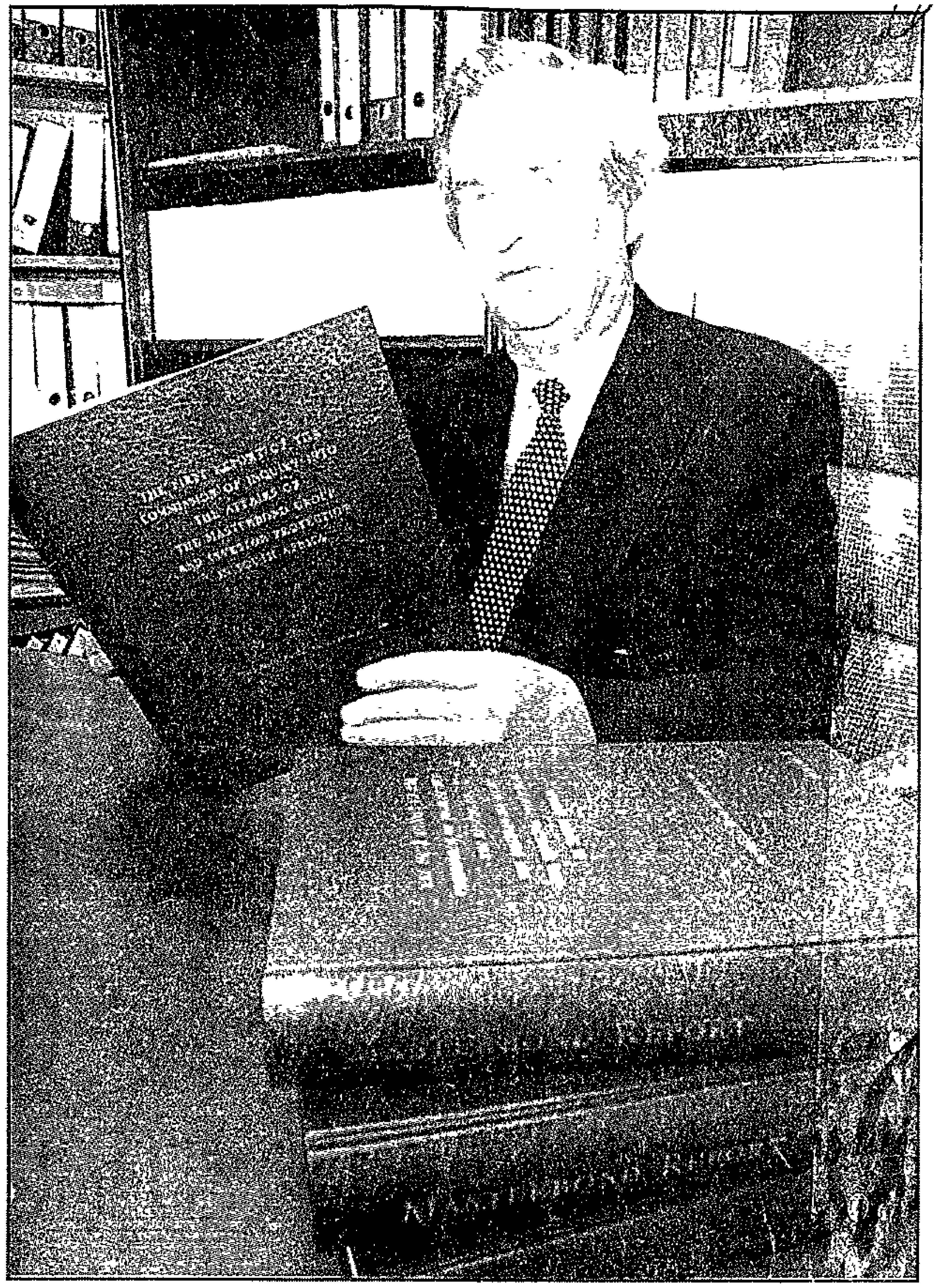
The Commission recommended that in South Africa a "public oversight body" should be considered to ensure auditors report material irregularities.

Directors of companies often accept appointments without appreciating the fiduciary duties they are assuming and few acquaint themselves with the Companies Act.

Alternative civil remedies should be available to investors and these should be quick and inexpensive.

Participation mortgage bond investors, holders of debentures and creditors of companies like Masterbond are often elderly, not wealthy and cannot afford litigation.

If they were able to institute a class action there is little doubt that actions with more than a fair chance of success would have been instituted by them against all the directors and auditors of the Masterbond companies, Fancourt, Marina Martinique, Owen Wiggins, Supreme Group of companies, and intermediaries selling Masterbond, Fancourt, Marina Martinique and Supreme Group, the Commission said.



ROY WIGLEY

MASTERBOND INQUIRY: Mr Justice H C Nel, who chaired the Commission of Inquiry into the affairs of the Masterbond Group and investor protection in South Africa, has presented the Commission's report to President Mandela.

Nel slams shoddy control over intermediaries

CHARLENE CLAYTON

The Nel Commission highlighted the lack of control over the activities of intermediaries in South Africa as one of the reasons for inadequate investor protection.

The Commission's recently released report looks into the affairs of the Masterbond Group and investor protection.

Intermediaries, who include brokers, agents, financial advisers and representatives, are normally indispensable links in the chain when fraud is being perpetuated on the public.

They are virtually never prosecuted and are hardly ever in the position to satisfy claims based on their negligent, reckless or even fraudulent conduct, the report said.

Greed is often the motivation for their conduct when they target the elderly and trusting members of society.

No qualifications, no skills and no adherence to codes of ethics are required to give financial advice.

According to evidence presented in the Supreme Court in the Durr vs Absa Bank and Myles Stuart case, the typical broker, of which there are 20 000 to 30 000 in South Africa:

- ◆ Cannot distinguish between a prospectus and marketing material containing similar information;
- ◆ Does not know what the legal requirements of a prospectus are;
- ◆ Cannot read and understand financial statements;
- ◆ Is not able to assess the institutional risk of a particular company, or group of companies; and
- ◆ Would not make inquiries about the nature of the security underlying secured debentures.

The Commission says no one should be allowed to give investment advice for reward unless registered and licensed so to do by a competent and independent supervisor.

A licence should state in which particular field the intermediary is allowed to give advice.

Anyone giving investment advice without being registered or violating the terms of the licence or rules of conduct should be guilty of a criminal offence carrying a penalty, of say, 10 years imprisonment, or a fine of R1 million, or both.

The Commission suggests the offender and his employer should also have to repay immediately any investment made, if the investor wishes.

SA opens up financial services sector

Tim Cohen

(58) BD 18/12/97

LONDON — SA has demonstrated a willingness to open further its financial services sector to international competition, but its offer to the recent World Trade Organisation (WTO) financial services sector pact also shows it is guarding some sectors jealously.

Documentation on SA's offer to the WTO negotiations concluded in Geneva on Sunday, shows SA intends relaxing restrictions on international competition in the sector.

SA commits itself to the crossborder supply of settlement and clearing services for financial assets, including securities, derivatives and other negotiable instruments. But restrictions will still apply to foreign exchange transactions and asset management by foreign companies.

The WTO pact, which has been billed as "ground breaking", lowers the barriers to foreign suppliers of financial services in 70 countries and will lock the market-opening commitments of 102 nations. The commitments offered encompass $17,8-trillion in global securities assets, $38-trillion in global bank lending, and $2,2-trillion in worldwide insurance premiums.

In SA's banking sector, limitations singled out are that dealings in foreign exchange must be carried out through a dealer authorised by the Reserve Bank. Only banks registered with the required minimum capital base will be eligible to seek authorisation as a foreign exchange dealer.

Companies involved in asset management and collective investment schemes will need to be incorporated as a public company in SA and registered with the supervisory authority to carry on business in SA.

Regarding the insurance industry, SA included certain restrictions on "commercial presence", insisting that all insurers needed to be incorporated in SA and registered.

The acquisition of shares by a resident or nonresident in a registered insurer, resulting in the holding of 25% or more of the value of all of the shares, would require the written approval of the registrar of insurance.

SA did not bind itself regarding the crossborder supply of many banking services or on consumption abroad, essentially reserving its position and allowing existing laws to dictate.

A WTO spokesman said the commitments were satisfactory even though SA remained "unbound" in many areas. The WTO was not insisting on a uniform degree of openness and was taking into account the circumstances in each country.

Govt paves the way to redraft SA's usury laws

Lucia Mutikani

(58)

BD 19/12/97

THE trade and industry ministry is working on a policy document to pave the way for amendments to the Usury Act of 1968, which deals with the granting of credit and setting of interest rates, in order to make it more consumer friendly.

Lana van Zyl, the director of consumer affairs in the department, said the document should be ready for public comment in the next few months.

The document is regarded as the first step towards redrafting of SA's usury laws which have come under increasing criticism in recent years, particularly with regard to the disclosure of finance charges levied by money lenders as well as transparency in credit and leasing transactions.

Van Zyl said the document would contain alternatives to present requirements. The present law was widely considered to be excessively complex and consumer unfriendly.

FINANCIAL SERVICES (58)

What free trade will mean to SA

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From 1999, worldwide trade in banking, insurance and fund management services will be restructured for easier access. Though this could create exciting possibilities for the big SA clients, low value customers may lose out.

The trade deal, agreed by the World Trade Organisation's 132 members last weekend, will mean significant changes for some developing countries and those which still pursue protectionist policies.

But for SA, says Registrar of Banks Christo Wiese, the impact will be minimal. The agreement is "basically confirming something that is already in place."

It's already the responsibility of the bank regulators to ensure "that there is competitive neutrality between all institutions conducting business in SA." So Wiese doesn't think the SA consumer will see much of a change following the WTO deal.

But Council of SA Bankers CEO Bob Tucker argues a freer global financial services environment may well have an impact — to the benefit of high value customers and the detriment of low value ones.

"Financial services, perhaps more than any other industry, are part of the global village," says Tucker. "A broker with a modem on a Caribbean island can sell you a Hawaiian life policy, a Japanese cash management account and a tax facility in the Cayman islands, attractively packaged together, sold through the Internet and charged to your credit card account."

High value clients (because they are the ones foreign institutions are interested in) will see a broader range of offerings at keener prices.

The flipside is that, for local institutions, tougher competition in the high end of the market will reduce profitability — which will reduce the scope for cross-subsidising customers at the lower end.

And that will make it harder for banks to achieve the objective of expanding the delivery of financial services to "the full spectrum of SA society." Adrienne Roberts