FINANCE - GENERAL

1996

JANUARY _ APRIL

FutureBank to take part in govt plan

Adrienne Giliomee (58) BD 3/1/96

FUTUREBANK would extend its involvement in employer-based finance for affordable housing by participating in government's affordable housing scheme, FutureBank MD Neville Watchurst said in the annual report.

The benefits of the scheme would prove to be a major area of growth for the bank in 1996 and beyond, he said.

The bank, which was a member of the Association of Mortgage Lenders, would continue to support job creation through its involvement in various segments of the small business loan market. "Our policy of networking with companies who wish to make a contribution to the RDP ensures partnerships with like-minded organisations that result in the creation or expansion of successful businesses," he said.

The financing of franchising opportunities would continue, but this would be limited to business from experienced and reputable franchisers.

Watchurst said the bank's credit risk was minimised through agreements with local and foreign aid and development agencies. "Credit risk remains the most critical factor to our success," he said.

"We continue to utilise and expand on our agreements with agencies such as USAid, the Small Business Credit Guarantee Corporation and the Independent Development Trust Finance Corporations."

The bank — set up in a joint venture by First National Bank and the Foundation for African Business and Consumer Services — achieved a 29% increase in net income to R939 000 for the year to September.

ET(BR) 3/1/95

Minister to act in stokvel dispute

(58)

Durban — Finance Minister Chris Liebenberg will meet representatives of Sun Multi Serve and the registrar of banks in Pretoria today to try and settle the dispute between them.

The registrar of banks, Christo Wiese, recently ordered the fund's closure, and appointed Deloitte and Touche to recover at least R50 million taken from investors.

Yesterday Wiese said he wanted to resolve the problem. The move follows a march by thousands of investors to Wiese's offices demanding that Sun Multi Serves' bank accounts be unfrozen.

The fund's co-ordinating branch manager, Dinty Matavo, said if the registrar did unfreeze the accounts it would spread the money among its 28 branches, which are now individual stokvels. — Stuart Rutherford

Sun Multi Serve issue unresolved

(58) CT(BR) 4/1/96

Pretoria — A meeting between Finance Minister Chris Liebenberg and representatives of Sun Multi Serve and the registrar of banks, Christo Wiese, in an attempt to settle their dispute, was suspended yesterday and will resume today.

A spokesman for Liebenberg's office said no statement about the meeting would be released.

The dispute follows the recent ordering of the fund's closure and the appointment of Deloitte & Touche to recover at least R50 million taken from investors.

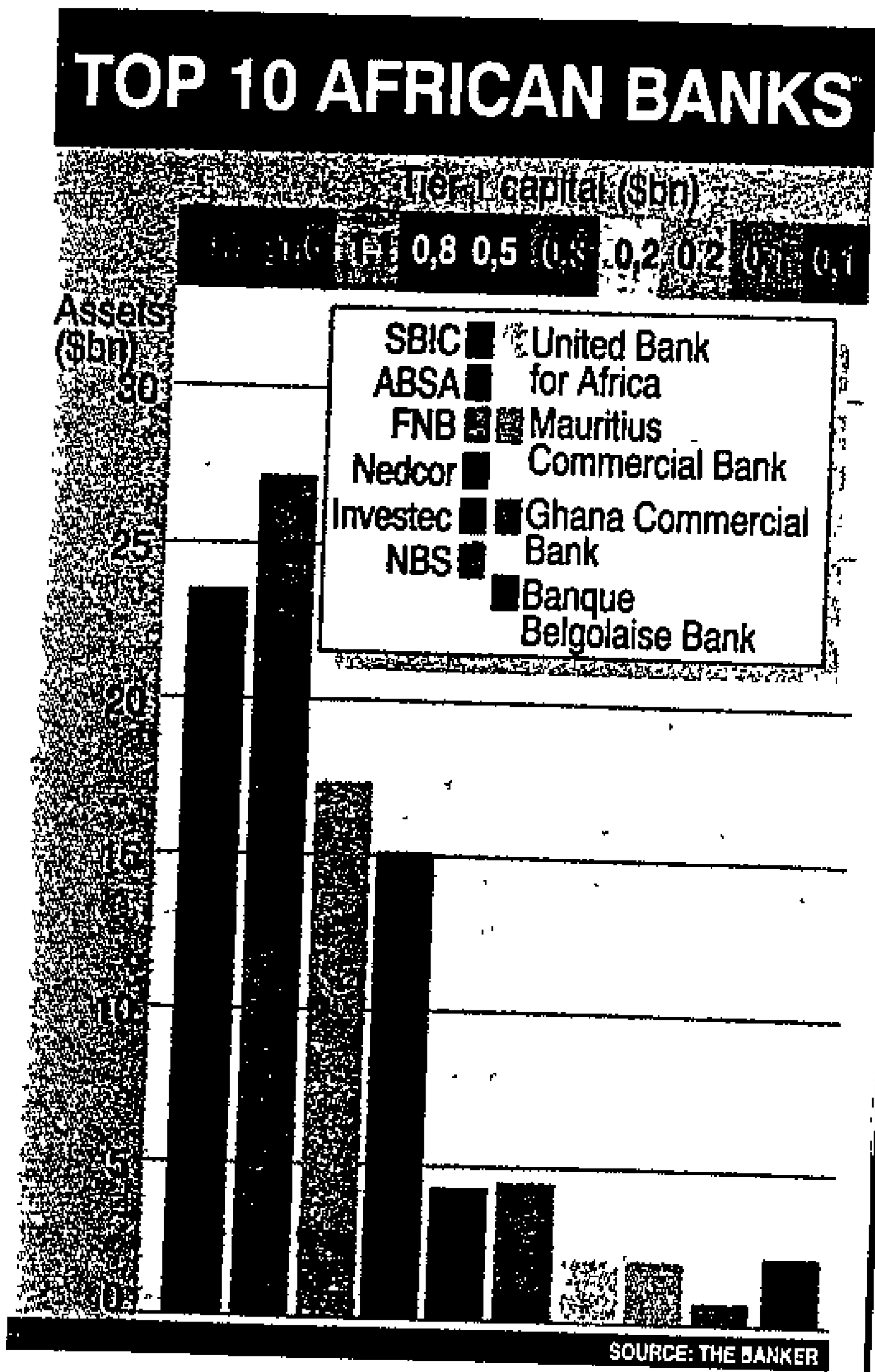
BANKING FM 5/1/96

Tops in Africa

(58)

Once again, SA banks dominate the ranking of top African banks, undertaken each year by international magazine *The Banker.*

Rankings are based on Tier One capital, as defined by the Bank for International Settlements. This definition is stricter than



total stockholders' equity and covers only the core of the banks' strength — the shareholders' equity available to cover actual or potential losses.

It includes common stock, disclosed reserves and retained earnings but excludes cumulative preference shares, revaluation reserves, hidden reserves, subordinated and other long-term debt, which are defined as Tier Two capital.

SA's top eight banks represent the lion's share (US$6m out of a total of $8m) of the capital of African banks. *The Banker* says: "This concentration of capital clearly demonstrates the sophistication of SA's banking infrastructure.even when compared with many developed countries.

"The SA banking system has been strengthened by the increased willingness and ability of international investors to offer these banks an international shareholder base. The deregulation of the JSE has allowed banks to enter the securities market as stockbrokers — which could increase their potential earnings, if the anticipated capital flows in, now that the country is seen to be more stable." ■

Lending scheme reaps rewards

(58) Star 6/1/96

By WILLIAM-MERVIN GUMEDE

In 1989, Vincie Mahlaba's home in KwaMashu, KwaZulu Natal, was burnt down in the political violence that still continues to ravage the province.

Mahlaba approached several banks in the area for a loan but they all turned her down. She was told she did not qualify because she did not have sufficient collateral against which the loan could be taken.

After the rejections, she turned to the local KwaMashu stokvel. Thanks to the stokvel, she has not only rebuilt her house but runs two successful businesses as well.

A small loan from the Get Ahead Foundation helped her to start a spaza shop and a sewing business which provided employment for five other people.

The loan system, called the Stokvel Micro Lending Programme, offers loans ranging from R800 to R5 000 to finance a wide range of activities, including hawking, retailing, manufacturing and services.

"The programme gives micro loans to small business and stokvels. The minimum number should be five. A stokvel that takes out a loan for the first time is given four months to pay and a precondition is that no instalment may be skipped," says Thalia Nyeme, administrator of the Stokvel Micro Lending Programme.

Once the borrowers have finally repaid their loans they are encouraged to take a larger or "graduate" loan to expand their businesses. Nyeme says the difference between the Get Ahead Foundation's loan scheme and that of commercial banks is that they do not ask for collateral because banks do but rely on group pressure.

"Our loan scheme has a very high repayment rate," Nyeme says.

Mashudu Ramano, Gauteng president of the National African Federated Chamber of Commerce and Industry, says South Africa's financial system has always catered primarily for a First World clientele.

"The South African financial sector is not geared up to deal with emerging black business, which leaves people with no alternative than to participate in stokvels and in schemes such as Sun Multi Serve."

The success story of the stokvel and how it originated in South Africa

58 Star 6/1/96

By WILLIAM-MERVIN GUMEDE

The music blares from the high-voltage speakers but not everyone is on their feet – yet. Some people are drinking, others are chatting idly while the rest hang around outside the house.

But as the night progresses, the music gets louder, the drinking picks up, more feet crowd the makeshift dance floor and the conversation gets louder at the Mighty Monday Blues Stokvel Bash.

The stokvel involves an informal savings scheme and entertainment centre that has existed in the townships for over a century and today holds the savings of more than 10-million black South Africans.

A stokvel is a group of people who agree to pool a fixed amount of money on a weekly or monthly basis. Contributions are then given to members on a rotational basis. If a stokvel has 12 members who each pay R50 a month, it means that each member will have the chance of taking the R600 kitty once a year.

In many cases they throw a party financed by the pool money and sell refreshments, especially liquor, at a profit. This could be a reason why stokvels have always been associated with township parties.

Alcohol is consumed at most stokvels. So much so that, in the bad old days of apartheid, the police's liquor squad often disrupted the parties, arresting revellers and confiscating alcohol, claiming members were contravening the Liquor Act by selling drink without a licence.

The stokvel concept was formalised a few years ago with the formation of a professional body called the National Stokvel Association of South Africa.

"Although Nasasa was launched quite a few years back, it only received legal entity in May 1993," says Andrew Parsons, general manager of Nasasa.

Stokvels are found in rural and urban areas, in squatter camps, mine hostels, factories, police barracks, and among the employed and the jobless.

Membership is voluntary and the introduction of a new member is made on personal recommendation by someone who is already a member of the stokvel.

Honesty and reliability are important requirements for membership, as most stokvels do not have written agreements.

Stokvels are kept together by trust. Clubs are often formed by people working at the same firm, or members of the same family or church.

Groups are made up of between five and 20 members, although bigger groups can sometimes be found. In his book *Stokvels in South Africa*, Andrew Lukhele, chief executive officer of Nasasa, describes a stokvel as a type of credit union.

The name stokvel originates from the rotating cattle auctions or "stock-fairs" of English traders in the Eastern Cape during the early 19th century, where black farmers and labourers exchanged ideas and gambled.

Its original form was a burial society created to help members meet the high cost of funerals at a time when cholera, smallpox, tuberculosis and typhoid were rife.

Women then started forming stokvels to supplement their incomes, hosting parties at which an entrance fee was charged.

The parties began to sell alcohol because, when women were forced to find ways to generate extra income, many of them turned to an old skill – the traditional skill of brewing beer, writes Lukhele.

Burial societies, or *makgotlas*, were established in the latter part of the 19th century as blacks faced the high cost of funerals, which play an important role in African culture.

Members of a burial society either promise to contribute a certain amount if a member of the family dies, or members contribute a fixed amount periodically that is set aside in a bank account.

Members subscribe funds to start a joint business or invest, and profits are divided among them at the end of the year.

In Western Cape townships, stokvels known as *umgalelo* are dominant.

They operate differently from the Gauteng stokvels: these *umgalelo* clubs are religious and the minimum contribution is R50 a member each month.

Stokvels are more than just money-making ventures and over the years a subculture has developed around them, says Lukhele. Stokvels are increasingly becoming more popular with young, upper-income blacks.

Their clubs have designer-label names such as Mighty Monday Blues, Benetton, Palazzo Pitti, Lacoste, Bear International, Lacoste Sport, and Daks of London.

Rotating savings schemes are not unique to South Africa and the stokvel concept can be found in other parts of the world, but mostly in developing countries, as a means of bringing financial services to the poor.

According to the World Bank's World Report, rotating savings and credit associations are a popular form of informal finance.

Meeting over frozen Sun Multi Serve accounts fails to bring problem closer to resolution

(58) Star 6/12/96

By WILLIAM-MERVIN GUMEDE

A crisis meeting called to discuss the frozen accounts of the Sun Multi Serve stokvel failed to produce a resolution this week.

The meeting was mediated by Finance Minister Chris Leibenberg and was attended by Reserve Bank officials, stokvel representatives and Registrar of Banks Christo Wiese.

"The meeting was fruitful but no decision was reached on releasing the frozen accounts of Sun Multi Serve," said Victor Monamodi of Sun Multi Serve's investor committee. "We will have follow-up meetings soon," he said.

Last week, members of the Sun Multi Serve stokvel marched to the Union buildings and called on President Nelson Mandela to intervene in the dispute between the fund and the Reserve Bank.

The group also protested at the offices of the Reserve Bank in Pretoria demanding that Wiese release their R50-million in investments.

This comes after members of Sun Multi Serve barricaded their head office in Rustenburg this week to prevent officials appointed by Wiese from entering and confiscating the fund's files.

Wiese froze the fund's bank account and ordered its closure after investigations suggested that the scheme, which had offered returns of 300% to about 53 000 investors, had contravened the Banks Act.

The act states that a stokvel may not control assets in excess of R9,9-million while Sun Multi Serve has assets of around R50-million.

Sun Multi Serve adviser David Mogashoa said last week that more than 28 000 of the stokvel's members had resolved "not to co-operate with Wiese or his appointees".

"We condemn the high-handed manner in which Wiese handled this problem, disregarding the 2 000 jobs that might be lost as a result of his action and the fact that members will be in dire need of money during the festive season."

Wiese described the fund as a pyramid scheme and said his office had initiated the investigation and approached the Supreme Court for a rule nisi to freeze Sun Multi Serve's accounts because it contained more money than was allowed for stokvels in the Banks Act.

He said an investigation into the scheme had shown that the stokvel was "in fact a pyramid scheme and the sooner such schemes are shut down, the less they hurt people."

"It is a quick-money scheme generally aimed at tricking unsuspecting, trusting people into investing money," Wiese said.

"Stokvels stem from the culture of the people and are based on good faith and trust between members. Sun Multi Serve's operations were too large and lost the most important element of a stokvel, namely a common bond among members."

He added it was the registrar's duty to protect investors and to administer the Banks Act.

"The office of the registrar has frozen Sun Multi Serve's account and seen to it that the money is returned to its legal owners," he said.

CHRISTO WIESE: Financial manager of Reserve Bank

"The unbundling of the scheme will take place in terms of section 84."

Mogashoa said Sun Multi Serve was a legitimate fund that had done much for its members.

"Members of the fund are saying we are satisfied, while Wiese is saying we are protecting you. Protecting from what or whom?"

Mogashoa further said Sun Multi Serve members had resolved that the fund's 28 branches will be registered as independent stokvels with their own bank accounts.

"Wiese must then divide the R50-million among the 28 branches based on membership figures and deposit the same in the new accounts."

Mogashoa said Sun Multi Serve members had given Wiese until yesterday to respond to their demands.

"If we have not been satisfied, members will disrupt branches of United and Standard banks, which started this whole mess.

"Their feeling is: why should the banks operate as normal?" Mogashoa said.

Last week Wiese appointed Tim Store, chartered accountant of Deloitte and Touche, as manager of the fund and to determine the legal owners of the investments in Sun Multi Serve.

Earlier last week Victor Monamodi of Sun Multi Serve's investor's committee warned of widespread dissatisfaction and protest by the society's 53 000 members if the Reserve Bank did not unfreeze its accounts.

He claimed the registrar's orders were racially based and said members would embark "on mass action and cause chaos" if Wiese refused to relent.

Monamodi said investors were angry at what they saw as "a sinister campaign by white institutions that felt threatened by the scheme's success".

He claimed that United Bank had closed the fund's account last month "because it was a threat".

Absa group general manager Alec Hogg countered this claim by saying: "It is ridiculous that United Bank's R13-billion in assets should be threatened by a stokvel."

The fund's account was then transferred to Standard Bank, which initiated a probe of Sun Multi Serve.

Monamodi called on the Government to ensure that the Banks Act was made "friendly to our heritage".

"When Afrikaners took political power they changed bank laws to allow the formation of Afrikaans-controlled financial institutions, and this should now be done for blacks.

"People are happy with the scheme. We have not received a single complaint from people claiming they were not paid their dues," he said.

Wiese last week threatened to call in police assistance in dealing with Sun Multi Serve following the fund's refusal to hand over management control to the registrar.

Andrew Parsons, general manager of the National Stokvel Association of South Africa, this week confirmed that Sun Multi Serve was registered as a stokvel and as a member of Nasasa.

"Nasasa will wait on the Government and the outcome of the meeting between Sun Multi Serve and Christo Wiese before Nasasa will take any action," he said.

Picture: ANDREW INGRAM, Staff Photographer.

☐ **FIGHT**: Linda Sparks says ~~she is~~ struggling to get R150 000 from an insurance company.

Yuppie flu insurance broker claims raw deal from industry

(58) ARG 6/1/96

ADELE BALETA
Staff Reporter

AN insurance broker who has sold hundreds of policies in a career spanning 20 years has found herself at the mercy of an industry giant.

Linda Sparks, 55, a victim of depression compounded by myalgic encephalomyelitis (ME), is fighting for a disability lump sum of R150 000 from Fedlife Assurance, who turned her down on the basis of late submission of her claim.

Mrs Sparks, of Durbanville, has had chronic endogenous depression for 17 years and left full-time work with an insurance company in Gauteng in 1990. She then set up her own brokerage.

In 1992 she joined the Life Underwriters' Association of South Africa (Luasa) Group Scheme which is underwritten by Fedlife.

"Things started going wrong in October 1993 when I became more debilitated. I consulted several doctors and in May 1994 I was diagnosed as having yuppie flu (ME).

"In January 1995 I was told that I would never be able to go back to work."

Fedlife said she did not claim within three months of stopping work in September 1993, as required by the contract.

But Mrs Sparks said that until January 1995 it was not definite that she would not go back to work.

Luasa executive director Henniè Oosthuizen said Mrs Sparks's claim might not have succeeded even if she had made the deadline because her illness was "not like losing an arm or a leg".

A Fedlife spokesman said: "The claim and supporting documentation were submitted to Fedlife in February 1995 — 14 months later and 11 months after the three-month claim limit had expired. No medical evidence could subsequently be found to justify the late submission of the claim."

Stokvel threatens consumer boycott

Star 8/1/96 (58)

By Patrick Phosa

Sun Multi Serve has threatened a consumer boycott against white businesses if the ongoing negotiations with the finance minister intended to save its stokvel fails.

Spokesman Victor Monamodi said yesterday that 28 branches of the society would embark on a boycott of white businesses throughout parts of the country where it is represented.

The threat of a consumer boycott follows the freezing of the accounts of Sun Multi Serve by Registrar of Banks Christo Wiese.

Wiese ordered the fund's closure after investigations suggested it had contravened the Banks Act, which stipulates that a stokvel may not control assets worth more than R9,9-million. The scheme, which offered returns of 300% to about 53 000 investors, has assets of about R50-million.

"The boycott is intended to highlight the seriousness of this issue. Our investors would be stranded and 2 000 jobs would be lost if we close down," Monamodi said.

He said its members had been "aggrieved" by the fact that white-run schemes operating along similar lines did not have their accounts frozen. He said Wiese's order was racially motivated and suppressed black-initiated schemes.

"Our investors never complained of unfair treatment or corruption against our stokvel, but we are being treated badly. They are satisfied with the way we operate. Why don't they crack down on white schemes?" Monamodi asked.

He said Sun Multi Serve had initiated schemes such as the Imfundo Educational Plan, which benefited students by giving them a chance to save money for academic fees.

Boycott threat by stokvel (58)

JOHANNESBURG: Sun Multi Serve has threatened a consumer boycott against white businesses if negotiations to save their stokvel fails. CT 8/1/96

Spokesman Mr Victor Monamodi yesterday said branches of their society would embark on a large-scale boycott of white businesses throughout the country where they were represented.

The threat of a consumer boycott follows the freezing of the accounts of Sun Multi Serve by banks' registrar Mr Christo Wiese.

Mr Wiese ordered its closure after investigations suggested a contravention of the Banks Act which stipulates that a stokvel may not control assets worth more than R9,9 million. The scheme which offered returns of 300% to about 53 investors presently has assets of about R50-million.

Get-rich-quick pyramid scheme is based on unsound practice, say black business leaders

Sun Multi Serve shunned

CT(PR) 9|1|96 (58)

BY THABO LESHILO

Johannesburg — The black business community has distanced itself from Sun Multi Serve, supporting the Reserve Bank's position that it is not a stokvel but a get-rich-quick pyramid scheme.

Fabcos and Nafcoc, the two major organisations representing black business in South Africa, said the returns Sun Multi Serve had offered investors were "unsound". The criticisms from the two bodies are a major blow to Sun Multi Serve as it fights to have the Reserve Bank unfreeze its bank accounts and allow its operations to continue.

Given the operation's 53 000 members and offices in 28 centres around the country, the scheme did not meet the description of a stokvel, which was essentially an informal credit union, they said.

Mashudu Ramano, the president of Nafcoc's Gauteng region, said: "A stokvel implies that a group of people agree to contribute a certain amount of money, at regular intervals, for a specified purpose, either to buy furniture or bury relatives."

Christo Wiese, the registrar of banks, shut down Sun Multi Serve last month for contravening the Banks Act by accepting deposits from the public and for having R50 million in assets — well over the legal limit of R9,9 million.

Sun Multi Serve, fighting for its survival, has cast itself as a champion of black empowerment and a victim of white envy, equating its closure to the frustration of black aspirations under apartheid rule.

Ramano shot down Sun Multi Serve's claims that it promoted black economic empowerment: "I think they use it to whip up support," he said.

Ramano said the high returns promised by Sun Multi Serve had suggested unsound business principles: "How do they justify the kind of interest they pay when they do not invest the money in high-return investments, but put it in the bank," asked Ramano.

He, said, however, that the existence of Sun Multi Serve and similar schemes pointed to an urgent need for the financial sector to improve access to credit by blacks.

Fabcos general secretary David Moshapalosaid Sun Multi Serve was a pyramid scheme, paying "astronomical" profit to investors during the initi[illegible] st[illegible]s.

"Th[illegible] [illegible]tained in the long ru[illegible], leaving subsequent investors with huge losses," he said.

The National Stokvel Associations of SA supported the position taken by Nafcoc and Fabcos but declined to discuss the scheme before its planned meeting with its managers this coming Friday. The meeting was intended to finalise Sun Multi Serve's application, made in October, to become an affiliate of the stokvel association, suggesting that the association had problems with its methods.

Sam Muofhe, the chief executive of Khutsong Funeral Services, which dealt mainly with stokvels, alleged that Sun Multi Serve had misrepresented the stokvel concept.

Muofhe is also the founder and chief executive of the National Association of Co-operative Societies of SA, which pioneered the mobilisation of funds held by stokvels and burial societies for black empowerment in the country.

Victor Monamodi, a spokesman for Sun Multi Serve in[illegible]d that the schem[illegible] w[illegible] [illegible]amid scheme and said it was continuing to operate despite having been ordered to close down by Wiese.

Pretoria — South Africa's banking regulators yesterday played down reports that the Reserve Bank would come to the rescue of Sun Multi Serve with an amendment to the Bank Act.

Sun Multi Serve will only be legitimised if a "workable suggestion" is obtained from the stokvel, says a spokesman for Finance Minister Chris Liebenberg.

The spokesman emphasised that a solution had not yet been found to the dispute between Sun Multi Serve and the registrar of banks, Christo Wiese.

But the spokesman admitted that the committee established to try to resolve the dispute was looking broadly at the legislation relating to stokvels.

"The committee is still in the throes of looking for a solution. Some kind of solution has to be found for the dispute and the minister (of finance) is hoping it will be concluded as soon as possible," the spokesman said.

The dispute follows Wiese's closure of the fund and the appointment of auditors to recover about R50 million in investors' deposits. Wiese ordered the closure because the fund exceeded the act's stipulated ceiling of R9,9 million. — Roy Cokayne.

Registrar of banks freezes Sun Multi Serve MD's personal account

(58) BD 10/1/96

Adrienne Giliomee
and Lukanyo Mnyanda

THE personal bank account of Sun Multi Serve MD Peter Tau has been frozen by the registrar of banks.

Court documents show that the registrar froze Tau's Standard Bank account along with the fund's accounts last month.

Registrar Christo Wiese would not comment yesterday.

However, government sources said the Mothibistad-registered account held more than R2,5m.

Tau branded the registrar's decision racist and threatened "to drive the racists back into the sea".

Sun Multi Serve technical adviser David Mogashoa said the accounts held by the fund's other directors had also been frozen, but this could not be confirmed.

Mogashoa said the matter had been discussed with Wiese last week in talks brokered by Finance Minister Chris Liebenberg after Wiese decided to close the R50m fund.

Banking sources said yesterday preliminary investigations into the fund's books by Deloitte & Touche — appointed by Wiese — had raised serious questions about its management.

"They are branding their operation as a stokvel when in fact it is a harmful business practice," a source alleged.

Sun Multi Serve offered to open its books to public scrutiny yesterday morning to prove it was a valid operation, but by last night had failed to provide any figures to Business Day.

The row took a new twist earlier this week when it emerged that talks covered revising the Banks Act to legitimise Sun Multi Serve.

However, banking sources said that such a move could prompt other individuals to jump on the bandwagon, disguising pyramid schemes as stokvels or burial societies.

One said there were already signs of a "snowball" effect. Schemes were "mushrooming under the auspices of being stokvels or burial societies".

Business Practices Committee chairman Louise Tager said pyramid schemes were not necessarily illegal.

"The legality becomes apparent when there is a contravention of any law ... including the Gambling Act, the Usury Act or the Banks Act."

Sun Multi Serve also hit back at reported attempts by black business to distance itself from the fund.

The National African Federated Chamber of Commerce had offered to negotiate with Wiese when the row broke out, it said.

Comment: Page 8

The sun doesn't shine on pyramid schemes

(58) M+G(BM) 12-18/1/96

Karen Harverson

SUSPENDED Sun Multi Serve has until January 20 to prove to the Registrar of Banks that it is a viable, solvent operation and not a "get rich quick" pyramid scheme.

Set up 11 months ago, before being suspended in December last year, Sun Multi Serve says the high returns it offers investors are based on "a secret formula" which appears to be none other than a pyramid scheme.

In essence, a pyramid scheme pays its investors a high return based not on economic principles — such as investment growth or interest earned — but on the capital it receives from new investors. When, inevitably, at a certain stage there are insufficient new investors joining, there will not be funds to pay out those investors still in the scheme.

South Africans have been burnt before by similar schemes such as the Kubus Culture scam, but the lure of high returns still brings in thousands of hapless investors.

The 53 000-member Sun Multi Serve insists it is a *stokvel*, not a pyramid scheme, but the huge membership and the type of returns being offered suggest otherwise.

For example, after an initial membership fee of R80, an investor who invests R1 200 is promised a return of R4 000 after four months — far in excess of the average interest rate of 15 percent offered by banking institutions.

Banks Registrar Christo Wiese says pyramid schemes involving "pure" investment (as opposed to pyramid selling schemes involving goods or services) are illegal in South Africa, and in most other countries, as they are found to be "undesirable, not sustainable and harmful to the general public".

■ To PAGE B3

The sun doesn't shine on pyramid schemes

(58) M+G(BM) 12-18/1/96

■ From PAGE B1

Stokvels, unlike pyramid schemes, are typically rotating savings schemes whereby a certain number of people put in a certain amount of money for a certain period. Whether receiving their payout at the beginning, middle or end of the agreed period, each investor will still only get out the total amount they would have put in by the end of that period.

The National Association of *Stockvels* of South Africa (Nasasa) is unwilling yet to dispel Sun Multi Serve's claims of being a *stokvel*.

Says director Mohau Phatlane, "There are many types of *stokvels* and Sun Multi Serve does fall into the category if it involves people pooling money. But I don't know whether or not it is a pyramid."

Stokvels are also not allowed to accept more than R9,9-million in deposits — unlike the R50-million plus in Sun Multi Serve's frozen bank account — although it is Sun Multi Serve's operating activities rather than the size of its deposits that is the major issue.

The investors in Sun Multi Serve are naturally furious that the operation has been suspended by the Registrar because this brings the scheme to a halt sooner rather than later, leaving them with the feeling that they might have been paid out before it crumbled.

The debacle is also clouded with racial slurs and allegations that jealous "white financial institutions" wanted to crush successful black operations but these have been made by Sun Multi Serve itself rather

Christo Wiese: 'Pyramid schemes involving pure investment are illegal'

than organisations representing black business, who have been reported as supporting Wiese's move to suspend operations.

If, as seems likely, the organisation is found to be "not viable", the frozen assets of R53-million will then have to be fairly distributed among its members. Depositors would have to lodge claims and if valid, would be paid out.

If there are insufficient funds, depositors will be paid out a dividend but says Wiese, "It is difficult to identify who their members are as their administration records are not up to scratch."

Put simply by one banking source "it will end in tears for the investors".

Ian Goldin offered top job at DBSA

CT(BR) 12/1/96 (58)

By Duma Gqubule

Johannesburg — The Development Bank of South Africa (DBSA) has offered the position of chief executive Ian Goldin, a senior economist at the European Bank for Reconstruction and Development (EBRD) in London.

The post was widely expected to be given to a black candidate after a palace revolt by black professionals at the bank almost two years ago.

Sources within the bank said yesterday that the board had decided to offer the job to Goldin after the last-minute withdrawal of Timothy Thahane, a Lesotho national and vice-president of the World Bank.

The Development Bank chairman, Wiseman Nkuhlu, last night confirmed that the board had met on Tuesday to discuss the appointment of an acting chief executive for the bank as negotiations with Goldin were taking longer than hoped.

The DBSA is a quasi-government agency that provides finance for development in southern Africa. It has played a key role in the development of the RDP.

Black DBSA managers said yesterday that the bank had gone out of its way to look for a suitable black candidate. They were prepared to give Goldin a chance because of his widespread international experience.

"After all, our demand is that development must reach the people on the ground. It does not follow that this will not happen if a white person is appointed," a source said.

Goldin, 40, left South Africa in 1978 and has worked as an economist at the Organisation for Economic Co-operation and Development and the World Bank. He has worked at the EBRD for the past eight months.

Stokvels 'play a vital role'

Stokvels play a vital role in the economy of the country and could be a powerful mechanism for promoting economic empowerment, says Norman Axton, the senior general manager of First National Bank.

Given their ability to collect very small amounts of money from their often low-income members to help them meet large financial commitments, stokvels compliment the country's formal financial sector.

Axton was commenting in the light of accusations made by the managers of Sun Multi Serve that the country's banks viewed stokvels as a threat to their existence — at least among blacks.

Research by Markinor shows that about 8 million people in urban townships belong to stokvels, exchanging more than R900 million a year.

Ron Tengani, the account director of Markinor, said: "Stokvels came about because formal institutions always kept potential black customers out with their rules, attitudes and language and did not understand the needs of the black community which often did not have collateral."

The National Stokvels Association of South Africa defines a stokvel as "an informal rotating credit union with entertaining, social and economic functions".

Stokvels usually take the following forms:

☐ Women's clubs — used mostly to buy groceries, furniture or presents on a rotational basis;

☐ Burial societies — to help cover funeral costs for members, their families and relatives;

☐ Investment syndicates — to promote the wellbeing of members by investing money in fixed deposits or unit trusts, or even helping them start their own small businesses; and

☐ Stokvel parties — where members take turns to host huge parties at which liquor is sold and the host takes the profit.

Jopie Vanhonschooten, the divisional manager for small and medium enterprises at Standard Bank, said: "Stokvels are no threat ... and most banks have products that are tailored for their banking needs."

(58) CT(BR) 12/1/96

Goldin considering offer of top position at DBSA

~~[illegible]~~ (58) CT (PR) 15/1/96

By Neil Behrmann

London — Ian Goldin, who has been offered the post of chief executive of the Development Bank of South Africa, will not comment on the nomination as he says it is premature to discuss confidential preliminary negotiations.

He has also not resigned from his position as senior economist at the London-based European Bank of Reconstruction and Development.

He has told his seniors that he is considering the offer, which so far has not even reached contract terms.

In terms of ability, Goldin appears to be more than qualified for the job. He has considerable experience in development economics and the workings of international institutions and politics. Between 1988 and 1992 he was a research and programme director at the Organisation for Economic Co-operation and Development (OECD) in Paris.

He specialised on the interaction between developing countries and OECD members, which are mainly the leading industrialised nations.

Between 1992 and last year he was based in Washington working as a loan manager in the operations division of the World Bank.

Goldin joined the reconstruction bank, which funds projects in eastern Europe and the former Soviet Union, in April last year. As senior economist he travels extensively in eastern European countries and advises on their economic situation and the feasibility of proposed projects.

Goldin, 40, graduated from the University of Cape Town with a BA honours in economics in 1977. He then completed an MSc in economics at the London School of Economics. He received a doctorate through Oxford University in 1984.

His PhD thesis was on the effect of the coloured labour preference policy on economic development in the Western Cape. The study demonstrated how apartheid hampered economic development in the region.

During that time he was a tutor at Oxford. His first job was with Landell Mills Commodities Studies, consultants on sugar, grains, coffee, cocoa, rubber and other raw materials.

□ The reconstruction bank experienced its own scandal several years before Goldin joined when journalists exposed the high-spending of its executives. The bank is funded by taxpayers' money from 57 countries.

Jacques Atali, the former chief executive, was forced to resign from what was regarded as his private empire. Over the past two years its new head, Jacques de Larosiere, the former managing director of the IMF, has been cutting costs.

Insurers respond to BMW's scheme

By Roy Cokayne

Pretoria — The introduction by BMW SA of an insurance scheme for its own customers is already drawing a response from insurance companies.

BMW's general manager of public affairs, Chris Moerdyk, said that in spite of the hard things BMW had said about insurance companies before the launch of its own insurance scheme, most insurance companies had contacted BMW after the launch.

"They want to talk to us and do business with us. Our customers are also finding their insurers are giving them better premiums. This was part of the reason for the exercise," Moerdyk said.

BMW said it introduced the insurance scheme because some insurance companies had persisted in basing their premiums on ridiculously high and often exaggerated car theft and hijacking statistics. "BMW has a 6,1 percent share of vehicle thefts, but the way BMW owners have been handled by insurance companies you would have thought it was 50 percent," Moerdyk said.

However, BMW had found that the high premiums applied to people who did not shop around.

"It is not our intention to become an insurance company," he said.

"What we are trying to achieve is a situation where a customer's insurance premium constitutes 5 percent of the retail value of the vehicle. This is what large fleet owners can get. But those who do not have the fleet muscle can now get the same deal.

"Where theft and hijacking comprised 4 to 5 percent or more of the premium, it now has been reduced to between 1 and 1,5 percent. Additional insurance cover in terms of our scheme is optional," Moerdyk said.

In terms of the scheme, BMW was offering its customers insurance cover for theft and hijacking on all of this year's models for 12 months. Moerdyk said the theft and hijacking cover had to apply to all its cars registered this year so that the risk would be spread.

Customers would then have the option of additional cover for accident damage, third party liability and householder insurance. BMW had kept the theft and hijacking insurance components separate and customers could elect to place this with their existing insurers.

Moerdyk said that BMW had sold 18 035 vehicles last year, but hoped to sell between 19 000 and 20 000 vehicles this year — every single one of which would have the theft and hijacking insurance built into the price.

(58) (~~[illegible]~~) CT (BR) 16/1/96

Sun Multi Serve seeks peer support

(58) C(BR) 16/1/96

By Thabo Leshilo

Johannesburg — Sun Multi Serve, the troubled self-styled stokvel savings scheme, is urgently seeking the backing of its peers in the stokvels movement in its fight to unlock R50 million in assets frozen by the Reserve Bank last month.

The company, which is still smarting from a public repudiation of its operations by Nafcoc and Fabcos last week, is seeking the support of the National Stokvels Association of South Africa to give it some legitimacy in its fight to have the Bank unfreeze its assets and allow it to resume business.

The company could pump about R1,6 million in membership fees into the stokvel association, but its status in the stokvels movement is a mystery. The association declined to say yesterday whether the company was a fully paid-up member. An official said however that the company was affiliated to the association, which groups 11 500 stokvels nationwide, but that it still had not been awarded full membership.

Mohau Phatlane, the association's executive director for membership services, declined to say yesterday whether the company's 53 000 members would be required to pay the R30 annual fee which was required from each member belonging to its stokvels.

The company, which already has more members than all of the association's affiliated stokvels, believes that full membership of the association — which could cost the company about R1,6 million in membership fees — is the key to recovering its assets. The Bank recognises the association and accepts its definition of a stokvel.

Ironically, the Bank appears to have used the company's failure to satisfy the definition of a stokvel as "an informal rotating credit union with entertaining, social and economic functions", as a reason for declaring it a pyramid operation and closing it down last month.

Reuter reports meanwhile that the company's savings scheme had a secret mechanism for obtaining dramatically better returns on money than those offered by banks.

"The question is what those mechanisms are," said David Mogashoa, the company's technical adviser, in a televised panel discussion on Sunday. "You will understand that we haven't patented our rights yet. If we reveal them to whoever, anyone can go and utilise them ... if we can just divulge our secret, everyone will open up his own Sun Multi Serve," he said.

The Reserve Bank's registrar, Christo Wiese, has frozen the company's accounts and has ordered the scheme to stop operating, accusing it of violating the Banking Act and the Harmful Business Practices Act.

Wiese said the company needed to prove that it was sustainable and viable before it would be allowed to operate.

WS GOVERNMENT ECONOMICS

Small money-lenders launch association

(58) CT(BR) 16/1/96

By Jon Beverley

Durban — Facing possible changes to the Usury Act, micro money-lenders launched an association here last Friday to bring order and transparency to the R3,5 billion industry.

One of their first objectives will be to establish what the government plans to do about the Usury Act.

The industry is exempt from the Act, which sets no limit on the interest charged on amounts less than R6000.

The new organisation covers the formal sector of the industry, which is defined as money-lenders having an office, staff and infrastructure. But there is also an informal sector.

About 400 operators out of an estimated 1 200 have made a commitment to join the Association of Micro Lenders, which has established a code of conduct.

The second objective of the association is to hold talks with Saswitch on their approach to securing repayment of loans.

At present, lenders hold the borrower's automated teller machine card and personal identity number and withdraw money to cover loan repayments on pay days.

This is "unacceptable to the banking industry" but Saswitch is reluctant to install another system to meet the needs of the money lenders.

The association commissioned PG du Plessis, professor in business management at the University of Stellenbosch, to do a survey.

Du Plessis said the formal sector had about 1 200 operators and an annual turnover of R2,5 billion.

He said the informal sector was estimated to have 4 000 operators and a turnover of R1 billion a year.

In the formal sector the average loan was about R450, usually repayable within a month, with interest ranging from 100 percent repayable within one day to 10 percent a month.

The typical client was a black male of 30 years old working for the state, with three to four dependents.

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Wiese in warning on burial society

(58)

BD 17/1/96

Greta Steyn

THE Reserve Bank was poised to swoop on a "get-rich-quick" scheme that was mushrooming under the guise of a burial society, Registrar of Banks Christo Wiese said yesterday.

He said the Bank wanted to protect the interests of members of the scheme, which was "growing exponentially, just about doubling per week". The size of the scheme was about R5m, but that would rise quickly if it was allowed to go on unchecked.

"There has been too much emphasis on the R9,9m limit on stokvels. That issue is of less importance than the way in which the scheme is run, and the danger that depositors will lose their money."

Wiese said the Bank would seek a court order to freeze the scheme's accounts for inspection once it had obtained a signed affidavit from a complainant. Until he had obtained a court order, he was unable to act or to name the burial society. "It might be difficult to find someone who will sign a statement complaining about the society."

Asked whether the spate of problems with banks and other savings societies had highlighted the need for deposit insurance, Wiese said the Financial Services Policy Board for financial regulation had started to investigate the issue. The investigation would also encompass investor protection. The report would be ready to be handed to Finance Minister Chris Liebenberg in a couple of months.

Referring to Liebenberg's request that stokvels make representations on how legislation should be changed, Wiese said pyramid schemes would never be legalised.

Lukanyo Mnyanda reports that Wiese said Sun Multi Serve had agreed to provide a list of its 53 000 members to check if the scheme was solvent.

The fund — which Wiese shut down last month — had also agreed to provide the finance department with recommendations to improve the Banks Act. But he said this did not mean that the Act would be changed.

"There is no undertaking to change the law. We will look at recommendations and see if they are compatible with the principles on which the Act is based." Sun Multi Serve would not be allowed to continue in its present form.

He added that Sun Multi Serve had not discussed its vaunted "secret investment formula" with him. The fund was not available yesterday.

NBS ready to pump R100m into Afbank

(48) BD 18/1/96

Amanda Vermeulen

DURBAN — NBS would be prepared to pump another R100m into African Bank to help rehabilitate the operation, the bank said yesterday.

CE Tony Norton said NBS could call a rights issue to fund the investment. He did not put a time frame on the financing plan, but said it would pump in the cash if and when necessary.

Afbank CE Colin Franks said government, which took a 20% stake as part of the rescue deal in November, should offer the stake to NBS when it decided to sell out.

NBS's decision to take over Afbank in a consortium with New Africa Investments and Metropolitan Life in a R104m deal was the "best" the bank had ever made, Franks said.

However, Afbank had been forced to fire 25 managers.

Franks pinned the blame for Afbank's collapse on middle management's "abdication" of responsibilities.

He said four fraud investigations were under way, including an Office for Serious Economic Offences-led probe of former Afbank CE Jack Theron's actions. Losses attributed to the alleged frauds should amount to no more than R14m, Franks said.

NBS and Nail were still investigating the extent of Afbank's debt, but hoped to have the bank fully operational by March.

Government has said it may write off R262m in state cash deposited with Afbank and that the full extent of its involvement in the rescue will be clear only by July.

Franks said government should sell its 20% stake to NBS as this would strengthen its commitment to reviving the operation. The takeover had given the consortium exposure to unbundling and privatisation, he said.

Assurance industry urged to improve client service

CT(BR) 18/1/96 (58)

By Françoise Botha

Cape Town — The local insurance industry needs to become more service-orientated if it wants to compete successfully with international counterparts that are returning to South Africa, says Nick Criticos, general manager of Protea Life.

Protea Life is a subsidiary of listed Protea Assurance.

"European and American assurance companies are seriously assessing the local market, which they believe shows excellent growth potential. South Africa is seen as a fast-growing market where more and more consumers are becoming aware of the benefits of insurance," said Criticos.

His comments follow a three-month sabbatical at Harvard Business School where he studied business management. He also attended a Sun Alliance Asia-Pacific life conference with delegates from Australia, New Zealand and Guernsey.

"There is a marked difference between service standards of developed countries and an isolated South Africa emerging from years of protectionism," said Criticos.

He stressed that international competition would force the local assurance industry to place greater emphasis on customers' needs.

A recent study in the United States by the Andersen Consulting Group in conjunction with the Life Offices Association in America revealed that service innovation is one of the four key success factors for leadership in the 21st century.

Moves have been made by a number of insurance companies to improve the level of technology in their organisations in a bid to raise service levels and improve their productivity.

Liberty Life implemented an electronic servicing system last year. The company expects the move to double the productivity of its intermediaries.

Other changes include the introduction of an interactive voice-response service so clients can change details of their policies telephonically rather than in writing. This will provide quicker and more efficient service.

The electronic LibLink system will also reduce service charges, Liberty Life said.

"The role of brokers will become even more important in the next few decades when more consumers will have masses of information at their fingertips," Criticos said.

African Bank may be back in March

(58) CT(BR) 18/1/96

By Jon Beverley

Durban — The African Bank was getting ready to enter new spheres of business once the curatorship is lifted, possibly by the end of March, managing director Colin Franks said yesterday.

Franks said corporate activities would play a much bigger role and he looked to the alliance with the bank's American partners, Donaldson, Lufkin and Jenrette Pleiade Merchant Bank, as a source of major business.

With its American partners, who had arranged Sappi's $1,6 billion takeover of SD Warren, the African Bank would be able to handle major issues, such as the privatisation of Telkom.

Franks said "scheme meetings" for African Bank were due in February and March and he expected the legal process to be finalised before March 31.

After that shareholders would be able to invest their funds and the bank's total capital and reserves would reach R135 million.

This would make it the third-largest small bank, behind Saambou with capital and reserves of R293,5 million, Fidelity Bank with R211,7 million, and ahead of New Republic Bank with R128,5 million, he said. It previously occupied the 21st place.

NBS Bank has signed a five-year contract to manage African Bank.

Durban — Possible government retrenchments, particularly in the Eastern Cape, pose a threat to African Bank's mortgage book, says newly appointed managing director Colin Franks. He said R304 million of mortgage loans constituted African Bank's backbone.

Franks said the diligence test done by the African Bank rescue consortium had found the bank's mortgage book to be surprisingly healthy, with the bad-debt situation of about 2 percent of the book no worse than the industry average.

Most of African Bank's bad lending, he said, had been in personal loans and hire-purchase agreements, and an amount of R200 million had been set aside to cover this. — Maggie Rowley

NEWS IN BRIEF

Stokvel action threat

SELF-proclaimed stokvel Sun Multi Serve accused Finance Minister Chris Liebenberg of negotiating in bad faith yesterday, threatening mass action if its dispute with the Reserve Bank was not resolved quickly.

Spokesman Victor Monamodi said the scheme, closed down by the Bank last month, was disappointed with the finance ministry's denial that it was considering changing the Banks Act. According to Sun Multi Serve, it had been agreed that new legislation would be passed and this would be accompanied by rules to govern its operations.

BD 19/1/96 58

Multi-Serve gets annoyed

(58) Sowetan 19/1/96

By Musa Zondi

SUN Multi Serve yesterday said it was becoming impossible to control its members because of the refusal by the Reserve Bank to release its funds totalling R50 million.

Mr David Mogashoa, advisor to the *mogodisano* group told the media that members have threatened to launch consumer boycotts in the towns where SMS has branches. Other strategies, such as the occupation of banks as happened in Welkom this week, could not be ruled out because "our members are running out of patience".

They were disappointed by recent pronouncements by the Finance Minister Mr Chris Liebenberg "as it does not give a true reflection of the stage of our negotiations. SMS understands that new legislation must be formulated and must be accompanied by certain rules to govern our business".

They expressed fear that their *mogodisano* scheme would be "hijacked by big white business" and added that this "has been proved correct as some banks have launched a similar scheme".

White people who were operating the same schemes were not faced with closure and SMS viewed this as racism. A number of people who invested huge amounts of money with the society were now facing economic ruin because they have not been paid out as expected, said Mogashoa.

Development Bank gets a new chief

(58) (297)

Robyn Chalmers

GOVERNMENT has appointed Ian Goldin, a senior economist at the London-based European Bank of Reconstruction and Development, as the new CEO of the Development Bank of Southern Africa.

Finance Deputy Minister Alec Erwin said yesterday that Goldin had been selected after the bank's board undertook a thorough process to identify a new CEO with the skills and ability to lead the bank into a new era.

"Goldin's experience in development and in the crucial task of mobilising resources for that development, along with his knowledge of the South African economy, were decisive factors in his selection.

"Goldin will now lead the bank through the final stages of the transformation process which started in 1994," he said.

Erwin said that for government, the transformation of the bank was a key part of the wider process of enhancing the delivery capacity of developmental financing institutions in SA. Detailed proposals were being discussed within government relating to the transformation of the institution.

In a separate development, bank operations GM Div Botha said that to date the bank had not encountered any problems with repayments as a result of serious financial problems facing the provinces.

It was announced yesterday that Cabinet had approved additional funds to shore up provincial government budgets.

A recent audit of provincial revenue budgets had shown that loans from the public investment commissioner and the bank had been incorrectly accounted for in the assessment of the provinces' revenue bases for the 1995/96 financial year.

Botha said the provinces made two repayments a year, in March and September, and there was no indication that they would be unable to meet their obligations.

In line with the restructuring of the bank, new structures were being developed to enhance the bank's relationship with provincial governments, local authorities and the private sector, which Botha said, were still on track.

He said legislation due before Parliament this session on provincial borrowing powers would assist the provinces to raise funds and increase their resource base.

BUSINESS

NBS aims to double earnings

ARG 20/1/96 (58)

Business Reporter

NBS Holdings has set a target of doubling its earnings per share by January 2000 and taking its share price from R66 to R120, according to group chief executive Tony Norton.

NBS would have to achieve earnings per share growth at a nominal compound rate of about 18,9 percent a year for the next four years to meet its targets.

"We want to be the best investment in the market. It is not impossible, it is challenging," he told reporters during a briefing in Durban this week.

Now the fifth-largest banking group in the country, NBS had shown strong growth since listing eight years ago, with 50 percent compound growth each year in the share price comfortably beating the rest of the banking sector.

Although Durban based, NBS had grown into a national player with 61 percent of its advances made to customers outside KwaZulu-Natal.

NBS Bank MD John Smale said the bank was on a drive to be more sales orientated. He was concerned about high costs and the high ratio of administrative to sales staff.

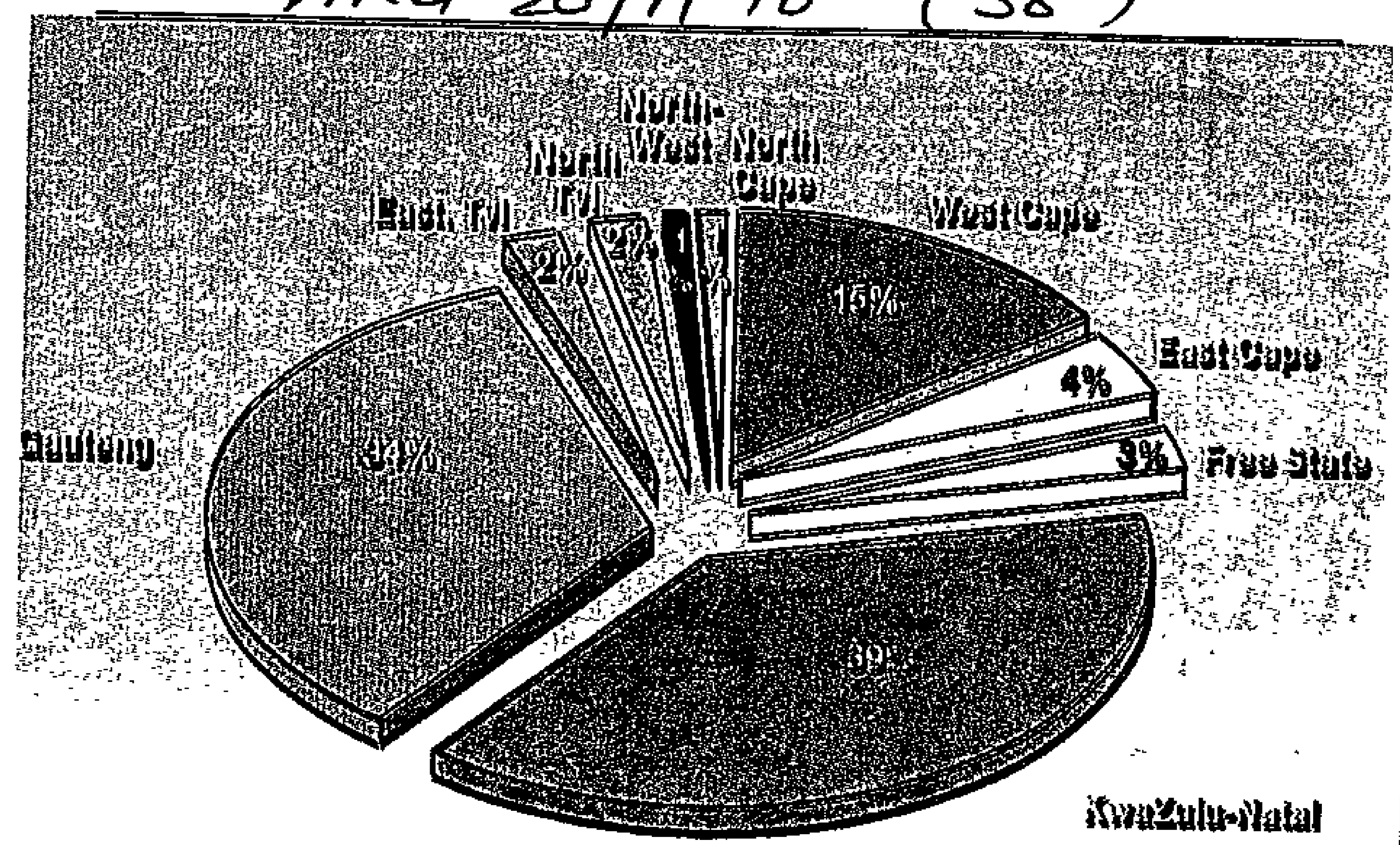
The bank had also yet to fulfill its cross-sell potential — successfully marketing other financial services to banking clients.

In future, performance of branches would be measured in a manner similar to any sales organisation, he said.

NBS claims some success already in bringing costs under control.

Since 1988, costs as a percentage of income have dropped from 76,1 to 56,9 percent

Between 1988, staff has increased from 2 580 to 2 699, but contribution by employee has gone from R9 000 to R56 000.



Afbank sets sights on 'profitable' Cape

(58) ARG 20/11/96

JOHN VILJOEN
Business Reporter

AFRICAN Bank is to open a branch in the Western Cape once it emerges from curatorship, MD Colin Franks has said.

Mr Franks — seconded from NBS Bank to become African Bank's chief executive and guide it out of curatorship to profitability — said opening in the Western Cape was an obvious step for the institution.

The province offered "definite potential" for African Bank which already had a small number of performing loans in Cape Town.

The bank, which Mr Franks believes should already show a small operating profit in March, has branches in 30 centres around the country, but the closest one to Cape Town is in Port Elizabeth.

Western Cape offices for African Bank would probably be staffed by employees moved from other parts of the country as part of its rationalisation. It was likely that African Bank would use the NBS infrastructure during its initial expansion to the Cape, Mr Franks said in Durban.

A date for giving the bank a Western Cape profile had not been set and most of the year would be spent on the "bedding down" process of getting African Bank back on its feet. But nothing in that process, apart from a commitment to tightening the bank's advance controls, was "cast in stone".

NBS took a 38 percent stake in African Bank for R48 million in November's rescue deal. Metropolitan Life and New Africa Investments each have 21 percent and government 20 percent.

The R48 million NBS put up for 38 percent of the bank amounts to less than one percent of its market capitalisation. Group chief executive Tony Norton said: "African Bank is not big in our lives, but it is a significant investment."

NBS's involvement in the troubled bank was a commitment to nation-building — Mr Norton said he was proud recently to be greeted by President Mandela as "his banker" — but NBS also intended to make money out of its investment.

Paul Leaf-Wright, NBS corporate director, said NBS had a five-year management contract with African Bank. Most senior management positions in the institution are filled by NBS staff on permanent secondment — like Mr Franks.

Once the shareholders' funds are injected, African Bank will move from 21st position among small banks to third spot, after Saambou and Fidelity, based on a capital comparison.

Referring to the bank's current status, Mr Leaf-Wright said shareholders' agreements were concluded, scheme meetings were set for February and March, by which time a slow-moving legal process to bring the bank out of curatorship should be completed.

All creditors and retail depositors would be settled and fully compensated for interest, he said.

While the bank was well-placed to attract deposits and make advances in future, between R20 and R25 million would be invested in a new merchant bank division.

The merchant bank, in alliance with the US firm Donaldson, Lufkin and Jenrette Pleiade, had yet to be named, Mr Leaf-Wright said.

New African Bank MD Mr Franks said the bank crashed last September because of the "abdication" of responsibility for all risk management controls by African Bank middle management.

■ To page 2.

P.T.O.

Banks picketed over stokvel funds freeze

(58) Star 20/1/96

Welkom – Sun Multi Serve investors picketed United Bank and First National Bank branches in Welkom yesterday morning.

Sun Multi Serve had been operating for 11 months by October, when Standard Bank initiated an investigation into the society on suspicion it was an illegal pyramid scheme. When it came to light that more than R50-million had been invested in Sun Multi Serve, the registrar of banks froze its account.

Representatives of the picketers yesterday refused to comment on why the mass action was continuing against United Bank after an agreement was reached between the protesters and the bank on Thursday.

According to the agreement, the mass action against the bank would be stopped and a meeting would be held between United Bank, Sun Multi Serve and Finance Minister Chris Liebenberg to discuss releasing the scheme's funds. – Sapa

Volkskas hid R280m loss — Diedericks

(58)

ST (BT) 21/1/96

By JEREMY WOODS

FORMER Post Office boss Hennie Diedericks is set to shed further light on the Reserve Bank's R1-billion lifeline to banking giant Absa and an alleged R280-million in foreign exchange losses at Volkskas when he gives evidence to the Tollgate inquiry tomorrow.

Mr Diedericks' appearance confirms the aggressive battle he is waging against Absa with his new ally, former Tollgate chairman Julian Askin, who fled to London when Tollgate collapsed in 1992.

Much publicity has surrounded the R1-billion lifeline to TrustBank, an Absa subsidiary, but little is known about Volkskas' alleged R280-million forex losses.

Mr Diedericks, a former managing director of Tollgate, claims that while working for Volkskas, he was instructed by Dr Danie Cronje, then MD of Volkskas and now head of Absa, to hide the foreign exchange losses.

HENNIE DIEDERICKS

Mr Diedericks has been subpoenaed to appear before the Tollgate Commission of Inquiry, appointed by the Supreme Court.

Sources say that Mr Diedericks plans to lodge a sworn affidavit with the commission that gives details of how Absa received R1-billion of income from the Reserve Bank which it used against the losses it suffered when it withdrew its support from Tollgate and put the group into liquidation. Absa was the main banker to Tollgate.

When Tollgate collapsed over three years ago, shareholders in the JSE-listed group lost everything.

In recent weeks, Mr Diedericks, who held senior management positions in Volkskas and Absa, has teamed up with Mr Askin to turn the tables on Absa.

Messrs Askin and Diedericks maintain that if Absa had supported Tollgate, the group could have survived and prospered. This view is not shared by Absa, which considered the group heavily in debt and badly run.

A warrant exists for Mr Askin's arrest. He is alleged to have taken R29-million from the group but is said to be mounting legal action against Absa in London.

On the forex losses, Mr Diedericks claims in affidavits that in 1985, when the rand fell heavily against the dollar, Volkskas notched up losses of about R280-million on uncovered foreign dollar borrowings. He says he was instructed by Dr Cronje to "remove the loss from the sight of the public and the SA Reserve Bank".

Mr Diedericks says he devised a strategy to do this, but maintains that when the losses were finally brought home, Volkskas had to re-value its head office building and sell it on to its Lifegro insurance arm to afford the loss.

In a written reply to Business Times queries, Absa says: "Although Volkskas suffered some forex losses in the mid-80s, they were nowhere near the R280-million Mr Diedericks claims."

Absa says it notes that Mr Diedericks continues to make further allegations regarding Absa to the media. "Absa does not wish to be continually embroiled in the media with Mr Diedericks and accordingly it won't respond in detail to his allegations."

Meanwhile, Standard Bank and First National Bank have disputed claims that they are seeking about R100-million from Absa regarding Tollgate's liquidation.

Norman Axten, FNB's group communications general manager, said: "We have not lodged any claim with Absa, but we obviously have an interest in the section 417 inquiry as we had a banking relationship with some Tollgate subsidiaries".

A Standard Bank spokesman said the bank was merely one of the creditors and any action would have to be initiated by the liquidators. It is believed the banks' involvement is less than R100-million.

Old Mutual has R18bn surplus

(58)

Adrienne Gilliomee

BD 22/1/96

OLD Mutual had an actuarial surplus of more than R18bn at the end of financial 1995 after policy liabilities were set off against net assets, the group's latest annual report shows.

The actuarial value of policy liabilities totalled R102,6bn, while net assets amounted to R120,7bn. The excess of assets over liabilities amounted to R17,5bn in financial 1994.

The group's chief actuary said allowances were made for expense inflation and for expected deterioration in experience due to AIDS.

The group's total premium income rose 27% to R21bn in the year ended June, comprising individual business premiums of R11,5bn (R10,5bn) and a 58% growth in group business income to more than R9,4bn.

Benefits paid to clients increased by 14% to nearly R14bn. Total group investment income for the year rose 11% to R7bn. Total group assets under management increased to R154bn (R138bn).

Old Mutual increased its stake in Nedcor by 1,8% to 52,7% and added 1,9% to its shareholding in Richemont. Its Nedcor investment is now R4,9bn (R3,2bn), and its stake in Richemont R4,4bn.

Standard to offer rewards

(58) ET(BR) 22/1/96

By Llewellyn Jones

Johannesburg — Standard Bank is set to change the rules of personal banking in South Africa with the launch of the industry's first customer reward programme in line with international trends.

Standard Bank launched the programme to staff members at the weekend, and will be launching to clients next Monday.

Customers who join the programme, known as Accolades, will receive points for using two of Standard Bank's key products, Standard Bank Mastercard and Standard Bank home loans.

As points build up, customers will be able to exchange them for rewards ranging from cases of wine to a trip overseas.

Noel Webb, the managing director of retail banking at Standard Bank, said Accolades added a new dimension of fun and excitement to conventional banking.

"In recent years banking products have matured and there is little product differentiation except on rate or price," Webb said. "We need to break out of the mould and change the way we do business."

Webb said 49 of the top 50 American banks had some form of loyalty programme in place. But the loyalty concept was also well placed in Europe with Postbank Nederland, Banco Central Espano and Credit du Nord of Paris. Management company Membership Services, which manages 7 000 customer reward programmes internationally, also runs reward programmes in Europe.

Webb said concerns that the programme would place further strain on South Africa's burgeoning credit were unfounded. "This is certainly not designed to heat up credit, but rather to encourage our customers to extend and deepen their relationships with us.

"The most important aspect of credit control is still in place, with the same limits and credit management that we have always had."

He believed that the customer reward programme would be more successful than Voyager because it had a much broader customer base and range of rewards.

He said linking credit cards and home loans to Accolades was just the first part of the reward programme. Other products would be added to it "when the time is right".

Stannic's new vehicle financing product was an obvious example. Webb was not prepared to expand further to "maintain the competitive advantage".

Webb expected the bank's share of the new home loan market to grow about 20 percent this year with the introduction of Accolades. This would see Standard Bank's share of the total home-loan market grow nearly 2 percent.

Projections of growth in credit card market share were more difficult to make, complicated by the introduction of private label cards and finding a suitable benchmark to measure growth against. Nevertheless, Webb expected the programme would see Standard Bank make significant inroads in market share.

Accolades members would also receive automatic purchase protection, covering new goods purchased with a member's Mastercard against breakage and theft. This extended the cover already given on airline tickets, guaranteeing service by agreement between credit card companies and airlines.

Members can also register for the Payment Card Protection Service, enabling them to register all South African-issued credit, debit and ATM cards — including private label cards — with the bank. Should the member's cards be lost or stolen, one phone call to the bank would ensure that all the cards were cancelled and new ones ordered.

Thumbs up for scheme?

(58) Sowetan 23/1/96

REGISTRAR of Banks Mr Christo Wiese said yesterday tmanagers of the controversial investment scheme Sun Multi-Serve had indicated they wanted to legalise its operations. He said the present scheme was illegal and would have to be changed to comply with legislation.

Sun Multi-Serve was also negotiating membership with the National Stokvels Association of SA and would have to convert its operation into a number of stokvels because of its size. Wiese said Multi-Serve had a choice regarding the type of stokvel it wanted to form. However, the organisation still had to supply him with a list of investors to ascertain the size of its obligations - *Sapa.*

The Argus

Law on savings set to change

(58) ARG 25/1/96

Stokvel fiasco highlights need

Business Editor

CHANGES to the legislation governing informal savings schemes are on the cards in the wake of the Sun Multi Serve fiasco.

The Registrar of Banks, Christo Wiese, said his office recognised the need for informal savings schemes that satisfied people's needs and present legislation would be broadened — but the law must still protect the public.

Changes might include:

- Clearer definitions to help the public distinguish between acceptable and unacceptable practices;
- Regulations governing the reporting of financial information by self-help societies;
- The replacement of the common bond principle used in stokvels, with contractual loan arrangements;
- Measures to make sure investors were fully informed about risks; and,
- The replacement of the R9,9 million limit at which stokvels must convert to mutual banks with formal self-regulation practices.

Mr Wiese said there was a need to refine legislation to take into account self-help "mogodisano" societies that were bigger than traditional stokvels and did not necessarily depend on a common bond between members.

The amendments being considered would tighten up the law and could give the authorities more power to deal with illegal schemes.

"Certainly there will be no amendments to the legislation for the practice of paying exorbitant returns to some investors out of the capital invested by others.

"This would open a massive loophole for unscrupulous operators to enrich themselves with a pyramid scheme, and then abscond," Mr Wiese said.

On Sun Multi Serve (SMS), whose assets of about R50 million have been frozen by the courts, he said each investor should be paid out.

The Office for Banks had no option but to direct that the funds of investors be repaid in the quickest way possible within the law.

"There is no doubt that, if the SMS operation had been left to continue, many investors would have lost all or some of their savings," Mr Wiese said.

(58)

Five SA banks rated by Moody's

CT(BR) 23/1/96

New York — Moody's Investors Service rated five South African Banks Ba1 for long-term deposits and Not-Prime for short-term deposits.

Moody's noted Nedcor Bank's conservative but forward-looking management and its solid financial position.

NBS Bank was rated on the basis of its major position in the South African retail market, with more than 10 percent of the residential mortgage market, about 5 percent share of deposits, and growing insurance income — and its low level of problem loans.

Standard Bank was noted for its sound financial performance and good management.

First National Bank was rated for its important position in South Africa as one of the four main clearing banks with major market shares approaching 20 percent.

Absa's rating is based on its strong market position as the largest bank in South Africa, with more than 25 percent of the country's deposits, and the substantial progress the bank has made over the past several years in combining four separate banks into one.

Malaysian set to open new banking group with listing on the JSE

S8

ARG 24/1/96

Business Editor

MALAYSIAN businessman Dato Samsudin Bin Abu Hassan is to open a new banking group, which will be listed on the Johannesburg Stock Exchange.

Mr Samsudin, whose interests in South Africa include a stake in Boland bank through his company Landmarks, is to buy Merhold's 41,9 percent stake in New Republic Bank for R45 million.

Minority shareholders will be offered 300c a share for New Republic shares.

The deal will be done through Redbridge Assets, a company owned by Mr Samsudin and registered in the British Virgin Islands.

Redbridge will form a bank controlling company, to be listed on the Johannesburg Stock Exchange — with a majority stake in New Republic Bank. Shareholders holding more than 50 percent of NRB's shares have agreed to swap their shares for a stake in the new company.

As part of the restructuring of NRB, Redbridge plans a rights offer to raise R100 million as well as a capital injection into the new controlling company.

■ **Otis Elevators** lifted attributable profit slightly to R18,7 million in the year ended November. Turnover rose five percent as higher domestic sales offset falling exports. Operating profit dropped two percent because of a change in the mix of the business, directors said, but slightly higher interest receipts boosted bottom line.

The final dividend is maintained at 40c a share, making 64c for the year.

Directors said results in the current year would depend on the market for commercial high rise buildings.

■ **Consolidated Murchison** reported a drop in after-tax profit from R6,7 million to R4,3 million in the December quarter, as lower sales of antimony concentrate and a lower average dollar price cut revenue. Gold revenue also fell in line with an eight percent drop in production.

Capital spending during the quarter was R3 million (R315 000 the previous quarter). Commissioning of the metallurgical projects had begun, directors said.

■ The Commissioner of Inland Revenue has approved **Gengold's** plan to set up a single company grouping the existing Evander mining operations of Kinross, Winkelhaak, Leslie and Bracken together with the adjacent mineral rights owned by Gencor and Randex.

Gengold said negotiations were in progress with Gencor and Randex for the acquisition of their mineral rights in the Evander goldfield.

Shareholders in Kinross, Winkelhaak, Leslie, Bracken and Randex have been advised to exercise caution in any dealing in shares in these companies until further announcements are made on the results of the negotiations and terms of the merger.

■ **Foodcorp** chairman Grant Thomas said the group was on track with the forecast increase in profits of between 14 percent and 16 percent in the year ending August, but warned shareholders that the mid-year profit increase would not reach 10 percent.

He said at the Foodcorp annual general meeting that red meat prices had been hit by cheap imports.

■ **Metlife Health Services**, Metropolitan Life's health subsidiary, has bought Clini-Sure Select, a medical plan developed by a subsidiary of Clinic Holdings. MetHealth plans to launch a new range of health care options next month.

■ **Jasco Electronics** has taken over Multivid, a Boksburg company selling closed circuit television security systems, for an undisclosed amount.

BUSIN

AAG 24/1/96

Bank pledges its support for low-cost houses

(58)

Business Editor

THE banking sector would do its bit to contribute to the Reconstruction and Development Programme through the financing of low-cost housing, Nedcor chief executive Richard Laubscher said.

He said after the Nedcor annual general meeting in Cape Town yesterday that people seeking loans for affordable housing were "kicking at an open door".

In the book year ended September, Nedcor had made about 26 000 new advances in the affordable housing market, for a total of about R600 million.

Mr Laubscher said 92 percent of borrowers at the bottom end of the market were up to date with repayments; 6,5 percent were in arrrears and only 1.5 percent were "problematic".

The introduction of smart cards would also make banking more accessible to the "unbanked" population, he said.

Nedcor had 30 000 smart cards in operation and planned a full-scale launch at the end of the month.

Also at the AGM, Nedcor chairman John Maree said shareholders could expect further strong growth from the banking group this year.

With market capitalisation at R14 billion, Nedcor had moved up from 42nd place among Johannesburg Stock Exchange-listed companies to 12th place, he said.

Malaysian to buy New Republic Bank

(58) BD 24/1/96

Adrienne Giliomee

THE Malaysian businessman who holds 26,8% of Boland Bank is poised to take control of New Republic Bank and establish a JSE-listed banking group.

Dato Samsudin bin Abu Hassan, chairman and owner of Boland stakeholder Landmarks Berhad, will buy nearly 42% of NRB for R45,2m through a separate company — Redbridge — which he also chairs and controls.

The Virgin Island-based Redbridge will increase its holding to a majority interest through a rights offer of at least R100m in the next two months.

NRB MD Mac Mia said yesterday the deal was not related to Landmarks' Boland stake. But sources close to Landmarks said the move suggested the Malaysian owner had a hidden plan, given his decision to take stakes in two regional niche banks.

NRB said yesterday the new listed company would hold more than 50% of its equity. The rights issue — at 300c a share — would be accompanied by a capital injection into the new listed company. It said shareholders holding more than 50% in total of NRB had already undertaken to swap their shares for stakes in the new company.

The proposals are subject to approval from the JSE, shareholders and the Reserve Bank. Two key seats on the NRB board will be filled by different parties following the deal.

Former deputy chairman Christopher Seabrooke will be replaced by former Mercantile Bank executive director Jonathan Scott. Seabrooke will remain on the board, while Samsudin Bin Abu Hassan has been appointed non-executive chairman.

Further changes to the board of directors are expected to be made in conjunction with the proposed restructuring of NRB.

Continued on Page 2

NRB (58) BD 24/1/96

Continued from Page 1

Mia said NRB — which has struggled to build its capital base following heavy restructuring costs — would not necessarily delist following the deal.

The focus of NRB would not change but it would have added capital to grow into different segments of the banking industry, he said. "We certainly have an opportunity to expand locally and in the overseas markets."

Merhold said the sale of its stake, together with the sale of other interests, would free up R112m. This would be used to settle outstanding guarantee obligations worth R76m relating to finance businesses it sold in 1993.

Seabrooke, the Merhold chairman, said the move would free the group from its contingent liabilities, which had been "overshadowing the excellent performance of our media, electronics and industrial interests". But provisions linked to the guarantee obligations would prevent Merhold and parents Sabvest and Sabhold meeting their profit forecasts for the year to December 1995.

Afbank board to exclude ex-directors

(58)

Amanda Vermeulen
and Adrienne Giliomee

BD 24/1/96

AFRICAN Bank founder and chairman Sam Motsuenyane and six former Afbank directors, including Metropolitan Life MD Marius Smith, will be excluded from the bank's new board.

Sources at New Africa Investments (Nail) — which took over Afbank last year in a consortium with NBS and Metropolitan Life — said yesterday that the group had also earmarked R100m to inject into Afbank. NBS has already made a similar commitment.

Motsuenyane — who set up Afbank 30 years ago and attempted to save it from curatorship late last year — has been criticised for presiding over an operation which ran up assessed losses of

Continued on Page 2

Afbank

(58)

BD 24/1/96

Continued from Page 1

at least R200m. He said yesterday he had not been informed of the decision but that he would accept any decision made by the new shereholders.

It was a pity some of the previous directors had not been asked to serve again in the interest of continuity.

Motsuenyane said that a decision to prevent Afbank's 6 000 minority shareholders from choosing directors could break the trust they had in the bank. Smith was unavailable.

Nail sources said part of the strategy to revive Afbank included creating a merchant banking institution, African Investment Bank, beefing up its retail services with new outlets and introducing an ATM card.

African Investment Bank would flow from the partnership between Nail's merchant arm Pleiade Investment and Wall Street bankers Donaldson, Lufkin & Jenrette.

The strategy was part of Nail's plan to become a focused financial services group. Telkom chairman Dikgang Moseneke, recently appointed deputy executive chairman of Nail parent Corporate Africa, would be responsible for Nail's financial services interests.

The drive could see Nail increase its stake in Afbank, since government — which has a share in the bank — has said it would sell the shares to black shareholders. Nail said it would welcome the opportunity to increase its interest by buying the shares.

Motsuenyane said it was essential to maintain the "Africanness" of Afbank, ensuring it continued to represent the people who had supported it during bad times. Many depositors were from the National African Federated Chamber of Commerce, which had been Afbank's launching pad.

Sun Multi Serve calls in lawyers to draft Bank Act changes

BD 24/1/96 (58)

Lukanyo Mnyanda

SELF-proclaimed stokvel Sun Multi Serve has drafted in attorneys Moseneke & Partners to forward proposals on amending the Banks Act.

Tiego Moseneke said yesterday that his firm had been briefed to create a legislative framework in which schemes such as Sun Multi Serve could operate.

Finance Minister Chris Liebenberg had ordered investigations into ways of accommodating Sun Multi Serve and other traditional money saving schemes legally, Moseneke said.

Registrar Christo Wiese, who is handling negotiations with Sun Multi Serve, was not available yesterday.

Sun Multi Serve technical advisor David Mogoshoa again accused Wiese of negotiating in bad faith. He denied the scheme had agreed to legalise operations, saying it had agreed to formulate "rules and regulations" to govern its operations.

Meanwhile, Sapa reports that police arrested a group of Sun Multi Serve demonstrators outside United Bank in Welkom.

Supt Johan Coetzee said protesters, demanding access to their frozen accounts, had blocked a road and ignored warnings to disperse.

RDP investment portfolio on a roll

BD 24/1/96 (58)

Samantha Sharpe

CAPE TOWN — Strong new cashflows and sound investment performance had more than doubled Southern Life's RDP investment portfolio to about R500m in 1995, the insurance group said yesterday.

The actual returns for the Futuregrowth portfolio would be available next month.

Futuregrowth co-ordinator Michael Leeman said endorsements from the country's leading pension funds reflected growing confidence in the RDP and the investment portfolio as a delivery mechanism.

"We anticipate there will be major new RDP capital requirements over the next six months, particularly in the areas of electrification, housing and telecommunications.

"Now that the local government elections are to a large extent over, municipalities will also be coming to the market for capital," Leeman said.

Southern Life executive director Adrian Arnott said more than R100m had recently been invested directly by Futuregrowth in RDP-related projects through holdings of R50m in Rand Water and R10m in Northern Transvaal water bonds.

More than 40 SA retirement funds had invested in the portfolio, including the Murray and Roberts Fund.

Afbank to extend new home-loan advances

CT (BR) 24/11/96 (123) (58)

By Maggie Rowley

Cape Town — The mortgage book of African Bank, which was under curatorship, was targeting for growth of close to 50 percent over the next year, Colin Franks, the managing director, said this week.

Franks said Afbank was looking to extend new home-loan advances of about R150 million over the next year. It would remain a people's bank but would consider extending its customer profile to reflect a greater spread of the market.

Last year, NBS Holdings, in partnership with New Africa Investments and Metropolitan Life, announced a rescue of Afbank.

Afbank collapsed under the weight of bad debt in September last year. Once the legal process of the rescue had been finalised, R100 million would be injected into the bank, said Franks. Of this R100 million, NBS will put in R48 million giving it a 38 percent stake in Afbank.

Franks said that the due-diligence test undertaken by the rescue consortium of Afbank had found the bank's mortgage book to be surprisingly healthy, with a bad-debt situation of about 2 percent of the book — no worse than the industry average.

Most of Afbank's bad lending, he said, had been in the area of personal loans and hire-purchase agreements and an amount of R200 million had been set aside to cover this.

Franks said mortgage loans constituted the backbone of Afbank, accounting for R304 million of the projected balance sheet of R522 million as of March 31 this year.

He said properties in possession only amounted to R5 million.

Franks said while the mortgage book was relatively healthy, the bank was concerned about the negative effect retrenchments in the government sector would have on this sector of the business.

"While there is a lot of goodwill out there and a willingness to pay, if people are without jobs problems will arise."

Trevor Olivier, the general manager for mortgage, lending and savings administration at NBS, said one of the strengths of Afbank's mortgage book was that many of the loans had been granted on a debit-order basis.

"If the housing and home-loan market is to be normalised in South Africa, employers are going to need to make a contribution ... to help restore a culture of payment," said Olivier.

RDP investments pay dividends for Futuregrowth

(58) CT (BR) 24/1/96

By Maggie Rowley

Cape Town — Futuregrowth, the RDP-focused investment portfolio in Southern Life's stable, has more than doubled its assets under administration over the past year to nearly R600 million.

More than 40 of the country's leading retirement funds have now invested in Futuregrowth. Recent investors include the Murray & Roberts retirement fund, the Imperial group's provident fund, the ABI Provident Fund, the Firestone Provident Fund and the Transvaal Municipal Pension and Retirement Funds.

Michael Leeman, the co-ordinator, says Futuregrowth expects the fund will stand at about R1 billion by the end of the year.

It comprises three funds — the equity, income and balanced portfolio funds. A property fund is likely to be launched by mid-year, he says.

Outperformed

The funds will soon report their results for the year to end December. They have significantly outperformed their benchmarks — the all bond index for the income fund and 4 percent above inflation for the balanced fund.

The strong returns and the popularity of RDP-related investments have helped attract new investors as well as further investment from initial participants.

At the end of December the fund stood at just more than R527,3 million, but a good January pushed it up close to R600 million.

Leeman says Futuregrowth has recently invested more than R100 million directly in RDP-related projects.

The two most significant investments are providing potable water to disadvantaged communities through holdings of R50 million in Rand Water and R10 million in the Northern Transvaal water board.

The recent launch of the Futuregrowth equity fund will allow it to be more involved in black economic-enablement transactions.

Leeman says that R30 million has been invested in a range of these projects. Two major deals are being completed.

The equity fund invests directly in unlisted entities and presents higher risks but potentially higher returns to investors than the balanced portfolio fund, he says.

Leeman says he is confident that the funds can place a further R500 million in RDP-related projects this year.

"We anticipate there will be major new RDP capital requirements over the next six months, particularly in the areas of electrification, housing and telecommunications.

"Now that the local government elections are ... over, municipalities will also be coming to the market for capital and we have already seen the Johannesburg authority do so," he said.

Futuregrowth, he says, is well positioned to participate in these projects on behalf of its participating investors.

Jail juveniles, urges DP

(263) (298)

JOHANNESBURG: The government had shown lack of care in dealing with juveniles who committed serious crimes, DP youth president Mr Sipho Moganedi said yesterday. CT 24/1/96

Juveniles who committed serious offences like rape, murder and robbery should be jailed, not kept in places of safety.

The government's decision to keep them in places of safety was foolish and wrong, Moganedi said. These places were ill-equipped to handle violent criminals.

Moganedi said juvenile criminals should be kept apart from adult prisoners while in jail.

Sun Multi-Serve protesters held

(58)

WELKOM: Police have arrested a group of Sun Multi-Serve demonstrators outside United Bank here.

Police said some of the protesters were blocking the road and ignored warnings to disperse. Police had no option but to arrest them. CT 24/1/96

Other protesters marched on the police station. Sun Multi-Serve investors are demanding that they have access to their accounts which the Reserve Bank has frozen.

Growth in manufacturing helps Hudaco lift profit

CT (BR) 24/1/96

By Charlotte Mathews

Johannesburg — Strong growth from the manufacturing sector, linked to steady growth from the auto-spares market, contributed to a satisfactory increase in bottom-line profit from engineering group Hudaco in the year to November compared with the previous year.

Chief executive Stephen Connelly said the 24 percent increase in earnings to 173c a share was very satisfactory, particularly against a background of lower inflation.

The dividend was raised by 21 percent to 80c (66c) a share.

Although group turnover was 22 percent better at R786,5 million, this included acquisitions, mainly BEP Bestobell acquired in August 1994, and some disposals.

Excluding these factors, sales volumes were about 2 percent better than last year and price increases were below 10 percent for the second successive year.

After an unchanged interest charge and a lower tax rate, owing to the falling away of the transition levy, attributable profit reached R50 million for the first time.

Connelly said the group expected another year of strong growth in earnings a share.

The R74 million acquisition in December of Transportation Motor Spares, one of the largest wholesalers of alternative spare parts for light- and heavy-duty vehicles in the sub-continent, was described as a significant and strategic step.

The company's prospects were seen as advantageous with the expectations that the country's GDP growth for this year would exceed last year's, with additional momentum expected from RDP projects.

Against this scenario and taking into account a small contribution to earnings a share from the spares company in its first year, the group was expecting a strong growth in earnings a share.

Malaysian investor to buy 41,9% of NRB

CT (BR) 24/1/96

(58)

By Jon Beverley

Durban — Dato Samsudin ibn abu Hassan, a Malaysian investor, will lead an investment drive into the Durban-based New Republic Bank (NRB).

He will buy Merhold's 41,9 percent interest for R45 million, which is to be followed by the setting up of a bank holding company and a "substantial increase in the capital of the bank".

Dato Samsudin controls Landmarks Berhad in Malaysia, is a minority shareholder in Boland Bank and has substantial property interests in this country.

Mac Mia, the managing director of NRB, welcomed the development, saying it held enormous benefits for the bank. The changed shareholding increased the bank's capital base. It also strengthened the banks' management team with the appointment of Jonathan Scott as executive deputy chairman, he said.

Scott was executive director of the successful Mercantile Bank and has extensive experience in corporate banking, trade finance and corporate finance.

Mia said the investment by Dato Samsudin provided NRB with the opportunity to build on its historical strengths and expand its activities in South Africa and the East.

The bank finances trade with the East and is expected to increase this activity.

According to the notice of the deal, Dato Samsudin's Redbridge Assets will buy Merhold's 39,8 percent of the ordinary shares and about 50,6 percent of the convertible debentures for R45,2 million, effective from March 12.

Restructuring will follow, in which Redbridge is expected to increase the issued share capital by at least R100 million and create a bank holding company. A rights issue is also expected.

The net effect would be to lift the capital and reserves from the current R130 million to just below Saambou Bank's R293 million.

Minority shareholders in NRB will be offered 300c a share or debenture. Shareholders who hold more than 50 percent of the equity said they would exchange their current investment for shares in the holding company, which planned to hold more than 50 percent of the NRB equity and be listed on the JSE.

The notice cautions shareholders, as there are a number of conditions which must still be met.

AWB calls for an inquiry

(58) Sowetan 25/11/96

By Isaac Moledi

THE Afrikaner Weerstandsbeweging has called for the resignation of all board members of the Reserve Bank and urged the Government to appoint an open and transparent judicial inquiry into the activities of the banking sector.

Responding to evidence given by former Absa bank executive Mr Hennie Diedericks at a hearing into the the collapse of Tollgate Holdings this week, AWB liaison officer Mr Fred Rundle said Absa had wanted the enquiry to be secret, but failed in their attempt.

"The Government, which claims to be transparent, should immediately appointing an open and transparent judicial inquiry into the activities of the Reserve Bank and other banking sectors."

Rundle said the Government should also review laws that prohibited taxpayers from knowing who the secret shareholders of the bank are. "They should also curb powers of this highly secretive bank which is vested with vast and awesome powers in the handling of the entire economic set-up of the country."

Protest forces bank closures

(58)

Star 25/1/96

SAPA
Mmabatho

Banking was disrupted at Absa branches in Mafikeng yesterday morning when a group of Sun Multi Serve investors forced staff to close the banks.

Police monitored the situation as demonstrators chanted "No entry".

Traffic was disrupted and shopowners near the affected banks were forced to shut for security reasons.

Absa provincial general manager Piet Smith said the Volkskas and United Bank branches had to be closed for the safety of staff.

Demonstrators said they would stay on the bank's premises until Registrar of Banks Christo Wiese had addressed them.

SMS officials could not be reached for comment.

Meanwhile, the North West government said yesterday it supported government action to regulate get-rich-quick schemes.

Finance MEC Martin Kuscus said the provincial government was committed to the economic empowerment of disadvantaged sectors of society and also supported the concept of community banking and easier finance access for poorer communities, but believed that the current get-rich-quick schemes would benefit only a minority of investors at the expense of large numbers who took part at a later stage.

"It is from this perspective that the North West government warns the public against these schemes," Kuscus said.

His government was also concerned about the social instability associated with the schemes, he added.

Bank wants more power over illegal saving schemes

(58)

CT (PR) 25/1/96

BY THABO LESHILO

Johannesburg — The Reserve Bank is considering tightening its regulatory control over traditional financial practices of the country's black population.

In the wake of the decision last month to freeze R50 million in assets held by self-styled stokvel Sun Multi Serve, Christo Wiese, the registrar of banks, said yesterday that new efforts to accommodate informal black saving schemes "may have the effect of tightening existing legislation, and possibly giving the authorities more powers to deal effectively with illegal schemes".

The proposed changes follow recent criticisms by blacks that the Banks Act ignores their needs and disregards South Africa's status as a developing nation.

By far the most important of the possible changes would be to increase the R9,9 million ceiling on assets that stokvels are allowed to hold. The limit, Wiese said, could be replaced with formal sector self-regulation practices, with improved internal control systems.

At present, informal rotating credit unions (stokvels) are expected to convert to mutual banks once their assets exceed the limit.

In detailing the Bank's efforts to negotiate repayment of investors' funds in Sun Multi Serve, Wiese said that possible changes to the regulation of informal investment schemes included:

☐ Clearer definitions to help investors distinguish between acceptable and unacceptable practices;

☐ The creation of regulations regarding the reporting of financial information by informal schemes;

☐ Replacing the "common bond" principle that holds stokvel members together, with more transparent contractual loan arrangements; and

☐ Fully informing investors about the risks inherent in the products they are offered.

Although the Bank was trying to accommodate traditional financial practices, Wiese said he would not tolerate any breaches of the law.

"Certainly, there will be no amendments to the legislation for the practice of paying exorbitant returns to some investors out of capital funds invested by others," he said. "This would open a massive loophole for unscrupulous operators to enrich themselves with a pyramid scheme, and then abscond."

The regulatory changes being considered follow the two weeks of discussions between Sun Multi Serve and the Bank. The scheme wants its assets unfrozen and its operations legalised, while Wiese maintains it was an illegal pyramid scheme.

Wiese said that the scheme had continued to operate after its assets were frozen, and even expanded its activities in contempt of a court order not to do so.

He said a list of Sun Multi Serve investors was still being compiled with a view to returning their funds. However, this was being hampered by the fact that the scheme kept incomplete records.

Sun Multi Serve's lawyer, Tiego Moseneke, said the possible regulatory changes outlined by Wiese would be "a huge advance in the creation of room for traditional black savings schemes". He said the proposed changes could result in the creation of numerous new financial institutions in this sector.

Sun 'stokvel' mass action to unfreeze funds

(58)

BY MANDLA MTHEMBU AND SAPA

Star 26/1/96

Sun Multi Serve (SMS) will launch a "national rolling mass action programme" tomorrow to demand the speedy release of its R50-million in frozen accounts.

Thousands of SMS members from its 28 branches countrywide are expected to picket outside Standard and United banks.

Addressing a press conference in Johannesburg yesterday, SMS spokesman Victor Monamodi said the action would continue on Monday. The move came a day after the Office of Banks said the controversial investment scheme should be wound up and investors' funds returned to them.

Monamodi accused the Government of "reneging on the agreement reached on January 7 that new regulations should be developed to ensure that our operations resume".

"They have been shifting the goalposts constantly," he said. "Our understanding is that the process of drawing the regulations is continuing until the negotiations forum decides otherwise."

No doubt investors would lose, says bank

Monamodi said their demand was reasonable compared to the handouts the Reserve Bank had given to Absa and the writing-off of debts for white farmers.

Earlier, The Reserve Bank said the Office of Banks had rejected Sun Multi Serve's suggestion that it be allowed to continue operating under new rules in line with proposed legislation to make such schemes legal.

The Reserve Bank said in a statement: "After protracted negotiations the Office of Banks has now concluded that this cannot be done ...

"In terms of the law there is only one course of action possible, namely that each member's share of the available money of the illegal operaton be repaid. There is no doubt that, if the SMS operation had been left to continue, many investors would have lost the total or part of their savings."

The Office for Banks recognised the need for informal financing systems which satisfied the needs of the people, but the law should continue to provide reasonable protection to the general public, the bank said.

FEATURE

SUN MULTISERVE

ADAPT OR DIE

(58) FM 26/1/96

Banking laws will have to provide for financing schemes in previously disadvantaged areas. Stokvels have already been legalised In January 1994, the Reserve Bank issued a legal notice — in terms of the Banks Act — bringing these traditional savings schemes within the ambit of the Banks Act. This is the only legislation dealing with "grass-roots" banking.

The notice allowed stokvels to operate as savings schemes, provided members have a common bond (through membership of a society of some sort) and accept and use money pooled for a specified purpose, such as maintenance or childbirth.

Wiese . *halted a pyramid*

Other lesser-known schemes fall outside the scope of any Act. While they operated on a small scale, it was not necessary to legislate for them An example is Mashonisa, which involves one person borrowing from another and paying back at month-end with 50%-60% interest. Because the loans involved were less than R6 000, they did not fall foul of the Usury Act.

Office for Banking Supervision spokesman Johann de Jager says that regulation for such schemes is unnecessary because they usually operate informally But as more people enter the economy, schemes are becoming more complex and the sums involved bigger — so further regulation will be needed.

The issue has been highlighted by the decision of Registrar Christo Wiese to close down the operations of Sun Multiserve The quick (and big) money promised to black investors through this 11-month-old scheme has no resemblance to a traditional stokvel.

A book — *Stokvels in SA*, by National Stokvels Association of SA CE Andrew Kehla Lukhele — explains that the concept has existed for decades The name is a corruption of the "stock fairs" held by early settlers. Employees used to pool money and the benefit (the animal bought) went to one member at a time. The members had to be known to one another, to ensure continuity.

Says De Jager: "The scheme depends for fulfilment on recruitment of new members to finance the high returns — up to 300% within weeks — to existing members."

For everyone to profit, there has to be an unlimited supply of willing investors. As soon as membership falls, members who have not yet qualified for distribution lose. Another factor that erodes the scheme's feasibility is that money is deposited, on behalf of the members, in a noninterest-bearing current account of a commercial bank

The 1994 amendment to the Banks Act excludes from "banking business" the operation of a stokvel, a credit union, an employees' savings scheme and a temporary building society. They are allowed to run as savings schemes

Because they are not banks, they do not have to comply with the prudential and reporting requirements of the Banks Act and banking regulations

To make self-regulation workable, modest restrictions are imposed, such as a R9,9m cap on the value of "deposits" which a savings scheme may accept from the public. However, about R50m was allegedly held by Sun Multiserve and CE Peter Tau at various institutions before the accounts were frozen.

De Jager . . . *operate informally*

Organisations that want to accept larger deposits have to register as mutual banks These must have R10m in start-up capital (compared with the R50m for any other bank), but are otherwise subject to the same requirements as banks Any organisation excluded from banking business must belong to a representative body — for stokvels, the National Stokvels Association

Sun Multiserve did not comply with any of these requirements It is clearly a pyramid structure.

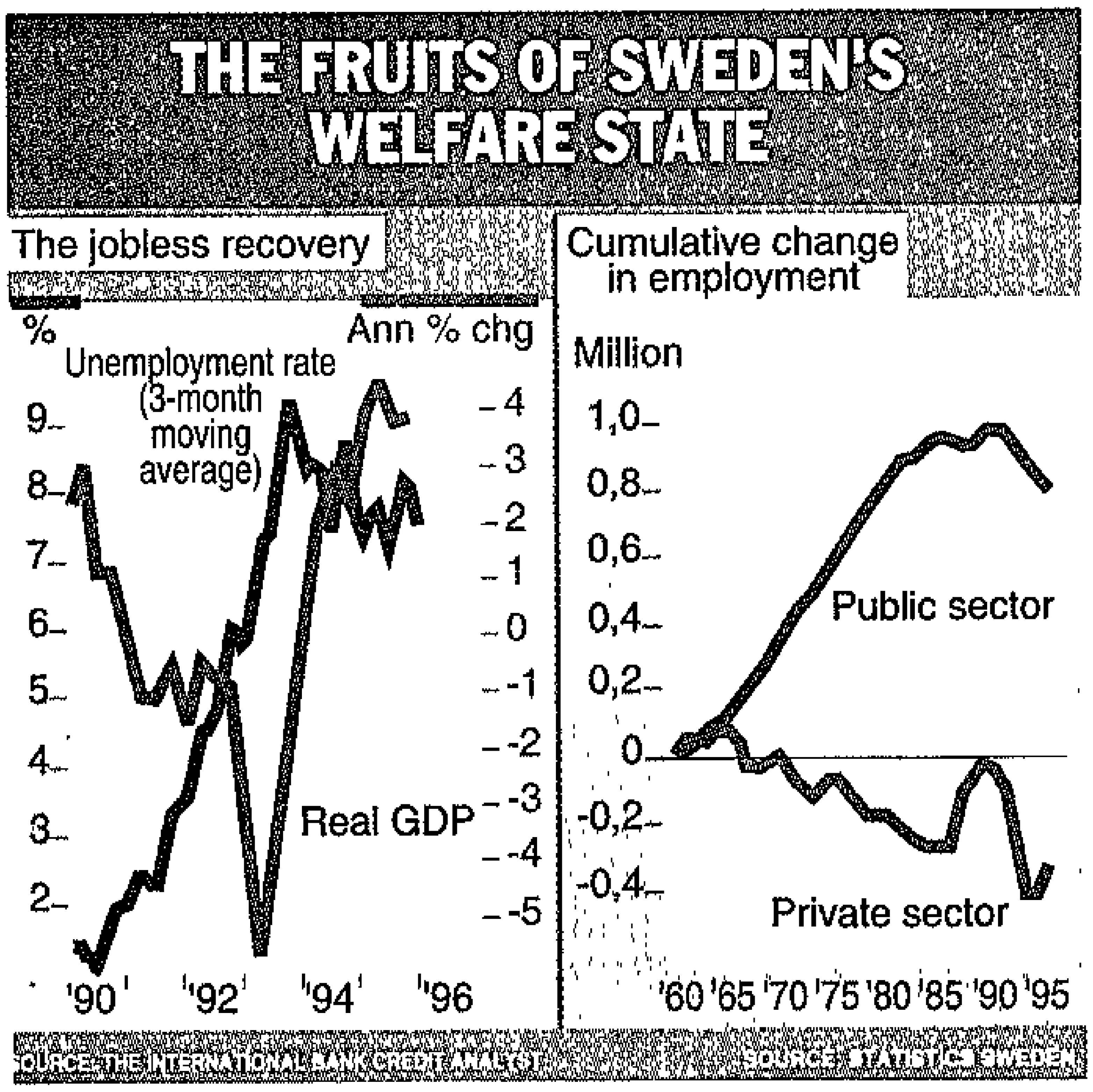
There's no possibility such organisations will be legalised. "I do not want to give the impression that the Banks Act is negotiable," Finance Minister Chris Liebenberg is on record as saying.

Organisations operating illegally will have to convert to a proper stokvel or some other acceptable form of savings. If they exceed the cap on deposits, they will have to register as mutual banks If Sun Multiserve is to survive, it will have to go this route If it does and it convinces the authorities it will run on sound business principles, they may allow it to operate.

The Office of Banking Supervision has been criticised for curtailing Sun Multiserve by those who see the clampdown as an attempt to stifle black empowerment But Nafcoc Gauteng president Mashudu Ramano agrees with the Registrar's view that Sun Multiserve is a pyramid scheme "Returns of the size promised cannot be generated otherwise "

Fabcos secretary-general David Moshapalo says his organisation will not comment pending the outcome of discussions between the Registrar, Sun Multiserve and Fabcos affiliate the National Stokvels Association. But he says the Act may have to be changed. "Circumstances other than those that now prevail led to the capping of deposits at R9,9m So a higher cap and a more flexible, innovative approach is needed "

The Bank has been condemned for acting too late De Jager says there has to be a prima facie case against an institution operating in contravention of the Act. He describes action against the schemes as a no-win situation. Investors resist intervention in the initial, successful stages of money-making When the scheme reaches saturation point, it's too late Investors then expect the authorities to make good their losses ■



this, the public sector and the tax burden grew enormously and restrictive labour laws were passed" The publication points out this guarantees Sweden is chronically uncompetitive.

"Policies, such as the equal pay principle, discourage human capital formation and encourage the most productive workers to leave. High tax rates severely reduce the incentive to work and acquire job skills."

There have been unfortunate consequences. Swedish companies have invested in labour-saving technology and started to move production offshore. This is contributing to structural unemployment.

To sustain employment in these circumstances, government spending has had to rise. And despite rising taxes, government has not been able to fund the welfare State without recourse to borrowing. Now the country has the additional burden of a large government debt and the cost of servicing it

Since 1990, the top marginal tax rate was reduced from 76% to 58%, but with a Vat rate of 25%, the marginal rate on income used for consumption is still about 70%. A 35% payroll tax and "compulsory contribution," scheduled to rise to 38% by 1998, adds a significant burden.

The tax burden is about 50% of GDP, which is two-thirds higher than in the US, Japan and the UK.

Despite attempts to reform, there has been a surge in unemployment since 1990 (see graph) and unemployment barely declined last year, despite strong economic growth. Rising unemployment has "had little impact on real wage growth, which was higher in the depressed retail sector than in the booming export sector."

When there is no connection between what people put into a system and what they can get out of it, the system will inevitably run down. In our search for a solution to poverty endured by a big section of the population, we must look at the important role of economic incentives in creating sustained growth

Sweden's welfare State is slowly grinding to a halt as the costs become too great to bear.

Governments which allow the markets to freely allocate scarce resources are most likely to afford welfare for people who need it. ■

LAW OF CHEQUES

STOP SIGN

Has a bank the right to recover the amount of a cheque erroneously paid out after the client has issued an instruction to stop payment?

The Appellate Division of the Supreme Court has now pronounced on this important issue and said no

The issue arose in *B&H Engineering vs First National Bank,* reported last year. Howard Sher, of attorneys Deneys Reitz, says the engineering company undertook to manufacture certain goods for S. The goods were delivered and S drew a cheque on First National Bank in favour of the company. However, before the cheque was presented for payment, S unjustifiably stopped payment.

Unaware of the countermand, the company presented the cheque for payment through a collecting bank. First National negligently overlooked the countermand and credited the amount of the cheque to the company

By overlooking its client's instruction, FNB incurred a loss. It then sued the company for the amount, using a well-known doctrine in SA law (unjust enrichment) and succeeded in the trial court — the Transvaal Provincial Division

In argument before the Appeal Court, the parties agreed on certain guidelines for deciding the case The bank would have a good case against the company, if it had been enriched by receiving payment of the cheque and if the enrichment was unjustified.

After detailed analysis of commercial usage relating to payment by cheque, the court concluded that a contractual debt is extinguished the moment the bank pays the cheque to the creditor.

This remains the law whether or not payment, at that stage, has been authorised by the drawer of the cheque (the debtor under the contract).

It follows that the company in this case was not enriched by the payment of the cheque, because this amount was set off against the original claim against S. The company's net financial position remained unchanged. In the light of this conclusion, it became unnecessary for the Appeal Court to consider the second element — whether the enrichment was unjustifiable.

The decision of the trial court was therefore overturned.

However, the Appeal Court noted that the bank would itself have a claim against S on the basis of the same doctrine of unjust enrichment. This is because S was released from her debt to the company through payment of the cheque.

But this would not be the situation in all cases of payment of a stopped cheque, as there could well be special circumstances to affect the outcome.

For example, a bank may have paid a cheque in defiance of an instruction to stop payment, where the original debt itself was on the point of becoming prescribed, or where the parties were negotiating to reduce the amount of the debt.

Lastly, the court pointed out that a bank may not know, without further investigation of the circumstances, which party might be unjustifiably enriched through payment of a stopped cheque. These circumstances could be critical to the bank's own liability incurred by paying the cheque

If there is a general moral to be drawn from this decision, it is that banks should be efficient enough to give effect to clients' instructions to stop payment of a cheque ■

Sun Multi Serve to target banks

(58) BD 26/1/96

Lukanyo Mnyanda

PYRAMID scheme Sun Multi Serve announced another mass action programme yesterday in a bid to force registrar of banks Christo Wiese to release its frozen funds.

The announcement coincided with warnings by officials appointed by the registrar to manage the scheme that they could not rule out criminal charges against the fund's management.

Sun Multi Serve spokesman Victor Monamodi told a news conference 53 000 investors would picket outside Standard and United Bank branches in their areas tomorrow and would invade the banks next week to demand the release of their money.

Monamodi again accused Finance Minister Chris Liebenberg and Wiese of reneging on an earlier agreement to change the Banks Act. Sun Multi Serve would ask President Nelson Mandela to mediate, he said.

As white men from the banking community, Monamodi said, Liebenberg and Wiese did not understand schemes based on African culture and they could not be impartial when banks conflicted with members of the disadvantaged community.

Presidential spokesman Parks Mankahlana said Mandela would listen to Sun Multi Serve if it requested a meeting, but was unlikely to intervene as he normally worked through his ministers.

Mandela had asked Liebenberg, who was keeping him informed, to get involved in Sun Multi Serve's dispute with the Reserve Bank.

Meanwhile, Tim Store, who was appointed by the registrar to manage Sun Multi Serve, said he would be publishing newspaper advertisements urging investors to reclaim their funds next week.

Negotiations had not yielded much and they had now entered the "investigation and repayment of funds phase".

"I have been asked to conduct a thorough investigation into Sun Multi Serve's affairs and I can not exclude the possibility of criminal cases resulting from them."

Fund MD Peter Tau's bank accounts had also been frozen when the registrar closed the scheme last month. At the time, Tau said the still undisclosed amount of the fund's money had been put in his personal account for "safekeeping" after the scheme's accounts were frozen. He could not be reached for comment yesterday.

Spokesmen for United and Standard Banks said they were aware of Sun Multi Serve's plans and would be taking precautions. The police had been informed.

Sun Multi Serve spokesman Victor Monamodi, left, and technical adviser David Mogashoa at yesterday's announcement of the launch of a national mass action campaign to force Registrar of Banks Christo Wiese to release the scheme's frozen funds.

Picture: NICKY DE BLOIS

Directors won't get pyramid loot

CP 28/1/96

(58)

Bank to protect investors only

By SIFELANI MLAMBO

THE SOUTH African Reserve Bank will release the R50 million it froze from a pyramid scheme, Sun MultiServe, to individual investors only – and not to the directors of the scheme.

In making this announcement, Reserve Bank Deputy Registrar Andre Bezuidenhout said this would be done to ensure investors were protected.

He denied media reports that the Reserve Bank would release the frozen funds to Sun MultiServe.

Bezuidenhout called upon investors to give their names to the Bank as a full list of investors' names had to be compiled before funds could be repaid.

He said the Reserve Bank had difficulty in compiling a list of investors because Sun MultiServe did not keep proper records.

It was most unlikely that investors would recover all the money they had invested, he said, because some of the money had been dispersed by Sun MultiServe before the authorities stepped in and MultiServe had less money in the kitty than had been paid to them by investors

In a statement Bezuidenhout said the scheme fell short of being a stokvel or mogodisano (self-help) in terms of the Banking Act, because its financial investments exceeded the R9,9 million limit regarded as the point where stokvels should convert to banks.

The Reserve Bank froze Sun MultiServe's banking accounts because the scheme was operating illegally.

Bezuidenhout said mounting uncertainty by Sun MultiServe investors had prompted the Reserve Bank to act.

He said recent threats by Sun MultiServe to mobilise its "concerned investors" to discuss the possibility of rolling mass action against the Reserve Bank were short-sighted.

He said the planned mass action at certain banks was aimed at pressurising the Reserve Bank to act in a manner that would serve the interests of the Sun MultiServe directors only.

Bezuidenhout said discussions with Sun MultiServe had been hampered by difficulties in identifying who was in authority.

The Reserve Bank had held discussions with three different people purporting to represent Sun MultiServe, Bezuidenhout said.

However, Sun MultiServe denied this claim.

Sun MultiServe's spokesman, Victor Monamodi, accused the Reserve Bank of being racist.

He said Finance Minister Chris Liebenberg and the Registrar of Banks, Christo Wiese, were white men concerned only with protecting the established banking community.

Sun MultiServe, he said, has requested an audience with President Mandela to try to settle the issue.

The Reserve Bank contends that the R50 million that the court froze may have been solicited by misrepresentation.

"Some of the investors had been misinformed, and under such circumstances it was prudent for the Registrar of Banks to approach the court to get a directive to freeze the funds," he said.

(58) ST(BT) 28/1/96

Stokvel too hot for Absa

ABSA Bank will ask the Registrar of Banks to seek an "alternative domicile" for R3,9-million it holds on behalf of the Sun Multi Serve stokvel, writes **THABO KOBOKOANE**.

"SMS is no longer a client of Absa and we are no longer willing to expose our business to the kind of risks presently being experienced," Absa spokesman Nick Cairns said on Friday.

The bank's decision follows a week of demonstrations and "intimidation of clients and staff" at a branch of United Bank in North-West Province which holds R3,9-million of SMS's R50-million in frozen assets.

Last month the Registrar of Banks, Christo Wiese, froze SMS accounts for contravening the R9-million limit allowed to stokvels under the Banks Act.

Meanwhile, Tim Store, who was appointed curator of SMS, says he will be placing advertisements urging investors to reclaim their money.

Court to decide on stokvel's funds

(58) BD 29/1/96

Patrick Wadula
and Lukanyo Mnyanda

THE Supreme Court would decide the destination of R3,9m of Sun Multi Serve's frozen funds held by Absa's United Bank, registrar of banks Christo Wiese said yesterday.

This followed banking group Absa's request to the Reserve Bank to remove all Sun Multi Serve's frozen funds from United Bank.

Absa spokesman Nick Cairns said the group was no longer willing to expose clients and staff to the dangers of a mass action campaign by the scheme's members. An application to the Supreme Court to have the funds removed from Absa branches would be discussed today.

About 50 Sun Multi Serve account holders picketed a Volkskas Bank in Vryburg, Northern Cape at the weekend. Cairns said demonstrations by Sun Multi Serve supporters had led to the temporary closure of Absa branches in Rustenburg, Bloemfontein, Mafi-

Continued on Page 2

Stokvel

(58) BD 29/1/96

Continued from Page 1

keng and Welkom.

Sun Multi Serve last week announced a mass action campaign targeting United and Standard Bank branches to force Wiese to release its frozen funds.

Cairns said Absa would not tolerate the intimidation of its staff and clients and relevant authorities had been contacted to deal with this.

The future of Sun Multi Serve was out of Absa's control and investors should take up their case with relevant authorities, he said.

A Standard Bank spokesman said his bank was taking precautions in the wake of the of the threats.

Frozen pyramid scheme operators still defiant

Lukanyo Mnyanda (58) BD 30/11/96

SUN Multi Serve would continue operating in its present form despite registrar of banks Christo Wiese's threat to act against the group if it reopened its pyramid scheme, Sun Multi Serve spokesman Victor Monamodi said yesterday.

He said investors would not heed Wiese's call for them to claim their funds, and the mass action campaign for the release of their frozen funds would continue. "Our people totally reject the Reserve Bank's offer. They want to be repaid by Sun Multi Serve and not Wiese," Monamodi claimed.

He said negotiations with the Bank and the finance ministry had failed and the scheme had asked to meet Deputy President Thabo Mbeki and Minister without Portfolio Jay Naidoo.

Sun Multi Serve had considered converting its operations into a stokvel, but the National Stokvels Association of SA's "attitude towards the scheme had made this impossible" and it was likely to continue operating outside the association's control.

Wiese said yesterday Sun Multi Serve would not be allowed to operate as an illegal scheme and the Bank would continue to enforce the regulations of the Banks Act. Wiese said he hoped the high media coverage of the case would deter people from investing in unsafe and illegal deposit-taking schemes.

Wiese said no further meetings were planned. The Bank was now "following procedures" and would advise investors on how to reclaim their money later this week. The process of repaying investors was expected to last a month.

Meanwhile a "get-rich-quick" scheme which had been operating under the guise of a burial society in Mafikeng had gone bust, forcing the director to seek police protection from angry investors, Wiese said. Its director was held in custody for his own safety after about 2 000 investors lost more than R3m.

ENT

CS

Sun Multi Serve suspends protests

58 CT (BR) 30/1/96

BY THABO LESHILO

Johannesburg — Sun Multi Serve is to briefly suspend its protests aimed at United Bank and Standard Bank after the arrest of its members in Rustenburg yesterday.

However, its spokesman, Victor Monamodi, warned that the 53 000-member organisation was not capitulating in its fight to have the Reserve Bank unfreeze its accounts with the two banks.

"We need the respite in order to devise new and more effective strategies," Monamodi said.

A police spokesman said 71 people had been arrested for "toyi-toying outside the Standard Bank without the permission of the municipality". They were later released without being charged and warned to appear in court on February 29.

Standard Bank corporate affairs consultant John Gaunt said representatives of the protesters had met the branch manager who had "explained our position that Sun Multi Serve's funds are now in the hands of the curator and can only be released by his order".

Absa spokesman Nick Cairns said the bank wanted the Reserve Bank to find an alternative place to keep the R3,9 million in Sun Multi Serve's account at United Bank. "Sun Multi Serve is not our client any more and there is no point in us keeping the money. It attracts unnecessary attention to us," he said.

Cairns said only the Reserve Bank, which was granted permission by the Supreme Court to freeze Sun Multi Serve's accounts' last month, had control over the money.

BUSINESS

Currency shops being planned

□ *New venture targets tourism*

(58) ARG 31/1/96

Business Staff

CORNER shops buying and selling foreign currency, a common sight at any major tourist destination in Europe, could also be regular feature in the Cape in a new business venture announced yesterday

Property developer and Gugulethu entrepreneur Zitulele KK Combi has joined forces with Rennies Travel, part of the Safren group, to establish Master Currency.

The currency shops will target the Cape's burgeoning tourist industry, bringing in billions of rand a year with continued growth forecast.

Already Master Currency is operating one store in Strand Street, which opened a little over a month ago. Four more outlets are planned over the next few months, in Greenmarket Square, the Waterfront, and Cape Town and Johannesburg international airports.

Mr Combi's firm Combi and Company and Rennies Travel control Master Currency equally, ownership struck at 50 percent each.

Rennies Travel already offers foreign exchange services and managing director Lilian Boyle admitted Master Currency would compete with existing operations.

However, the investment represented a commitment to the New South Africa, "a grass roots operation without the baggage of the past," said Mrs Boyle.

A Reserve Bank license to operate the bureaux is held by Rennies Travel, but Mr Combi hoped Master Currency would win a license in its own right later this year.

He added the firm expected to employ about 40 people with emphasis on training black maltriculants.

Mrs Boyle and Mr Combi declined to specify profit forecasts for the new venture, but Mrs Boyle said Rennies Travel's new outlets usually took about six months to break-even.

Master Currency's commission charge would be around 1,5 percent, Mr Combi said. This compared with rates of between one percent to 1,25 percent being levied by two major banks contacted yesterday.

JOINT VENTURE: Directors of the new foreign exchange company, Master Currency, are, from left: Bheki Tshabalala, Lilian Boyle and K K Combi.

Call to review Banks Act

(58)

sowetan 1/2/96

By Isaac Moledi

THE Sun Multi Serve saga has prompted discussions aimed at reviewing the Banks Act.

Discussions centre on the need to broaden existing legislation to recognise larger society schemes and mogodisano clubs.

Although black business organisations and financial experts differ on this issue, there is consensus that a mechanism to refine existing legislation to allow mogodisano clubs that are larger than traditional stokvels is needed.

There are proposals that in the new set-up the stokvels should not necessarily be dependent on a common bond existing between members.

New legislation

Sun Multi Serve, which has its R50 million frozen by the Reserve Bank, has been consistent in their demand for a formulation of new legislation which is accompanied by certain rules to govern their business.

However, the National Stokvel Associations of South Africa (Nasasa) says although it "totally" rejects SMS's way of operation, the present structure of mogodisanos and stokvels should be left as they are.

"What we are looking at is to change the R9,9 million ceiling to accommodate the operations of larger societies," says Nasasa director for membership services Mohau Phatlane.

The Council of Southern African Bankers (Cosab) says while it believes that the Registrar of Banks took the right decision by freezing SMS's R50 million, as it did not conform to the Banks Act, it however feels that what can be debated is whether the R9,9 million limit for stokvels is enough.

"If the development in the industry is such that the R9,9 million is not enough for the association's operations, then that can be re-evaluated and renegotiated. But we do not think that the issue of law is relevant to Sun Multi Serve," Stuart Grobbler, Cosab deputy general manager says.

Nafcoc, which has also opposed the way SMS operates, says the only change that the organisation is advocating is that of lowering capital requirement that is demanded by the Banks Act.

"Presently the Act requires associations to have about 25 percent of their liquid assets as reserves to enable them to operate as banks. And we are saying this requirement needs to be lowered to give people an access to start their community-type schemes," says Nafcoc's Gauteng president Mashudu Ramano.

The Reserve Bank also agrees that the existing legislation be amended, but is worried by pyramid schemes such as SMS.

Reviving Afbank

(58)

Sowetan 1/2/96

By Mzimkulu Malunga

Nail chairman Dr Nthato Motlana stays tight-lipped on appointments

NO APPOINTMENTS HAVE been made to the new board of African Bank, says New Africa Investments Limited chairman Dr Nthato Motlana.

"It is unfortunate that people have been talking about African Bank's board even before there is one," says Motlana.

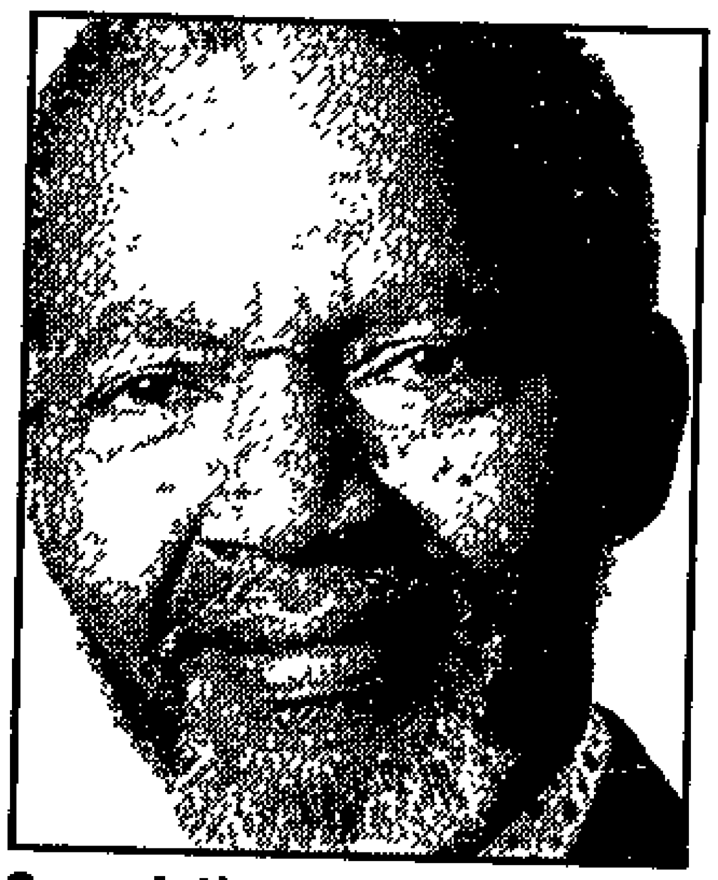
There has been speculation that the chairman of the old Afbank board, Mr Sam Motsuenyane, has been dropped from the list of people who will serve on the bank's new board.

Reports on the board issue also mention that among those to be dropped from Afbank's board is Metropolitan Life managing director Marius Smith.

Motlana declines to be drawn on the Motsuenyane issue, arguing that discussions around Afbank's board will only start once the process of getting the bank back on its feet nears completion.

He says there are a number of developments that need to take place before the bank can appoint new board members. The chief executive of DLJ Pleiade, a financial institution charged with the task of overseeing the process, Mr Rob Dow, says the bank's shareholders first have to meet to approve the new transaction.

Thereafter the Supreme court will still have to approve registration. DLJ Pleiade will then be renamed the African Merchant Bank, with African Bank and an American investment bank, DLJ, as the major shareholders.



Speculation on Afbank's board is unfortunate, says Motlana.

Goldin to seek partnerships

BD 1/2/96 (58)

Robyn Chalmers

THE private sector would be lobbied to play an increasingly important role in financing infrastructure in partnership with the Development Bank of Southern Africa (DBSA), new CE Ian Goldin said yesterday.

The structure of top management at the bank would be placed under the spotlight to ensure the spread represented SA's racial mix, he said.

Goldin, who is a senior economist at the London-based European Bank of Reconstruction and Development, will return to SA towards the end of March.

He was encouraged by the direction in which the bank was moving and believed his role would be to ensure transformation was completed successfully. "After discussions with Deputy Finance Minister Alec Erwin and bank chairman Wiseman Nkhulu, I have a good sense of the broad direction in which the bank is moving and the progress has been heartening.

"I am absolutely committed to ensuring the bank is ready to play its role fully in the new SA, and that role is the financing of infrastructure. This slots in well with restructuring of the other development finance institutions, as there has been a degree of overlapping with functions in the past," he said.

At the release of the bank's results recently, it was estimated that the private sector could become involved in infrastructure projects totalling more than R1bn in the coming year.

Goldin said it was important to ensure private sector participation in the infrastructure projects was secured, and restructuring of management had to be addressed. The issue of affirmative action would also have to be looked into. However, he said government, the bank's board and all other involved parties would be consulted fully before decisions were taken.

Goldin has been involved in high-level policy discussions with the SA government on agricultural and rural strategies as well as budget and trade issues. He has experience in development economics and the workings of international institutions, having been a research and programme director at the Organisation for Economic Co-operation and Development in Paris. He also worked for the World Bank.

Nafcoc calls on members to disinvest from Afbank

(58) BD 1/2/96

Patrick Wadula

THE National African Federated Chamber of Commerce (Nafcoc) has called on its members to withdraw their deposits from African Bank, which it helped found, in protest against its new direction.

Nafcoc president Joe Hlongwane said yesterday he had already removed his cash from the bank, and was advising his members to follow suit.

He said the bank, which was now controlled by New Africa Investments Ltd and NBS, no longer represented its founding Nafcoc membership.

Afbank's founder and chairman and Nafcoc's founding president Sam Motsuenyane, who was understood to have been excluded from Nail's plans for Afbank's new board, had also been given a "rough deal," Hlongwane said. "Our people have been thrown away."

Hlongwane's call brings to a head months of tension between the organisation and Nail, after the two launched rival rescue bids for Afbank. Nafcoc's membership are minority shareholders in Afbank, but account for a large slice of its cash on deposit.

Nail and NBS, which together hold 59% of Afbank, are planning a major restructure at the bank, which includes creating a merchant banking institution, African Investment Bank. But Hlongwane said Nail and NBS had failed to contact Nafcoc about the plans. Afbank CE Colin Franks said he would contact Hlongwane to discuss Nafcoc's stance.

FEATURE

PYRAMIDS

SHORT SHRIFT FOR SECRET FORMULAS

FM 2/2/96 (58)

Sun Multiserve is a familiar name. But it is only one of a number of pyramid schemes under investigation by the authorities — mostly the fraud squad — or which have been closed.

Pyramid schemes catch on well where investors are unsophisticated, have little access to information and are unfamiliar with the mechanics of capitalism. Similar schemes have flourished (briefly) in Bulgaria, Nigeria, Liberia, the Ivory Coast and Bophuthatswana.

But even sophisticated people have been duped. And some pyramids are well disguised. Last year, John Whitehead, former co-chairman of US investment bank Goldman-Sachs donated almost US$1m to the Foundation for New Era Philanthropy, allegedly a pyramid "It's hard to believe I was played for a sucker," he was quoted as saying. He was not alone. Last year:

- Russian President Boris Yeltsin established a fund to help 30m depositors who lost money to 883 financial pyramids;
- One operator ran eight pyramid schemes, moving to different places in the UK;
- An action was brought against the "Friends Network Gifting Programme" by the Bureau of Consumer Protection in the US — 140 participants who had re-entered the scheme had to pay US$700 000 in penalties;
- Bulgarian protesters set up a "tent town" and demanded the resignation of Ministers and judges after the State had failed to stop schemes which had collapsed and cost victims $22,7m;
- China executed leaders of a $386m pyramid; and
- When Pyram Business Consulting Services in Ghana offered monthly returns of up to 30%, 50 000 people invested. Many closed accounts elsewhere, deposited their life savings or even sold their homes. Government argued 30% monthly returns could not be sustained. Pyram claimed its profit formula was a "special African secret." The scheme was shut down; investors took to the streets, declaring their distrust of the banking system and hatred for a government that "spoils everything."

Andrew Lukhele . . interface with the informal sector

Sun Multiserve, defending its "secret formula," claims the order to freeze its assets is an act of racism. But the Ghanaian crackdown on Pyram's "secret African formula" shows that the issue is not racial.

The UK turned eight of its pyramid schemes over to the Department of Trade & Industry last year. Several cases were referred to Scotland Yard. And the US takes a hard line through the Bureau of Consumer Protection.

It would have been more appropriate if Sun had been dealt with under the Harmful Business Practices Act. This covers any practice which, directly or indirectly, is likely to:

- Harm relations between business and consumers; or
- Unreasonably prejudice or deceive any consumer.

However, Sun Multiserve represented itself as a *stokvel* and thus fell foul of the Banks Act (*Economy* January 26). Though similar at first glance, *stokvels* and pyramids are very different.

A *stokvel* could be a group of 10 people contributing R10 a month. Each, in turn, gets R100. This allows all, except the last one, to receive R100 earlier than if they were saving R10 a month. Each person knows how much they will get and when. Failing that, they know where the fund manager lives.

Pyramid schemes, by contrast, follow an exponential path. Assume the contribution is R100. Person A is offered a R300 return in three months on condition he or she recruits three members When those members join, their contribution (R300 in total) will pay person A.

The three new members will each receive their R300 when nine more people have been found The nine will need 27 to pay the R2 700 they are waiting for and so on.

While the fund is gathering momentum, many of the earlier players, encouraged by their gains, re-enter the queue. Two things can happen. The State can intervene, leaving winners angry at being cheated of future gains and creating losers — because wherever a pyramid scheme comes to rest, people waiting for their payback are left high and dry. Or the scheme snowballs until its need for investors can no longer be satisfied. Then the organisers move to the next country and start again, leaving many more unhappy investors than when the State intervenes.

National Stokvels Association CE Andrew Lukhele says pyramid schemes are tainting the good name of *stokvels* He says many people fall through the gap left by the formal banking sector. "All the noise about Sun Multiserve is not entirely negative. The debate raises issues that should have been addressed long ago. The man in the street needs information. It is time for the Reserve Bank to interface effectively with the informal banking sector." Lukhele reiterates his call to the Minister of Finance for an Institute for Informal Finance.

That Sun is big does not prove it is a pyramid. It proves that, with R50m, 29 branches and 50 000 investors, it's too big for a *stokvel*. That R50m is sitting in a noninterest-bearing account does not prove it is a pyramid. It proves it mismanages its investment. But Sun Multiserve has consistently contravened the Banks Act by soliciting investments from the public. Pamphlets announce 300% returns, R100 reward for each member introduced and bonuses for forming consortiums. Fliers offer "a better life " One leaflet warns that you qualify for a place in the line only after 14 people have joined A flier for Sun Multiserve's Hlanganani Marathon says: "Each group qualifies after the formation of the eighth group." All point to a pyramid.

Sun Multiserve says it has had no complaints. Investors appear to have been paid out as expected. This does not prove that Sun is not a pyramid. It proves that Sun has not yet run out of new investors. ■

notch down interest rates again.

At present, just under half of the federal budget, of around $1,6 trillion, goes on pensions, medical care and income support for the elderly, infirm and poor, plus various subsidies to farmers and other favoured groups This is "entitlement" spending; eligible recipients are entitled, regardless of the consequences. Another 16% is devoted to interest on the national debt, leaving around 35% to Congress' and the President's discretion

Entitlement programmes, especially Medicare, which pays the health bills of retirees regardless of their ability to pay, and Medicaid, which provides for the poor, will have to be reformed. But neither side is willing to engage in a fair and candid discussion of options. Each has put forward proposals, only to see them chewed up by the other.

The same applies to welfare reform. Last year, Congress served up to Clinton a Bill that was virtually no different from plans he had said he would approve. But, as part of his re-election positioning, he vetoed it as "extremist."

The US budget deficit, as a percentage of GDP, has been falling — to 2% last year — and national income is growing at a faster rate than the overall $5 trillion debt. Even voices on the conservative side of the aisle are starting to ask whether the fixation with fiscal balance has gone too far.

In the political arena, Republican presidential candidate Steve Forbes, the multimillionaire publisher, has been making headway against Dole, not only because the law places no limit on what a candidate spends, as long as it's his own money, but because he has focused on economic growth, tax simplification and opportunity rather than fiscal penny-pinching. After this winter of discontent, voters could use a rosy scenario. ■

CPI

FUNDAMENTALS STILL GOOD

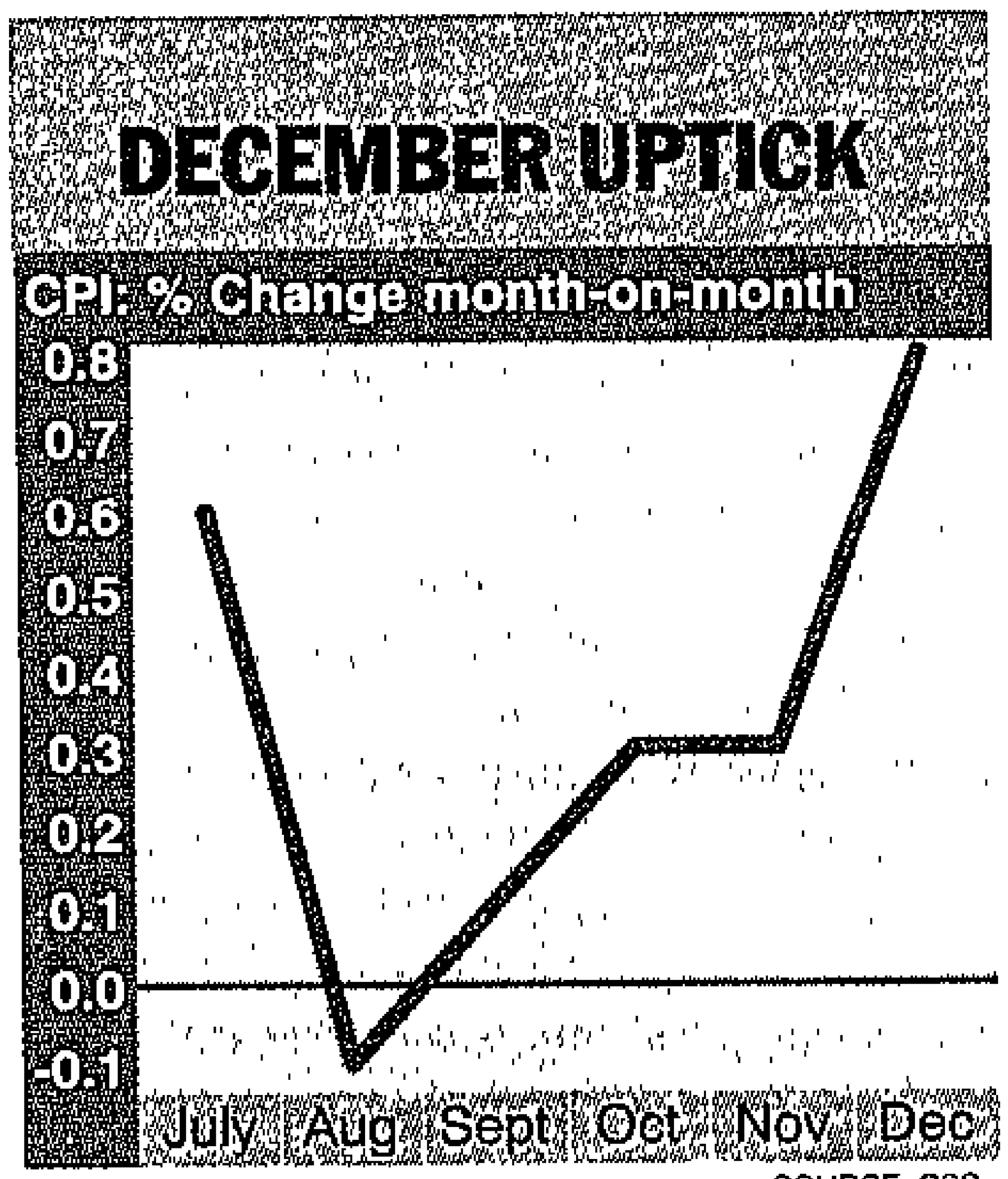
Economists expect inflation to average 7,5%-8% this year.

The 1995 rate was 8,7%, the lowest in 23 years, and inflation has been on a downward trend since 1991 after peaking in the fourth quarter at 16,2%, mainly because of food prices and the higher Vat replacing GST. The consumer price index averaged 9,7% in 1993 and 9% in 1994.

Econometrix economist Michiel Bester says inflation should remain low "because of the remarkable stability of nonfood, nonhousing inflation."

Despite a 2,7% increase in the food component of the consumer price index in December, the item rose only 3,6% year-on-year. Compared with the 19,4% fourth-quarter-on-fourth-quarter rise in the food index in 1994, the 1995 figure of 1% looks paltry.

This is partly due to a change in the way retailers price goods. In the past, they obtained their products and simply added a margin to make a profit. They now find ways to keep their prices competitive. This has been made easier by



SOURCE CSS

good volume growth in manufacturing, which has produced economies of scale.

Bester adds: "We could see a squeeze on wage increases soon. The gap between those and the rate of inflation cannot last. And this will be instrumental in keeping rises in the overall index low."

The consumer price index for December shows a 12-month rise of 6,9%. This is 0,5 of a percentage point higher than November's 12-month figure and 0,6 of a percentage point higher than October's 22-year low.

Month-on-month, the index rose by 0,8% The main contributor was food prices, at 2,7%: fruit & nuts (+9,7%), vegetables (+3,4%) and meat (+2,9%).

The rest of the index shows little movement. ■

BANKS

WAITING IN THE WINGS

FM 2/2/96

Apart from government's recent sterling issue, all the capital-market instruments SA banks have been handling internationally have been rand-denominated.

Since banks placing issues have to underwrite them (provide the money to the issuer from their own funds if they can't find investors to take up the issue fully), exchange control prevents them managing issues in other currencies.

It irks them that they are forced by exchange control to trail others. In the £100m sterling issue, Standard Bank and Nedcor Bank got only a tenth; the rest went to international bankers and lead managers J P Morgan and SBC Warburg.

The two SA banks were able to participate and sell to SA institutions only as a concession from the Reserve Bank. In the event, the exercise cost the reserves less than R40m because not enough SA institutions made firm bids before the issue was launched and Nedcor accepted bids from foreign investors.

Standard has operations in New York, Hong Kong and London. The last employs 250 people, with about 90 in treasury. Of those, about 22 work solely with SA debt-related instruments — government and public corporation bonds, rand Eurobonds and JSE equities.

Nedcor Securities and UAL Securities have a joint operation in London It employs eight people in trading

OFFSHORE FUNDS

First National Bank claims to be the most experienced SA bank when it comes to international capital markets. It has branches in Zurich and Hong Kong. Its London operation is embodied in merchant bank Henry Ansbacher, which it bought in late 1992 FNB claims it raised most of the offshore funds for SA companies in recent years.

SA banks want to be able to underwrite, as lead managers, issues denominated in other currencies. Their ambition is to work not only for the SA government, local utilities and companies but for their counterparts elsewhere, too.

The Bank's next step, in relaxing exchange control, might therefore be to allow them to do just that — at least for a limited period. At the end of it, the underwriting bank could be required to sell whatever part of an issue it had taken up and repatriate the proceeds.

Banks would probably jump at the opportunity. With the rand steady, if not improving, against major currencies, and a wide yield differential between rand and foreign fixed-interest investments, they wouldn't want to hold foreign currency-denominated instruments, anyway. ■

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(58) FM 2/2/96

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New development at SA bank

MtG (BM) 2-8/2/96 (58)

Karen Harverson

NEWLY appointed chief executive of the Development Bank of Southern Africa (DBSA) Ian Goldin may face an uphill battle from some of the bank's staff who feel a black candidate would have been more suited to lead its transformation.

For the past 18 months the bank has been racked with mass departures, and controversy in its efforts to transform its operations and identity.

A new chief executive — preferably black — was considered a vital step in the bank's transformation from an apartheid organisation which funded "separate development" to one dedicated to providing finance for infrastructure to build the new South Africa.

Goldin, who left South Africa in 1978 but has visited the country often, is unaware of the mixed feelings which may await him.

He says that his first priority as the new chief executive will be to listen, discuss and understand the bank's operations and the government's vision for it. "I also plan to meet all the players involved."

Goldin appears to have all the requirements listed in the bank's transformation report of May 1995 which states: "The preferred profile of the new chief executive officer must include the following attributes: a visionary leader, banking experience, a credible political profile, good communication and people skills, and a sound background in development."

He has in-depth experience of managing lending activities and the identification and appraisal of projects gained while employed at the World Bank. He is currently employed by the European Bank for Reconstruction and Development in London, responsible for addressing major operational and policy issues concerning the financing of infrastructure development in Eastern Europe and the former Soviet Union.

Some staff members have questioned whether enough effort was put into the recruitment process, both within the organisation and outside. "If we have black ministers running ministries, surely one can find a capable black person in South Africa for the bank?" they say.

But, says DBSA's board chairman Professor Wiseman Nkuhlu, every effort was made to find a black person with the right skills combination.

"The recruitment process was very open; in addition to placing advertisements nationally and internationally, we had two placement agencies to source people with the right experience as well as inviting DBSA staff to come forward with names, both internally and externally."

He says that as chairman of the Black Management Forum, he is committed to the promotion of black people but adds, "It would be equally unfair to say no whites will be appointed at executive level."

However, some staff feel a programme is needed to groom an appropriate black person for the position over a period of time.

Nkuhlu says such a programme will be implemented as soon as Goldin comes on board. "We plan to mentor a number of candidates at the next management level so that in five years' time, we can choose the new chief executive from a pool of four or five people."

In general, though, bank staff seem to have adopted a "wait and see" attitude pending Goldin's expected arrival in April.

Fazal Saib, chairman of the bank's affirmative action committee, says he believes most people feel relieved that someone has been appointed to give the bank direction. "It was a national government decision and there's not much animosity in terms of the racial issues."

"It's important that we give Goldin a chance to prove himself," says Monde Zimema, one of several staff members who revolted against the white management of the bank in 1994.

"The bottom line is the institution's ability to deliver development to the people of South Africa, irrespective of who brings it about," he adds.

Absa in plea to Sun Multi Serve clients

(58) CT (OR) 5/2/96

By Thabo Leshilo

Johannesburg — Absa kicked off an extensive newspaper and radio advertising campaign this weekend to persuade Sun Multi Serve investors to stop their disruptive protests at its branches.

The banking group bought full-page advertisements in the Sowetan and New Nation newspapers on Friday. Another was published in a Sunday paper yesterday.

In its advertisements, the banking group explained its predicament of being caught between Sun Multi Serve and the Reserve Bank, which froze the self-styled stokvel's R50 million deposits at United Bank, Standard Bank and First National Bank.

Absa spokesman Nick Cairns said the company had also bought advertising slots on the radio to spread its message to the black community.

Almost all of Sun Multi Serve's 53 000 investors are black.

"We see the campaign as part of our duty to explain things to people. There has been a lot of misunderstanding about what really happened," said Cairns.

The theme of Absa's message was that the group is prevented by law from releasing the R3,9 million in Sun Multi Serve's account at United Bank, which is one of its banks.

It also said the investors' funds were now the responsibility of Christo Wiese, the registrar of banks, who would eventually repay the investors after their identity had been established.

"Absa, and the United Bank specifically, were at no stage given the option of paying back monies from the Sun Multi Serve account to the individual investors. To do so would mean breaking the law, and possibly unfairly paying out some (investors) to the disadvantage of others, as the Registrar of Banks does not have details of which investors have invested how much," the adverts said.

Cairns said Sun Multi Serve ceased being an Absa client from the moment its account was frozen in December. The Registrar of Banks ordered all Sun Multi Serve accounts closed because it had violated the country's banks and harmful business practices law.

"In the same way that Sun Multi Serve has a duty to look after the interests of its clients, we at Absa have a duty to look after our clients. We therefore ask you to stop the campaign of demonstrations and blockades against our branches, as none of these branches can assist you in any way in achieving your demands," said the advertisements.

Time Life Insurance lifts income by 127%

CT (BR) 6/2/96 (58)

BY JOHN SPIRA

Johannesburg — Time Life Insurance, a small life-insurance office that was bought out by management early last year, boosted its net premium income by 127 percent in the year to December.

"A large slice of the increase came from single premiums," said the managing director, Bill Haslam.

Investment income rose 70,2 percent after net assets rose by 85,6 percent over the year. Total overheads were down by 11 percent.

The company had adopted a fresh approach to investment services.

"Clients have been demanding a far greater disclosure of investment products where charges are clear and investment performance demonstrable and apparent," Haslam explained.

Time Life had addressed clients' needs by developing and promoting a product that had adopted a four-pronged approach:

- The product — which was a straightforward unit-linked investment where 100 percent of the cash and reinvested dividends were invested — set out the charges clearly. Such charges were taken by way of a fixed management fee.
- Clients had a choice of well-known portfolio managers.
- Performance and styles adopted in the portfolios were analysed using sophisticated techniques.
- Reports were produced once a quarter on the results of the analysis.

Time Life's director, Tony de Munnik, said a JSE listing would be considered for later next year.

Cheap loans to SA on offer

(58)

☐ *Europe adds to agreed R1,4 billion*

ARG 6/2/96

GEOFF ELLIOTT
Business Reporter

THE European Investment Bank (EIB), the European Community's finance arm, is dangling the carrot of further cheap loans to South Africa, over and above the two-year, R1,4 billion programme agreed last September.

EIB vice president Rudolph De Korte told The Argus yesterday that "there is good reason to see that this kind of lending will be continued in the medium term."

The decision rested with the community's governing body, the European Council, which would convene at the end of the year to discuss all the bank's lending mandates.

The prospect of continued cheap lending would be a useful bargaining chip in the European Union's (EU) trade negotiations with South Africa.

The EIB usually lent development capital to countries under a five-year programme, confirmed bank officials.

By restricting the programme to two-years analysts speculated that it gave the EU more room to move in the trade talks.

Dr De Korte said that of the R1,4 billion about half had been earmarked for specific projects. He declined to name them, noting that the EIB expected to make a more comprehensive announcement in a few months.

The EIB previously announced that it had already lent R140 million and R70 million to the Development Bank of South Africa and the Industrial Development Corporation, respectively.

Dr De Korte, a former deputy prime minister of the Netherlabnds, added that the lending would be directed at private and public sectors.

He added that South Africa, as an economic powerhouse in Africa, had become an integral part of the EIB's financing activity in the African, Carribean and Pacific Countries (ACP). With the lending programme as it stood South Africa was already the major individual recipient from a total programme amounting to about R5 billion.

(58) BD 6/2/96

Driving factors differ in Standard and First

Hilary Joffe

ON THE face of it, the restructuring of First National Bank, announced in December, closely resembled a similar move by Standard Bank almost a year ago.

But the factors driving First National differ from those which were behind Standard's initiative. And the structure which will emerge at FNB may resemble Standard's only superficially.

FNB has distinguished "wholesale" from "retail" operations, as did Standard, with the most dramatic changes on the wholesale, corporate banking, side. Like Standard, FNB has merged two dealing rooms and has integrated the corporate banking activities of its merchant and commercial banks. But where Standard Merchant Bank was merged in its entirety with the corporate and trading operations of Standard Bank of SA to form Standard Corporate and Merchant Bank (SCMB), FNB has chosen instead to retain Firstcorp Merchant Bank in independent, although scaled-down, form.

The moves come in the context of more intense competition in SA's previously sheltered banking sector. There are now 50 foreign banks in SA — four branches and 46 representative offices, according to the Reserve Bank — compared with 40 a year ago, as well as several foreign investment banks which have entered the market by acquiring stockbrokers. And local banks' corporate clients have changed: they include an increasing number of foreign companies, and SA companies with global operations.

Standard's top management has, from the start, characterised the formation of SCMB as a strategic response to heightened competition. FNB has stressed this factor less, placing more emphasis on operational considerations.

And while cost reduction was a factor in the overall restructuring of the Standard Bank group (though not in SCMB), First National senior GM Norman Axten stresses that restructuring was not a cost-cutting exercise.

The main reason, Axten says, was that the business is dramatically different from what it was five years ago, with a range of new businesses and increases in customer and employee numbers. The latest changes are in line with the 10-year strategic plan set out by management in 1990, to position FNB for a changing marketplace.

"We've been talking structure for a year," says Axten. Organisational structures had last been changed in 1987, when Barry Swart took over as CE, and 1996 was identified as a suitable redesign year because several senior people were due to retire.

The announcement of the restructuring, just before Christmas, was seen by some as a case of "management by crisis", coinciding as it did with the news that Firstcorp Merchant Bank MD David Lawrence had accepted an offer from Investec, and following the departure from the bank of a key derivatives trading team.

Axten responds that the timing of the announcement was coincidental. He emphasises that FNB has always seen itself as "one bank" and has gone out of its way to avoid having different banks for different market segments. While FNB's new structure involves new bosses for many of the bank's 34 000 staff, it does not necessarily involve new desks.

The exception is on the wholesale side, to be headed by former FNB corporate banking GM Johan Meiring. Swart explained the changes as being motivated by SA's readmission to global markets, which meant split reporting lines for local and international corporate financial requirements were no longer appropriate.

A new entity, First Trading, merges the group's treasury and trading operations. And the merchant bank's structured finance and corporate banking operations have been put in with those of FNB. But Firstcorp is retained as a "lean and mean" independent entity, focusing on traditional merchant banking activities (mergers and acquisitions, asset management and investment capital).

For both banking groups, a key issue is how to take advantage of the volumes of business emanating from the commercial bank without losing the creative, merchant bank-type culture which attracts dynamic young bankers.

Where at SCMB, headed by former Standard Merchant Bank MD Jacko Maree and deputy MD Mark Barnes, the merchant bank's culture seems to be dominant, the opposite may be the case at FNB, where merchant banking operations, although separate, are being brought within the ambit of commercial bank leadership.

Whether or not FNB's chosen route is vindicated in the long term, its wholesale division could be in for a difficult year, with new bosses and new structures at a time when SCMB and others will be competing more aggressively.

One year on, Maree says there is not the slightest doubt that the merger was the right thing to do.

His only regret is that it was not done a year earlier, so that SCMB could have taken more advantage of last year's buoyant markets.

Where last year was the year of restructuring, with the focus inevitably internal, Maree says the priority this year is to "get everyone back out in the marketplace and focus on servicing customers and making money".

Not that SCMB did not make money last year: Maree says it was a very profitable year. And there were no major disasters — a significant achievement given that the merged treasury is the largest in SA, moving "incredible" volumes.

With hindsight, Maree concedes the merger was much more difficult to implement than he had expected, the people issues more traumatic. But, he says, SCMB, 350 of whose 1 500 people came from the merchant bank, has come through it well.

The bank did lose staff, particularly dealers, but it is not clear to what extent this was attributable to the merger.

Maree says that SCMB did not lose any of its major customers.

Maree says foreign banks which have come in are not yet a major factor, but they will be. At present much of what they are taking is new business: they have taken the lion's share of foreign issues by SA corporates. Some have established treasury operations here, but market share is difficult to measure. Over time, however, they are likely to build a strong presence as they establish relationships with corporate clients. "Our question was, can you fight that sort of situation with two banks?" Maree says.

Standard Merchant had innovative and motivated people, but it was relatively small. "We found ourselves executing large volumes for foreigners, many of whom would come to SMB for the service but wanted the counterparty to be Standard Bank of SA," Maree says. SCMB, a division of the group rather than a separate bank, has the full strength of Standard's balance sheet behind it.

The merger aimed to eliminate confusion in the market, providing corporate clients with integrated solutions for all their needs. It was designed to maximise use of scarce skills, particularly in complex areas such as derivatives and structured finance.

SCMB sees treasury operations as offering crucial growth opportunities. Following Standard's acquisition of stockbroker Anderson Wilson last year, equities are being added to its existing gilts, money market, foreign exchange, gold and derivatives trading activities.

The group has been in stockbroking for some time in London and New York, building up significant capacity to place SA gilts and equities abroad.

With SCMB's people out in the market more strongly this year, Maree sees his next priority as international co-ordination of some of the services the bank offers.

SA banks will benefit from some of European loan

(58) BD 6/2/96

Samantha Sharpe

CAPE TOWN — SA's commercial banks would benefit from some of the R1,19bn in loan finance still to be distributed by the European Investment Bank, EIB vice-president Rudolf de Korte said yesterday.

The EIB signed a framework agreement with SA last year. This provided for up to R1,4bn in long-term finance over a two-year period.

The bank has signed finance contracts with the Development Bank of SA and the Industrial Development Corporation (IDC) for about R210m, but it still has to allocate the remaining finance.

De Korte said the EIB was close to finding beneficiaries for at least half of the remaining funds, though it would be inopportune to disclose who the parties were. But further announcements could be made shortly. The EIB's loan finance targets commercial banks, infrastructural development and some larger industrial projects.

All allocations would be made in consultation with the finance ministry and RDP office.

"We are aware of the government's need for infrastructural development and we will probably look for projects that can help satisfy that particular need," De Korte said.

Sun Multi Serve forfeits R500 000 interest

BD 6/2/96 (58)

Lukanyo Mnyanda

SUN Multi Serve forfeited interest running at R500 000 a month on investors' funds after deciding to keep R46m in current accounts.

Fund manager Tim Store — who was appointed by the registrar of banks to recover the cash belonging to 53 000 investors — said yesterday the funds had now been put into 32-day call accounts. Interest would be added to funds due to investors.

The stokvel had failed to provide records of its depositors and the amounts they had put into the pyramid scheme, he said.

He began advertising yesterday for investors to send him photocopies of Sun Multi Serve receipts and of their identity documents.

The advertisement said it would be impossible to say whether investors would be repaid in full until a list was available. Given that the scheme's returns hinged on a continuous stream of new investors "we do not expect that the money available will cover all the claims in full".

It was still too early to determine whether criminal proceedings were likely to be instituted against the stokvel, Store said.

He had been receiving abusive and threatening phone calls daily over the scheme, closed by registrar Chris Wiese in December.

Sun Multi Serve spokesman Victor Monamodi was unable to say how many people had recovered their cash prior to Wiese freezing the fund.

Directors had held personal investments in the scheme, he said.

Store's warning that not all investors would be repaid in full was an "empty threat" intended to sow confusion among investors, Monamodi said.

Sun Multi Serve investors' committee chairman Johannes Mosala repeated the call made earlier by the stokvel for Wiese's resignation.

SMS payout minus interest by March

(58) Sowetan 8/2/96

By Isaac Moledi

INVESTORS who put their monies in Sun Multi Serve will be repaid towards the end of March without any interest, says Tim Store, a partner at the auditing firm, Deloitte and Touche.

Store has been appointed by the Registrar of Banks to manage and control the repayment of the monies invested in the scheme.

He says his mission is to advise investors of the current state of affairs and how he intends proceeding with the repayment.

Store says since he started his job, "not much has been achieved" as his priority has been to draw up a comprehensive list of investors and amounts owed. These investors are located in SMS's branches in 28 centres throughout the country.

Store hopes the process will be completed by the end of March.

Although the R46 million in a frozen account (initially believed to be R50 million), was earning an interest of about R500 000 a month, Store believes no investor will receive any interest because the shortfall of the investors' claims will reduce the expected interest.

The process is being delayed by the lack of cooperation he gets from the SMS representatives.

Depositors' list

"We have not yet received a comprehensive list of depositors and amounts owed. This despite various requests to SMS to supply us with such information.

"Until the list is available, we are unable to state whether investors will be repaid in full or not."

Store says investors will have to prove their claims by submitting photocopies of their SMS receipts and particular pages of their identity documents.

"However, in view of the nature of the SMS scheme, we do not expect that the money available will cover all claims in full."

COMPANIES

Retirement funds best bet to fight inflation — survey

BD 8/2/96

(58)

Adrienne Giliomee

SA's retirement fund industry managed assets with a total value of R124,5bn in the year to December, with almost two thirds invested in the equity market.

Figures from independent consultants and actuaries Jacques Malan & Associates show 62,3% of the retirement funds opted for equities, while 23,5% were invested in fixed interest instruments, 7% in cash and 6,9% in property.

The returns provided by the survey are for lump sums invested at the beginning of each period and represent gross returns before investment charges.

The survey showed that the average return of the retirement funds outperformed the inflation rate over all periods ranging from one year to 10 years. Over a year, the average return was 17,5% against an inflation over that period of 6,9%. Over 10 years, the funds yielded an average return of 22,3% against inflation of 12,7%.

January was the worst month for the industry, with fund managers posting an average return of -7,4%. They turned in their best performance in December, yielding an average return of 4,2%. There were also other good monthly returns recorded in September (3,1%), in October (3,3%) and in November (2,8%).

Among the individual funds, Old Mutual's segregated fund captured 15,1% of the retirement fund market, or R18,76bn, posting a 16,7% return over one year and a 24% return in three years.

Liberty Asset Management handled 13,6% or R16,9bn of the market, while Sanlam's focus fund managed 12,5% or R15,59m.

The best performing retirement fund last year was AA Life's BoE investors fund, with a 25% return. It was placed second during three years, with a 33,4% return.

Over a three-year period, Norwich Life produced the best results with a 33,8% return, compared with an average return from retirement funds during that period of 24,1%.

Investec's segregated fund yielded the best return since 1991, notching up a return of 25,7%. This compared favourably with an average industry rate of 22% and an inflation rate of 10,4% for the same period.

Sanlam's 200 plus fund recorded a 25,7% return in 10 years, almost double the inflation rate for that same period. Syfrets was second with a 25,2% return.

Old Mutual launched a set of five new profile portfolios at the end of 1994, with returns ranging from 18,3% for the Old Mutual balanced fund to 21,2% for the Old Mutual growth fund.

Annual fees charged by fund managers averaged at 0,4%, or R498m of portfolio market value.

Absa may increase risks with transparency

(58) BD 8/2/96

ìnda Ensor

:APE TOWN — The mist surrounding Absa's role in the liquidation of Tollgate is radually beginning to clear after months, f not years, of allegation and counter allegation, rumour and speculation.

Absa has welcomed being able to release confidential documents under subpoena so it can clear its name once and for all. But publication could turn out to be a double-edged sword — one veil of mist could be lifted simply to reveal another which requires further probing, disclosure and ultimately further embarrassment for the cornered banking conglomerate.

Meanwhile, under the glare of public scrutiny, Absa will have to convince its client base of its continued good health and adherence to sound banking and accounting practices. Already it has had to fend off nervous enquiries by clients wanting to close accounts. More are sure to follow.

Over the weeks and months to come, highly confidential Absa documents will be exposed, if not directly to the press, then at least indirectly by means of the cross-examinations to which they give rise.

Minutes of board meetings, executive committee meetings and credit and risk control committee meetings are to be gone through in search of irregularities.

What bank, least of all one with as troubled a history as Absa, would be able to confidently face having its lists of bad debt provisions and bank statements scoured, secure in the knowledge that everything was clean as a whistle? This is the challenge facing Absa.

We now know after documentary submissions to the Section 417 inquiry into the collapse of the Tollgate group, the long-suppressed details of the Reserve Bank's aid package to the sinking Bankorp group.

According to these documents the group had bad and doubtful debts estimated to be about R5,4bn in 1991. Of these, bad debts amounted to R706,7m.

For instance we know that the Reserve Bank propped up the troubled bank with a R1,5bn loan and no doubt further details will emerge when Reserve Bank governor Chris Stals presents evidence to the inquiry which has spent the last three-and-a-half years investigating Tollgate's collapse.

Bankorp, and subsequently Absa, was guaranteed interest income of R225m a year, or R1,125bn for the five-year term of the agreement. In addition, Sankorp invested R510m into Bankorp over 10 years, bringing the total value of aid to R1,635bn.

STALS

In addition, KPMG and Ernst & Young — the auditors who administered the lifeboat and ensured that Bankorp was adhering to its terms and conditions — will give evidence on its workings today.

Absa hopes this evidence will refute the allegations made by former Tollgate CE Julian Askin and former Volkskas MD Hennie Diedericks, that the Reserve Bank's lifeboat did not provide Bankorp, and subsequently Absa, with the means to write off its Tollgate losses which it claims amounted to R215m.

However, even if it does show this, Absa will also have to address the wider ramifications of its having a R1,5bn loan invested in government stock and Bank assets which generated a return of 15% a year. There is no way it can deny that these ramifications spread through the entire organisation and hence through its balance sheet and income statements.

For example, if the Tollgate losses were in fact written off against Absa's share premium account and not the lifeboat as it claimed, the fact that this financial safety net existed enhanced the flexibility with which Absa could deal with its total bad debt provision.

It also bolstered it against the losses suffered as a result of the liquidation of Tollgate.

There are other questions which Diedericks wants answered, which relate to these wider ramifications. For example, how did the facility contribute to bottom-line profits and how was it dealt with in the income statements where no mention was made of it?

Another aspect requiring investigation was how was the lifeboat was dealt with from a tax point of view?

If it was regarded as a grant, rather than a genuine loan, was it declared as such? And if the R1,635bn was treated as non-taxable, Diedericks calculates Absa might have received a tax benefit of about R800m, quite apart from the tax relief of 48% on the write-offs covered by the lifeboat.

All in all, he believes the net benefit of the Reserve Bank's package could have been as high as R3,2bn, a burden borne by the ordinary taxpayer.

Apart from the damage to Absa in being exposed to public scrutiny, it will also suffer from highly confidential information getting into the hands of its rivals in the intensely competitive world of banking.

The rivals perhaps would be interested to know, if they were not aware beforehand, that Absa had a cumulative write-off of R1,95bn as of March 31 1995 in respect of those debtors covered by the lifeboat.

Of this Trust Bank accounted for R575m — R369,5m for advances, R40m on its credit card accounts and R165,3m for "other" write-offs.

Senbank advances accounted for R272m in write-offs plus an additional R309m; Bankfin advances' added R574m to the total write-off, and the corporate and risk management division had write-offs of R30m.

All of this excluded the R215m write-off of the Tollgate losses. Why were Tollgate's losses handled differently?

Yes, Absa is obliged to use confidential information to fight its battles, but in doing so it could be digging further holes for itself to fall into. It is known as being caught between a rock and a hard place.

(58)

SA Eagle spreads its wings as losses checked

BD 8/2/96

Adrienne Giliomee

SHORT-term insurer SA Eagle more than quadrupled attributable income to R184,2m for the year to December from R37,6m the previous year following a substantial cut in underwriting losses and healthy growth in investment income.

MD Peter Martin said increased underwriting and risk controls had subdued net premium growth to 10,6% or R1,2bn. These measures had also rubbed off on the underwriting loss, which decreased to R16,5m from R135,1m.

"The improvement reflects the underwriting and pricing strategy which encouraged personal risk control and uplifted premiums to realistic levels," he said.

Investment income rose 25,3% to R95,6m, which was attributed to the proceeds of the sale of equities and interest-bearing instruments and dividend income.

The group's stable motor account, together with a net realised surplus on the disposal of investments of R143,3m, helped to boost operating income before tax to R213,3m from R8,3m.

The group paid tax of R29m after having received a R29,4m tax credit in financial 1994.

Share earnings increased 388,7% to R15,10, while a final dividend of 170c lifted total distribution 25% to 250c.

Martin said the motor account had been a major beneficiary of the group's control measures. "Hijacking and theft incidents are levelling off due to risk control measures and the constant attention being given by the police to this area of crime."

Burglary remained a concern, as did increased hijacking of cargo on national roads

Large losses at industrial sites coupled with higher incidents of smaller fire and weather-related losses had affected the fire account adversely, he said.

The group's equity sales programme, initiated in 1994, had been completed and investments at market value stood at R1,5bn (R1,2bn).

Martin said the group might return to underwriting profit but external factors — including crime escalation and catastrophe events — had to always be borne in mind.

EXECUTIVE SUITE

Banks and government adopt a tough stance on bond boycotts

BD 8/2/96 (58)

Robyn Chalmers

EVICTIONS of non-paying home owners are a politically sensitive issue for government, given the culture of bond boycotts in certain townships, but they are the only way forward at present.

SA's bond and services boycotts have the potential to wreak havoc on SA's economy, and have already had an adverse affect on the financial position of local authorities in former black areas. It is these authorities that are now being called upon to implement the RDP, but many do not have the capacity to do so.

The issuing this week of eviction notices and letters of demand by banks must be seen within the context of negotiations which have been taking place over the past two years. The decision to issue the notices was not an ad hoc one. Indeed, it could be argued that banks and government have been overly cautious in assessing the non-performing loans and repossessed properties, which total more than 49 000.

In October 1994 government and the Association of Mortgage Lenders entered into a record of understanding aimed at resuming lending to lower-income borrowers. Banks agreed to extend 50 000 home loans into the lower-cost housing market while government pledged to set up a mortgage indemnity scheme to cover new and existing lending.

Servcon was set up under the agreement to govern and administer an extensive rehabilitation programme involving almost 14 000 repossessed properties on behalf of the banks. The banks themselves would deal with borrowers falling within the non-performing loan category in a six-month exercise due to be completed on November 30 last year.

The SA Housing Trust, which has about 18 300 repossessed properties and non-performing loans, also entered into the rehabilitation agreement.

The programme was an extensive one, involving rescheduling loans, subsidies, options for non-payers to repurchase their homes, relocation assistance and a nine-month rightsizing grace period for occupants whereby they would be moved to more affordable homes.

During the initial six months of the programme it became clear that the exercise would not be completed, and the various parties involved agreed last week to extend it until June 30. However, it also emerged during the assessment of properties that almost 6 000 home owners were not prepared to co-operate with government or the banks.

It is these people, who have refused assistance or relocation options, that have been served with letters of demand and who will, in all likelihood, be evicted towards the end of this month. Officials visiting these people have been threatened and harassed, with three officials reportedly killed in Tembisa as a result.

Outcry

There will no doubt be an outcry from the civic associations as well as some politicians if and when evictions begin. There could also be unrest in targeted areas, and no one wants to see more people joining the homeless queues.

But the non-payment issue has to be tackled head-on if government is going to get its housing programme off the ground. Not only are people who are willing to pay their bonds being denied their right to shelter, but the stakes in terms of investment in low-cost housing are too high to allow the bond boycotts to continue.

Banks have made it clear they will not enter the low-cost housing market on a large scale until bond payments normalise. Without credit, construction companies cannot build mass or even smaller housing schemes and the vicious cycle continues.

This is evident in the slow rate of lending to date, with banks managing to extend a mere 8 500 loans by end-November.

This is not to let the banks off the hook. Their motives in lending, or not lending, will increasingly be placed under the spotlight this year. At the moment they have some good excuses not to move into the market, as do the construction companies. With the economy opening up, there are other investments where the risk is lower and margins are higher.

But banks have engaged in the low-cost housing market to a limited degree only. There has been no marketing push on the housing front and the issue is further clouded by the continuing squabbles with the construction industry. The construction sector has been equally reluctant to move proactively into the market.

The reasons may be sound, but it is incredibly short-sighted on the part of the private sector to imagine that government will not place increasing pressure on it to become actively involved in the low-cost housing market. The issue is too important and the backlash from communities, as well as the socioeconomic repercussions should the programme not work, will be devastating.

Government has also failed to live up to some of its promises, such as the Masakhane campaign to encourage a resumption of rent and services payments, but it has delivered on the mortgage indemnity fund to cover areas which should have boosted lending.

The next headache for government and banks will be those who fall into the non-affordability category. Both parties have underestimated the extent of the affordability problem, and trends indicate up to 50% of people occupying the 49 000 properties being assessed cannot afford to live there.

The rightsizing principle of moving people to more affordable accommodation is running into problems, mainly because there is limited rightsizing housing stock available. While government has approved relocation assistance under the capital subsidy scheme, this is not sufficient to solve the relocation problem.

Government and the private sector are clearly making an attempt to sort out the problems facing the bedevilled programme. It is unfortunate that evictions have to be part of this, but government has to take a tougher stance.

High-risk farmers face bigger interest bills

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

By Roy Cokayne

Pretoria — Farmers regarded as high risk by banks could expect to pay more interest on borrowings than lower-risk farmers, Chris Lombard, the regional banking services managing director of Standard Bank, said yesterday.

He said the agricultural sector had lobbied for interest rates to be capped at a maximum of prime plus 2 percent. The result was that risk-related pricing did not apply and an average rate was charged.

"Agriculture is a relatively high-risk industry in which some enterprises are more risky than others Producers in the higher-risk enterprises should be aware of this as they can expect to pay more for finance," Lombard said.

He said that an important principle affecting the future of any financier was risk-related pricing and, flowing from this principle, one could expect a higher price to be charged where risks were considered to be higher than the norm.

But Lombard said appraisal of this aspect took place only on an individual basis and factors such as solvency, liquidity, security and management of an individual relationship would determine the level of risk and the pricing.

"Should organised agriculture not give careful and particular attention to this aspect, agriculture might well find itself without financiers," Lombard said.

He said in any business, market share needed to be appraised along with profitability.

'Don't use too many official languages'

Star 9/2/96 (58)

By Karin Schimke
Gauteng Reporter

The Gauteng legislature should try as much as possible to limit the number of languages it uses for official business, according to visiting European Parliament president Dr Klaus Hänsch.

Language differences could be an enormous financial burden, he advised members of the legislature this week.

Hänsch and a delegation of members of his parliament arrived in Johannesburg with the aim of observing how a R593-million grant from the European Union is being used for reconstruction and development.

> **"Translation costs Euro Parliament billions"**

He told Gauteng Speaker Trevor Fowler and other members of the legislature that the European Parliament operated in 11 languages, and that a third of the total parliamentary budget was spent on translators and interpreters. This amounted to about R3,2-billion a year.

Julian Priestley, who heads the president's private office, told the meeting that every document had to be translated into 11 languages.

"Each amendment to any piece of legislation or memorandum has to be translated 11 times at a cost of about R100 per amendment, and there are hundreds of amendments in the EU every week."

Highly experienced interpreters and translators were difficult to find, especially those that had to translate from and into languages other than German, English, French and Spanish.

"It is very difficult, for instance, to find someone who can translate from Greek into Finnish," said Priestley.

Gauteng uses four of the country's 11 official languages, namely English, Afrikaans, Zulu and Sesotho. Business is usually conducted in English, however, based on the consensus that it is the most widely understood of the languages.

Hänsch said: "I realise that language is an extremely sensitive thing. Language differences can turn a very peaceful meeting into chaos. But if there is any chance you (the Gauteng legislature) can avoid having to use too many official languages, I suggest you do so. It is a serious problem."

This is the president's first "official" visit to another country.

Standard to alter rates to farmers

(58)

Louise Cook

PRETORIA — Standard Bank planned to charge risk-related interest rates to farmers, ending its average rates policy of the past decade, the bank said yesterday.

Regional banking services MD Chris Lombard said the bank planned to charge lower-risk and more efficient farms a lower rate — in line with government's recent introduction of market-related interest rates — to reward proper risk management.

Customers would be appraised individually, taking into account solvency, liquidity, security and management skills.

He also warned that farmers may have "less access to financiers" if unions continued to call for non-risk credit policies.

"Farmers can expect in future higher-risk customers will pay more, allowing financiers to charge lower-risk farmers less. This is normal business practice."

Absa Bank's agricultural chief Andre Louw said it had always in all sectors charged risk-related interest rates.

Lombard said it was vital for the survival of the sector that land reform took place "successfully". A greater variety of farm sizes was needed but these had to remain economically viable.

The bank was keen to break into servicing the emerging commercial farming sector.

BD 9/2/96

Supply-side issues contested

BD 12/2/96 (49) (58)

John Dludlu

THE labour constituency at the National Economic, Development and Labour Council (Nedlac) has called for a comprehensive package of supply-side measures in its response to the state submission on the issue.

NUM said the mineral affairs and agriculture departments should draw up supply-side proposals for the mining and agricultural industries — which are not specifically covered by the state document at Nedlac.

The National Union of Metalworkers of SA said the state document reinforced the perception that government's industrial policy was simply "tariff reductions plus market forces". It called for the creation of a "tripartite-controlled productivity advocate" through the restructuring of the National Productivity Institute.

NUM called for a review of the criteria used in determining the extent and nature of "state assistance appropriate to each case of mine contraction or closure".

Justifying the call for state aid to mining, notably the gold industry, the paper said "if new jobs are not being created ... at least there should be an effort to save existing jobs". Suggested methods of support included subsidies and tax pay-backs during a defined adjustment period.

The tax pay-backs could be linked to a restructured regional industrial development programme. The programme, which is currently being reviewed at Nedlac, is administered by the trade department.

Chamber of Mines economist Roger Baxter said 152 000 jobs on marginal mines remained at risk unless a marked turnaround was experienced this year.

Mineral and energy affairs ministry spokesman Roland Darroll said at the weekend aid measures for the industry would be part of the new minerals policy.

But a Nedlac source said "propping up" wobbly industries was a short-term measure geared to maintaining employment.

COMPANIES

Nedbank targets Malawian bank

Adrienne Giliomee (58) BD 14/2/96

NEDBANK is negotiating to buy a 20% stake in the National Bank of Malawi.

GM Willem Frost said yesterday Nedbank was talking to Standard Chartered about buying its stake in the bank and might opt to increase its holding further.

He declined to put a price on the 20% stake. The Malawi bank — the country's largest — is not listed.

Its annual report for the 1994 financial year puts its net asset value at 213-million kwacha.

Standard Chartered had announced that it would pull out of its executive management service contract with National Bank as part of its worldwide refocusing strategy.

It was reported to have offered the shareholding in National Bank to other SA banks.

Frost said the Malawi bank deal would give Nedbank further exposure to African banking.

It already had a 20% stake in Equator Bank, which boasted offices in Uganda, Kenya and Ghana.

The Malawi bank's other shareholders are former president Kamuzu Banda's Press Corporation (38,4%), Admarc Investment Company (31,15%) and Old Mutual (10%).

Solid performance by Standard Bank

BD 14/2/96

(58)

Adrienne Giliomee

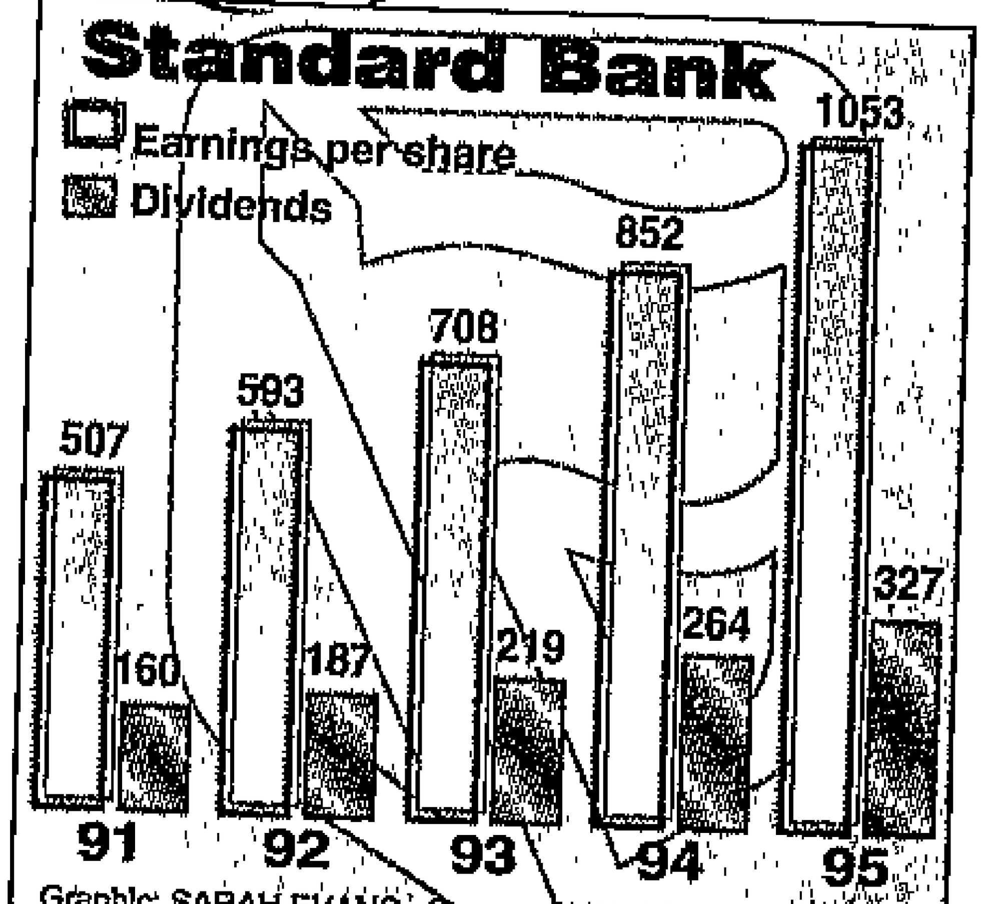
STANDARD Bank Investment Corporation (Stanbic) lifted attributable income 23,4% to R1,2bn for the year to December, helped by a solid all-round performance in the bank's divisions and good growth in non-interest income, CE Mike Vosloo said yesterday.

However, rising costs would have to be contained.

Earnings a share rose 23,6% to R10,53, while a final cash dividend of 239c was declared, giving a total distribution 327c (264c) for the year. The dividend cover remained at 3,2 times.

Interest income rose 30% to R12,1bn but was offset by a 40% jump in interest expenses to R8,2bn.

The group's provision for credit losses jumped 28% to R523m. Vosloo said "corporate restructuring" of the group's interest in Oryx, W & A and Botswana Soda Ash had added substantially to the provision.



Graphic: SARAH EVANS. Source: STANDARD BANK

He said the group had also revised its standards regarding the granting of credit on private label cards. He would not elaborate on the amount the bank

Continued on Page 2

Standard

(58) BD 14/2/96

Continued from Page 1

lost by issuing a private label card for the Woolworths retail chain.

Non-interest income surged 25% to R2,7bn and made up 41% of total income against 39% for the 1994 year.

Operating costs of R4,3bn made up 66% of the total income of R6bn, which Vosloo admitted was "larger than we might otherwise have liked". Increases were mainly linked with restructuring domestic business units and developing group businesses in Tanzania, Lesotho, the UK, America and Asia.

The tax charge fell 4% to R550m following a reduction in the corporate tax rate, bringing operating profit after tax to R1,1bn (R920m).

The group's capital base at 13% (12,3%) of risk assets, remained strong and was well above the legal limit of 8%, he said.

Stokvel investors left high and dry

(58) Star 15/2/96

Rustenburg – A stokvel in Rustenburg has shut down, leaving its investors high and dry.

Members of the Future Progress Association found the offices of their stokvel empty yesterday morning.

It was not clear whether the office furniture had been removed by stokvel owner Cyril Magome or by investors bent on getting some of their money back.

Investors had been arriving at the stokvel offices all week to demand the refund of their deposits.

Earlier this week, the investors took Magome's father hostage when Magome failed to turn up at the offices.

His father was later rescued by police. – Sapa.

BUSINESS

Demystifying the Reserve Bank

Sowetan 15/2/96 (58)

There's a prospect of governorship for Thahane in the future of SARB

By Mzimkulu Malunga

THE DEPUTY GOVERNOR-designate of the South African Reserve Bank, Mr Timothy Thahane, says his mission is to help demystify the bank and bring it closer to the broader population.

Thahane, who has 22 years' experience in international finance, says he is also going to assist in changing the image of the bank, particularly among black people.

Although Thahane himself does not want to be drawn to the issue, financial sources say his appointment to the deputy governorship could pave way for him to become governor when Dr Chris Stals retires.

"I have a lot of international banking experience which I hope to bring to the bank," says Thahane, adding he was excited about his appointment to the second most powerful position in South Africa's financial system. His excitement, he argues, stems from the fact that he will be contributing to the development of Southern Africa.

The South African Reserve Bank is expected to play a leading role in coordinating finance and investment among member states of the Southern African Development Community.

Finance and investment

South Africa has been allocated the task of coordinating finance and investment within SADC and the reserve bank is the institution that will carry out this responsibility on behalf of the Government, says Thahane.

In addition to its increased involvement in the region, the SARB is already the reserve bank for the Rand Monetary Zone which encompasses South Africa, Namibia, Lesotho and Swaziland.

The currencies of the three countries are guaranteed a hundred percent by the SARB.

Thahane says perhaps his knowledge of southern Africa and the continent at large could have played a role in influencing the Government's decision to appoint him deputy to Stals, one of the world's renowned central bankers.

Financial markets

Although Thahane has been involved in the international financial markets since 1974, he did not make continental headlines until last year when he ran for the presidency of Africa's premier financial institution, the African Development Bank.

After four rounds of voting, Thahane had won a higher number of votes than any of his rivals, Ormar Kabbaj of Morocco and Nigeria's Seyyid Abdulai. But his 48,58 percent of the vote was not enough for him to win.

In August last year, following another round of voting, Nigeria finally withdrew its candidacy and backed Morocco for the position, as a result Kabbaj emerged the winner.

Before his appointment to the SARB, Thahane had just been appointed World Bank's vice-president for United Nations affairs, after serving as vice-president and secretary of the bank for 15 years.

The Canadian educated economist was born in the foothills of the Maluti mountains in northern-eastern Lesotho 55 years ago.

He has published a number of papers on development in southern Africa.

Feasibility study

Over and above publishing papers on labour migration in southern Africa, Thahane initiated the feasibility study that gave birth to the R5 billion Lesotho Highlands Water Project.

The highlights of Thahane's long career in multi-lateral institutions include being vice-chairman of the joint audit committee in charge of three World Bank divisions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the private sector arm – the International Finance Corporation (IFC). He also served on the board of Global Coalition for Africa and of the Centre for Economic Development and Population Activities in Washington DC.

In the early 1970s he participated in the United Nations Economic Commission for Africa on intra-African cooperation as well as the continent's relations with the European Union.

Thahane brings a wealth of international experience to the SARB.

Some stokvels a harmful business

(58) Sowetan 15/2/96

A Rustenburg investment office closure is a shock to its members

By Russel Molefe and *Sapa*

A STOKVEL group at Rustenburg in North West has shut down, leaving its investors high and dry.

Members of the Future Progress Association yesterday found the offices of their stokvel vacated with not a stick of furniture inside.

However, it was not clear at the time of going to press whether the office furniture had been removed by stokvel owner Mr Cyril Magome or by investors bent on getting some of their money back.

Investors have been arriving at the stokvel offices daily since last week to demand the refund of their deposits.

Earlier this week, the investors took Magome's father hostage when he failed to turn up at the offices where he promised to give out dividends on their investments. His father was later rescued by police.

Sowetan has established that the stokvel group has two other branches in Koster and Mogwase, each with its own manager and clients.

The *modus operandi*, however, is the same for all the branches. A client who invests R150 stands to get R400 after eight weeks and a R350 investment gives returns of up to R1 000.

But officials at Koster and Mogwase, who did not want to be named, said their branches were independent of each other. A client who has invested money at a certain branch cannot be serviced by another branch.

Efforts to trace Magome and the managers at Koster and Mogwase branches for comment were fruitless.

North West police spokesman Lieutenant-Colonel K Degenaar referred inquiries to investigating officer Captain Geldenhuys, in Rustenburg, who was unavailable.

A spokesman for the National Stokvels Association of South Africa, Mr M Phatlane, said "investment businesses like this are mushrooming at a fast rate in places like North West, Free State and KwaZulu-Natal."

"These are not stokvels but what we call harmful business practices. People should stay away from investing their money in such businesses," Phatlane said.

Earlier this year, dissatisfied investors in the Sun Multiserve scheme staged protests when its accounts were frozen pending investigations.

Accounts were frozen by Finance Minister Mr Chris Liebenberg after it was discovered that the scheme was violating the Bank Act.

Emerging farm sector 'largely unbankable', institutions warn

(58) BD 15/2/96

Louise Cook

PRETORIA — Banks have warned that government will have to provide funding to foster most of the emerging farming sector.

The banks said yesterday that the higher risks attached had rendered much of the sector "unbankable" and that such farmers would have to be accommodated by government or institutions similar to the Land Bank.

Though lending into the established farming sector was around R7bn last year, the banks said they were currently prepared to provide credit only to the top end of the emerging market.

A spokesman for Deputy Land Affairs Minister Tobie Meyer said preliminary talks between government and the banks on private sector involvement in land reform took place last week.

Sources said banks were likely to look more favourably on government-backed ventures such as the land affairs department's settlement programme. The programme provided R15 000 grants to buy land.

Standard Bank said it was deterred by low levels of skills in financial planning, the cost of obtaining and verifying information and a lack of suitable collateral in areas with communal tenure systems.

Agricultural division chief Rudi Wilsnach said the bank had set up pilot projects to finance the production needs of small-scale farmers.

The bank had spent "considerable resources" to learn from the experience of financial institutions in other parts of the developing world.

"There is a strong possibility that with changes in technology and donor funding, this market could increasingly be serviced by commercial banks," Wilsnach said.

FNB agricultural division chief Jan van Zyl said part of the sector was "largely unbankable" due to the lack of financial skills.

"Government will have to address this social problem before these farmers would be a viable proposition to financial institutions.

"If land prices were maintained and individual farmers obtained title deed to their properties, banks would be in a strong position to service the market," Van Zyl said.

Absa, the largest lender to the farming sector, said it needed security of tenure, creditworthiness and a proven track record before it could back farmers. Nedbank said that it focused less on farming, but would grant credit "on merit".

Absa to open new low-income branch

(58)

Adrienne Giliomee
and Patrick Wadula

BD 15/2/96

BANKING group Absa is poised to launch a new division to service the lower end of the market, a move in line with its rivals' bids to tap the mass, low-income sector.

The group is to open a pilot branch in Klerksdorp today. The division, dubbed New Bank, will be run by Mutle Mogase, president of the recently created Association of Black Securities and Investment Professionals.

Neither Absa nor Mogase were prepared to comment ahead of the launch, but sources said the operation would probably function separately from Absa, similar to Nedcor's People's Bank.

The operations, which offer basic banking functions, are designed to bring more people into the formal banking system.

Standard Bank, which launched its version — E-Bank — in July 1994, said yesterday it would merge the operation into its group structure this year.

CE Bob Tucker said it was no longer appropriate in a new SA to have a separate bank for the mass market. Integrating the operation would save costs.

He said new E-Bank outlets were being developed within Standard Bank branches, and all branches would offer the E-Bank services. The brand would be retained.

Aflife looks to shareholders for R125m

(58) CT(BR) 16/2/96

By Llewellyn Jones

Johannesburg — African Life Assurance (Aflife) yesterday announced that it would raise R125 million by means of a renouncable offer to shareholders.

The Real Africa Holdings subsidiary said it planned to enhance its capital base to facilitate continued growth, having already recorded a 39 percent compound growth rate in recurring premiums since its first public offer of shares in 1989.

"A large factor contributing to this growth has been the change of control to Real Africa Holdings in 1994, which brought about business opportunities for African Life to harness," said Don Ncube, the chairman of African Life and Real Africa Holdings.

Bill Jack, Aflife's chief executive, said the company had enjoyed considerable growth in new business this year, and total income was expected to exceed R550 million by the year to end March — a 67 percent increase. "During the past year, we have positioned the company as a group offering a broad range of complementary financial services," Jack said.

African Life's strategy of developing into a broadly based financial-services group has seen it recently acquire majority or significant holdings in, among others, RMS Syfrets Property Development (now African Life Properties), stockbroking firm G O'Flaherty & Company, the Lesotho National Insurance Company and its life assurance subsidiary, and Botswana Insurance Holdings.

Liberty Life to establish offshore business

58 CT (BR) 16/2/96

By Llewellyn Jones

Johannesburg — Liberty Life will establish an offshore international asset management and life business ahead of a further relaxation of exchange controls.

This is to be done through its British subsidiary, TransAtlantic, based in Jersey.

Alan Romanus, the managing director of Liberty Life, said yesterday that one of the next steps in foreign exchange deregulation would be for the Reserve Bank to allow life companies to invest their cash flow and possibly some of their asset base overseas on a cash basis rather than through assets swaps.

"The removal of exchange controls has been moving in a positive direction since the demise of the financial rand nearly a year ago.

"We know that discussions are taking place surrounding the further relaxation of some regulations for insurance companies and unit trusts," he said.

"All the pronouncements of Chris Stals, Chris Liebenberg and even Nelson Mandela recently have been favourably disposed towards the gradual phasing out of exchange controls, which are an impediment to trade and investment."

Ronald Mitchell, an investment banker formerly with Citibank, has joined the Liberty Group to spearhead the development on behalf of TransAtlantic, the listed British subsidiary of the Liberty Life group.

Romanus said Liberty wanted to tie up with an international investment house that would look after the group's investment needs overseas.

Donald Gordon, the chairman of TransAtlantic and Liberty Life, said the group's offshore capability would be developed under the Liberty International banner.

"We are conscious of the need for the group to respond to two important developments," he said.

"First, the rapid return of the country to the international fold, which requires the group to provide global asset management and other financial services to our clients and, second, the increasing internationalisation of financial services, which continues to bring tremendous growth opportunities to the offshore asset management business," said Gordon.

The Liberty International group has received approval to establish an asset management business in Jersey, which it will begin in the second half of this year.

It has also received consent in principle to conduct an offshore life business. The group will start the concern once the necessary Jersey legislation permitting life assurance business on the Channel Island is passed.

Policy holders warned

(58) CT (BR) 16/2/96

BY LLEWELLYN JONES

Johannesburg — Many cash-strapped or unwary investors are being caught out by unscrupulous insurance brokers who persuade their clients to sell the policies they bought when their financial fortunes were brighter.

Vernon Cresswell, a director of Fincorp Financial Services in Johannesburg, said it was a fact that intermediaries, mainly brokers, had much to gain by bringing a buyer and seller together, as the premiums were often exorbitant.

Cresswell said premiums of 5 percent to 15 percent over the surrender value in the lucrative local second-hand policy market were not uncommon. He said this was particularly true where the average investor was unaware of the real value of the investment policy.

"Very often terminology like maturity value, surrender value, death value and loan value, only confuse the average investor, who usually has to rely on the advice given by an intermediary who has a vested interest in seeing the deal closed," Cresswell said.

In line with growing international trends, Fincorp introduced monthly policy auctions in September last year. Cresswell said the auction process had seen premiums fall to 1 percent to 2 percent over surrender value.

"The auction process has brought transparency to the second-hand policy market never before available in this country. We are providing the investing public with the information and means to value a policy and an efficient market to buy and sell those policies."

But trading in second-hand policies is also service to the insuring institutions, where there are significant costs attached to lapsed and surrendered policies.

An industry analyst said there was a heavy emphasis placed on each institution's lapse ratio as an indication of prudent salesmanship.

But, said Cresswell, there were also certain tax considerations attached to the buying and selling of second-hand policies. Since the sixth schedule to the Tax Act, a complex piece of legislation which governed the taxation of investment policies, was abolished in 1993, there has been as much confusion surrounding the taxation of second-hand policies.

"Is the purchase price a capital receipt in the hands of the seller and therefore not taxable? At the same time, the proceeds of an insurance policy owned by an individual are also normally regarded as being of a tax-free nature, having already taxed in the hands of the life office in terms of the trustee principle."

But there has always been the threat that in terms of general tax principles, the internal revenue department could still try and tax the purchaser on benefits derived from the policy after cession, if they felt the purchaser was trading policies as part of a profit-making scheme.

Cresswell said the purchase of an existing endowment policy could be a good investment, but at the same time there were risks. "These should be carefully weighed up by both advisers and potential purchasers against the benefits and then acted upon accordingly," he said.

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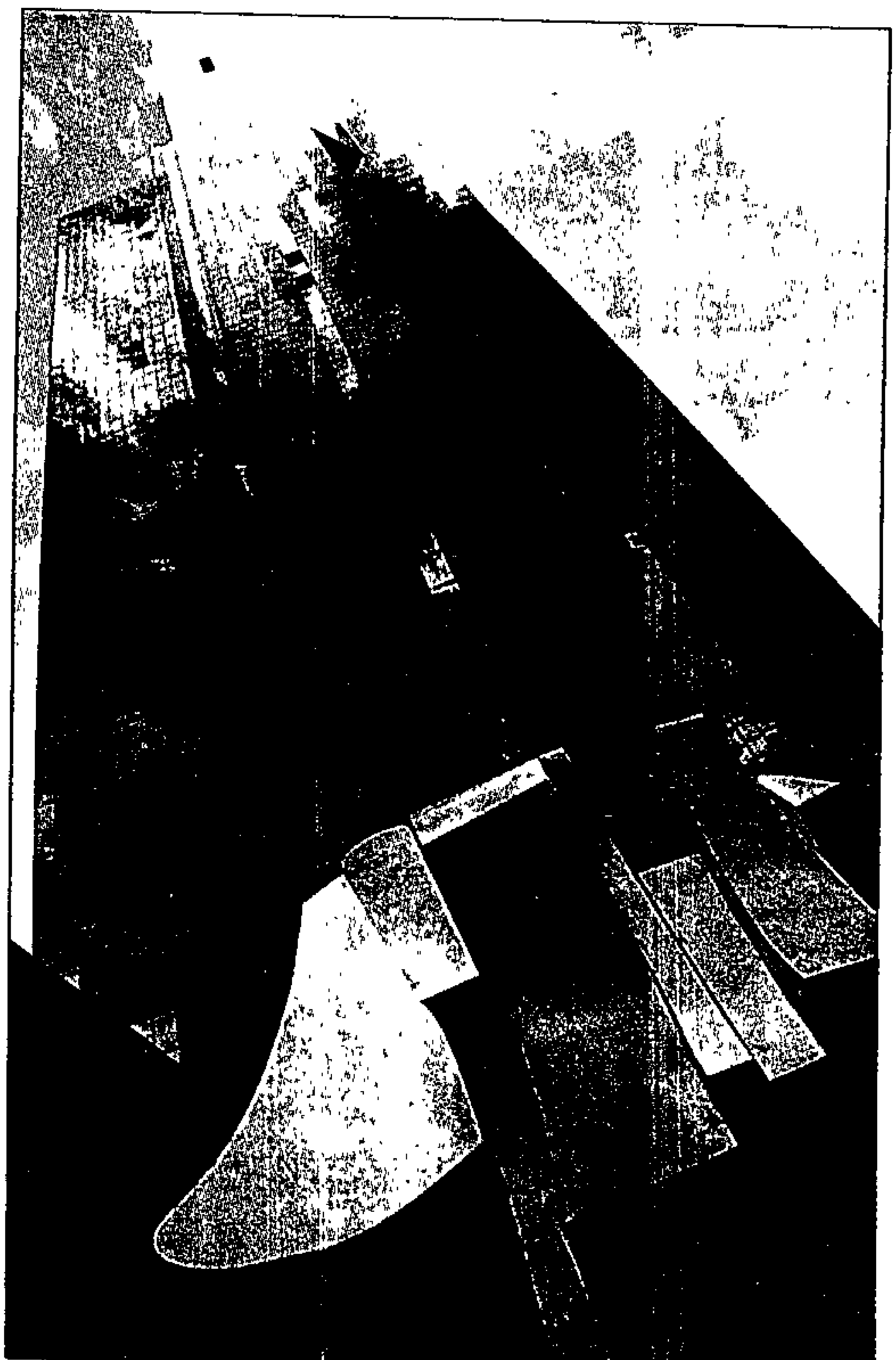
BUSINESS MAIL

THE BUSINESS SECTION OF THE MAIL & GUARDIAN, INCLUDING ALL THE TOP JOBS ON OFFER THIS WEEK

Governor in the grooming?

(58) M+G (BM) 16-22/2/96



What's up at the Reserve Bank: Chris Stals will not comment on the subject of his own succession PHOTOGRAPH NAASHON ZALK

The rumour is that Timothy Thahane is up for the top job at the Reserve Bank. **Madeleine Wackernagel** considers his appointment as deputy governor

GLANCE at his curriculum vitae and one could be forgiven asking why Timothy Thahane should forsake an illustrious career at the World Bank to join the Reserve Bank as deputy governor.

The Reserve Bank refutes the rumours, but there is no denying they are growing in intensity. Thahane is being groomed for the top job. Dr Chris Stals has three and a half years left to go on his current contract, and there is a dearth of potential successors within the bank.

Stals, however, is adamant the appointment has nothing to do with his own future at the bank. "We needed someone with international experience and regional know-how, someone with specialist knowledge of the African scenario.

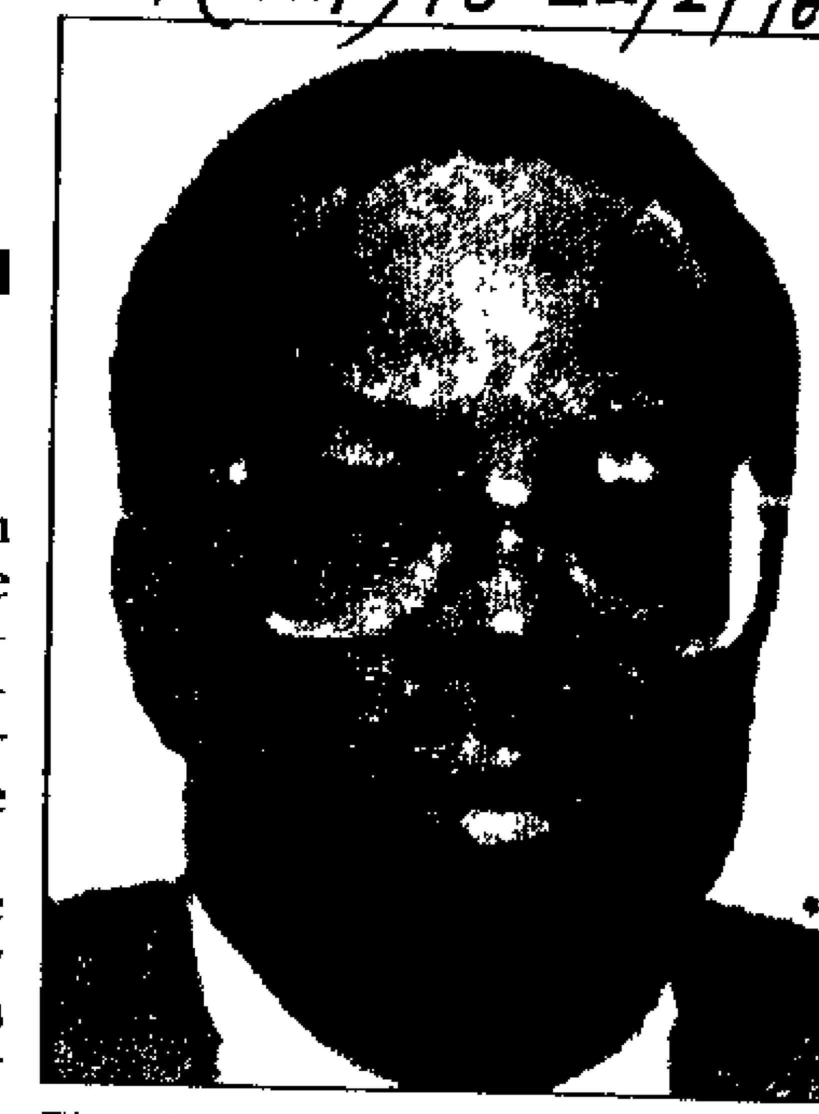
"As South Africa's role grows in importance within the African continent and globally, such experience is vital for an institution such as ours. Thahane is amply qualified for the position."

'We needed someone with international experience and regional know-how'

On the subject of his own succession, Stals would not be drawn. "I'll cross that bridge when I come to it," he said.

The finance minister was equally recalcitrant. "I cannot predict the future," said Chris Liebenberg. "But we chose the best man for the job."

Thahane, no stranger to South Africa, having been involved in the Lesotho Highlands project as well as the Southern African Development Community, is enthusiastic about his roleas deputy governor, which he takes up in April.



Timothy Thahane: Does he signal a shake-up at the Reserve Bank?

He hinted at the Reserve Bank's staid image, but denied his appointment signalled a shake-up, either of personnel or policy.

"The bank will continue to consult on a regular basis with politicians; it is not at variance with government."

Indeed, he saw no reason to change the bank's modus operandi. "The Reserve Bank functions much as other leading central banks — it operates with autonomy but not outside the political structure. It is part of the process of government machinery, working with it, not against it."

But meeting the challenges facing South Africa may take longer than his five-year contract, he says. So there may be truth to the rumour after all.

Fiscal discipline improves

(58) MtG(Mm) 16-22/2/96

Provincial departments will emerge from their fiscal morass by 1999 argues Chris Liebenberg. Lynda Loxton reports

FINANCE Minister Chris Liebenberg presented an upbeat assessment of government's ability to exercise fiscal discipline this week.

But even though R2,5-billion of the extra R4,2-billion requested in the Adjustments Appropriation Bill presented in Parliament this week is earmarked for the provinces, Liebenberg said he was impressed by the progress made in the provinces.

The extra funds were needed mainly because most provinces had wrongly estimated their revenue for 1995/96 because of the poor data bases they had inherited and the problems of consolidating their new administrations and territories.

The efforts to improve the financial administration of the provinces will become even more important once the Financial and Fiscal Commission finalises how national government funds will be allocated to them and their borrowing powers are granted.

Director-General of State Expenditure Hannes Smit said the situation in the provinces had been complicated as several provinces did agency work for other provinces.

Not included in the Adjustments Estimates was the R1,2-billion in accumulated debts that have been built up by the former homelands and self-governing territories.

Liebenberg said auditors had been closing the books of these areas and it was agreed it would be unfair to burden the new provinces with this debt.

National government had agreed to take over this debt, but it still had to be evaluated by State Expenditure and audited. Overall, however, Liebenberg was confident that the concept of fiscal discipline had been well-entrenched in government departments and that the targeted budgeted deficit of 4,5% of gross domestic product by 1999 was still achievable.

After predicting a deficit of 5,8% for the year, Liebenberg said the turn-out now seemed to be more in the region of 6%, or much lower than the 8% some in the market had been predicting lately.

Of the extra funds needed, Liebenberg said only R445 million could technically be described as over-spending, and this was mainly for extra staff for the hard-pressed correctional services and police as well as constitutional development.

But a draft report released to the parliamentary committee dealing with the public service this week painted a slightly different picture. The report said that restructuring in most departments was a haphazard affair, sometimes resulting in an increase in staff and sometimes a slight reduction.

The main reason for this is the division of powers under the new Constitution with some departments devolving their powers to the provinces and others retaining central control.

Liberty establishes operation in Jersey

BD 16/2/96 (58)

Adrienne Giliomee

LIBERTY Life has set up an offshore asset management and life assurance operation in the Channel Islands in a drive to broaden its exposure to the international life industry and provide a vehicle for future asset swaps.

The operation — Liberty International Jersey — will launch life and investment products, and undertake asset swaps for the SA operation from next month.

The launch follows the group's decision to pull out of the UK life industry last August, when UK subsidiary TransAtlantic Holdings sold its 50% stake in Sun Life for £527m.

Liberty Life MD Alan Romanis said the launch was part of the group's revision of its offshore investment strategy to offer global asset management and other financial services. The plan was to integrate all its offshore vehicles, including UK-based TransAtlantic Holdings, under the brand name Liberty International.

The Jersey-based venture, which would require capital of up to £25m, would be run by former Citibank Jersey MD and chairman Ron Mitchell.

"We want to cherry-pick individuals to start off the business from grassroots level instead of buying into an existing operation," Romanis said. A UK investment house, to be named later this month, would provide investment advisory services initially.

The asset swaps would involve funds from policyholders and pension funds. Asset swaps linked to unit trusts had been put on hold as these had not been approved by the registrars.

Romanis said Liberty would also explore other offshore funding mechanisms because asset swap counterparties generally demanded shares at a discount.

Liberty Asset Management MD James Inglis said the operation would offer specialised unit trusts and life products.

The operation would also design investment strategies for wealthy individuals.

Inglis declined to estimate the current asset base of Liberty's new venture, but said it would be "a substantial player internationally after five years".

Jersey had a good legal and accounting infrastructure as well as a favourable tax policy, he said.

Its authorities had already approved the establishment of the asset management business and had "consented in principle" to Liberty starting up a life business. Legislation was expected to be passed later this year.

African Life seeks R125m

(BT) ST 18/2/96 (58)

By JULIE WALKER

AFRICAN Life, whose share price has climbed by half to 925c since October, is to raise R125-million in a rights issue, thereby capitalising the black-controlled life assurance and financial services group for expansion.

Don Ncube, chairman of African Life and chief executive of Real Africa Investments, attributes African Life's success partly to business opportunities arising from the change of control in 1994. Real bought 51% of African Life from Southern Life, which retains 25%. Both major shareholders are expected to follow their rights and Southern to underwrite the issue.

Bill Jack, managing director of African Life, says he was asked at the company's listing in 1989 how long it would be before the first rights issue. "I said it would be about five years. Last year we had a capital injection of R40-million from IFC (the World Bank subsidiary that supports the group as the vehicle for black empowerment initiatives).

"You have to strike a balance in capital-raising. If your business is making an internal rate of return lower than can be made on the stock market then what are you doing running it? But if you raise capital too soon, your average return on capital falls too," says Mr Jack.

African Life's recurring premium income has climbed at an average compound rate of 39% a year since 1989. Total income is expected to reach R550-million in the current financial year to March 1996 — two-thirds up on 1995, and total assets will top R1-billion.

African Life has expanded into life assurance in Lesotho and Botswana, into property through the purchase of RMS Syfrets Property Development (now African Life Properties), and asset management through a joint venture with stockbroker G O'Flaherty.

Details of the rights issue will be made public a week tomorrow. Terms could be of the order 18 shares for every 100 held at 850c. Last day to register is March 1.

Group support for widows

(58) CP 18/2/96

By TSEPISO LEFALATSA

WHEN Widows Forum was launched last year, it started with 40 members and friends. A year later, membership has increased ten-fold with numbers swelling to 500.

The areas of concern identified by the Forum are insecurity, financial problems, providing mourning garments and oppressive rituals and property ownership.

Maggie Nkwe, convenor of the Forum, said the Forum would be celebrating its first birthday on February 24. The meeting will be held at the Ipelegeng Community Centre, in White City Jabavu, Soweto, starting at 10 am.

16 areas approved for loans

Sowetan 19/2/96

(58)

VOSLOORUS on the East Rand is among 16 more areas approved by the board of the Mortgage Indemnity Fund to be covered for sustainable home lending.

The MIF said in a statement yesterday that the new areas were in Gauteng, Eastern Cape and Western Cape and the MIF now covered 358 areas countrywide for sustainable home lending.

MIF managing director Mr Nkululeko Sowazi said the cover in Vosloorus was deferred in August 1995 because the area did not meet criteria set by Housing Minister Sankie Nkondo and provincial housing MECs.

Mortgages in default

"Officials of the court had reported that they could not freely perform their duties and, in addition, there were large numbers of properties in possession and mortgages in default," he said.

"When the MIF assessed the area again after reapplication for cover, it was found that conditions in respect of the three main criteria – local government administration, civil stability and housing performance – had improved to the point where the board concluded that cover should be granted to facilitate the flow of housing finance in particular for a number of new housing developments planned in the area." – *Sapa.*

Multi-Serve delays relaunch

(58) Sowetan 20/2/96

By Musa Zondi

SUN Multi-Serve, a controversial investment scheme which was to have resumed operations in Welkom yesterday, has postponed its relaunch.

A number of people who had hoped that they could reopen their investment accounts at the branch were disappointed when they were told to return today.

A spokesman for the scheme said they were still working out details and consulting their lawyers about the relaunch. He said a Press statement would be released later today.

Photographer manhandled

Earlier *Sowetan* photographer Mbuzeni Zulu was manhandled by some investors, including an SMS official, who objected to his taking their pictures.

They accused newspapers of taking sides with Mr Christo Wiese, the registrar of financial institutions, who closed down the scheme late last year.

But Sun Multi-Serve's Mr Victor Monamodi in a statement to *Sapa* yesterday distanced himself from a weekend statement attributed to investors' spokesman Mr Isaac Lesole that the organisation would resume operations yesterday.

Monamodi said Sun Multi-Serve would not be opening its offices yesterday as Lesole reportedly told 2 000 investors at a mass meeting in Thabong near Welkom at the weekend.

He reportedly said the scheme would open its doors to investors countrywide.

Agreement of January 7

"The statement by Mr Lesole echoes the wishes of Sun Multi-Serve investors who are disappointed by Mr Christo Wiese, who has reneged on the agreement of January 7," Monamodi said.

"This agreement stated that Sun Multi Serve funds would be released and its business would resume after the completion of legislation."

Monamodi said a recent advertisement by Wiese in newspapers that he would be refunding money to investors went against the agreement and members were afraid they would end up the losers.

He said Sun Multi-Serve had appealed to Deputy President Thabo Mbeki to force the authorities to adhere to the agreement and the organisation was awaiting action by Mbeki's office.

The Reserve Bank has frozen more than R50 million of Sun Multi-Serve funds pending an investigation into the scheme's legality.

Ex-TBVC banks taken under control

58

Wyndham Hartley

BD 20/2/96

CAPE TOWN — Legislation to bring banks, building societies and other financial institutions of the former TBVC homelands under the control of the finance minister, the Reserve Bank and the Financial Services Board was tabled in Parliament yesterday.

Finance Minister Chris Liebenberg tabled the Financial Institutions Rationalisation Bill which will repeal a host of TBVC statutes and place financial institutions in the former independent states directly under national laws.

The Bill's explanatory memorandum says that homelands' financial institutions were governed by their own finance ministers and other mechanisms. With the advent of the new constitution those homelands no longer exist but the institutions are still governed by old legislation.

The regulation and supervision of financial institutions is a national function in terms of the constitution and "it is now deemed necessary to rationalise and formalise centralised control and supervision" in the hands of the finance minister, Reserve Bank governor and the Financial Services Board.

Financial institutions of the former TBVC will not be allowed to expand into the broader SA until such time as permission has been granted. "This procedure is deemed necessary to ensure proper investor protection and to enable the RSA registrar to investigate and scrutinise the affairs of an institution in order to establish whether it will be able to function on a national basis ..."

Insurers operating in the former TBVC states which are subsidiaries of SA registered institutions are excluded from the no expansion clause because they are expected to be in full compliance with national law.

The Bill will empower President Nelson Mandela to repeal any other TBVC financial laws by proclamation — in case any has been overlooked.

Stals's new deputy solidly committed to SA's regional role

(58)

SIMON BARBER in Washington BD 20/2/96

TIMOTHY Thahane, the 55-year-old Lesothan who was named earlier this month as deputy governor of the Reserve Bank, has never been a central banker.

Even so, it would be a stretch to say he lacks in credentials.

As the Southern African Development Community's narrowly defeated candidate in last year's election for the presidency of the troubled African Development Bank, he adds a respected — and needed — regional voice to the Reserve Bank. It is, after all, a regional institution because of the monetary union with Lesotho, Namibia and Swaziland, and one which will be playing an ever more important role in the subregion as the SADC matures.

Having served as World Bank vice-president and secretary since the days of Robert McNamara — McNamara first appointed him in 1980 — and before that as the executive director representing much of Anglophone and Lusophone Africa on the World Bank's board, Thahane brings to the table an unsurpassed familiarity with international financial institutions.

He was also involved with setting up the SA Customs Union and the rand area, the creation of the Development Bank of Southern Africa and the negotiation of the first Lome convention with the EC.

He is no stranger in SA itself. He has worked with the country's financial and monetary authorities and its bankers and industrialists from the start of his career, when he returned from studying in Canada to work in the Lesothan prime minister's planning office. At the same time, he always maintained contact with the ANC and PAC in Maseru, Lusaka, Dar-es-Salaam and elsewhere. The late Chris Hani's widow is his aunt.

The World Bank played a major part in reorienting the ANC's economic thinking after 1990, showing it what worked and what did not, and helping it make the transition from liberation movement to government. The importance of this role in terms of confidence building, both between old antagonists inside SA and as far as the outside world was concerned, is hard to underestimate. Thahane can take a substantial share of the credit.

Last week at the World Bank office he will be vacating to take up his new duties on April 1, Thahane stressed what he called "the regional dimension" of his appointment. He had turned down an earlier offer to head the Development Bank because he thought its mandate was not clear enough. He was interested in running it as a fund for regional initiatives; less interested if it was mainly to be a "merchant bank" for provincial projects.

"I would emphasise that I am committed to the development of SA and the region as a whole," he said. "For me to be a part of that process and to use my experience and skills in this area is exciting ... (governor) Chris Stals and I see eye to eye on the need ... to assist the whole subregion, of which the rand area is a very dominant feature, in its economic development." The SADC, he said, had agreed that SA should have special responsibility for the financial and investment aspects of regional integration. "The Bank will clearly have a strong input in helping the government co-ordinate that function," he said.

Thahane hastened to add that his first loyalty would be to SA itself. "I will do my best to uphold policies that are essential to assist the government achieve its economic and financial goals." His appointment was a departure not simply because he would be the first non-South African in the post. "Hitherto, the senior management of the Bank has all been white."

Thahane addressed the issue delicately. "Dr Stals, whom I have known for a long time personally is an excellent banker and a decent man. He has set in motion a quiet process of transformation within the Bank.

"He has employed some young black SA professionals and they are excellent from all the indications I have received.

"Of course, this has not been done in a very open manner, so one of the things we have discussed is the transformation process that (Stals) has set in motion and the need to reach out and make the the Bank much more understood and seen as a part of the community, as a supporter of government in the formulation of economic policy."

In other words, there still had to be "a lot of restructuring" if the Bank was going to be able to sustain its primary goal (and here Thahane quoted from Chris Stals's own mission statement, which he himself fully supported): "The protection of the domestic and external value of the rand."

Thahane was not about to be drawn on whether that goal might be better pursued through a different, more expansionary, policy mix. "I would not like to second guess the authorities. I do not have access to the information that was at their disposal when they took the decisions they took. But everything within the parameters of macro-economic stability should be done to accelerate growth, reduce poverty, improve social services and encourage participatory development."

Was everything being done that could be?

Again, Thahane did not want to "second guess whether any of the government's RDP policies could have been implemented faster or slower, or whether more houses could have been created. They made trade-offs on the basis of the information at their disposal. It would be presumptuous of me to comment from 10 000 miles away."

In any event, he made clear, he himself had no fixed prescriptions. "The process of policymaking involves dialogue, exchanges of views, compromise ... I cannot a priori say I will have views different to or consistent with anyone else's."

He is pleased, though, that government has not rushed to borrow from the World Bank, but has chosen instead to make full use of the Bank's advisory services to develop "policy stances that have been welcomed internally and globally". He is happy also that government has begun its own programme of "structural adjustment", a phrase he believes (veteran World Banker that he is) has had an unfairly bad rap. A point he can be expected to ram home in his new job is that the pain associated with adjustment is the fault not of adjustment itself but of the economic policies and political behaviours that, left unchecked, have necessitated adjustment in hard-to-swallow doses.

Thahane seems genuinely excited after all his years in Washington to be coming home to be part of the new southern Africa. Even so, it still does not sit well with him that he lost last year's protracted battle for the presidency of the African Development Bank.

There were 14 rounds of voting, necessitated largely by the fact that the Nigerians would not withdraw their candidate despite his chronic inability to poll better than third.

Thahane led in 13 rounds, with the support of the SADC, most of East Africa and almost all the non-regional members, including the US, China, India and the major Europeans aside from France.

Nigeria, it seems, was damned if it was going to let the southern Africans have the presidency and finally threw its votes — 10% of the total — behind Morrocco's Omar Kabbaj, who thus pipped Thahane at the post.

The wound has not yet healed.

Another 'stokvel' hysteria

(58) Sowetan 21/2/96

By Musa Zondi
Consumer Reporter

SCORES of people who invested hundreds of thousands of rands in a Sandton-based investment scheme, are up in arms after the director of the company left the country without paying their returns at the end of last year.

Mr Walter Wright, director of The Mini Millionaire stokvel, had apparently promised to pay out dividends to hundreds of its investors on December 16 last year.

Wright is currently overseas ostensibly to "transfer" about R21 million, apparently invested in the United States on behalf of his clients.

He has been promising since December to transfer the money from the United States to South Africa – to no avail.

Some members have laid fraud charges with police in a desperate bid to recover their funds.

Many of the clients had invested amounts ranging from R3 000 to R50 000 in the scheme. Most of them would not speak to the Press this week, saying they had been warned not to do so by their agents.

However, one of the clients confirmed she had invested more than R3 000 in the scheme. She said several other clients had invested money without the knowledge of their husbands and were now scared that news of their plight would reach their spouses.

The clients had also been reportedly threatened in a fax distributed by the company's agents to investors yesterday, that no payments would be made to those who spoke to the media.

The fax promised that the money would be transferred before the end of this week to Wright's United Bank account in Rivonia.

Yet another client said they had been promised a week before that they would be given their money today. But yesterday's fax informed the investors that payout would be done sometime next week, *Sowetan's* informant said.

"A fax from Wells Fargo Bank in California to agents and investors guarantees that the money would be paid to Wright's account, and that we will be receiving our money some time next Monday or Tuesday. We are not sure if we are going to get it this time around," the source said.

In a letter from Berlin, Germany, addressed to one "Norma" at the company's Sandton offices, dated December 20, Wright promises that no one will lose out and payments will be disbursed soon.

"I understand the position the agents are in but they must tell their clients that no one will lose any money. As soon as the money is transferred to Dallas, we will commence paying out," Wright said in the letter.

When *Sowetan* visited the company's offices last week, we were told by the security guards that there was usually no one in the office.

The stokvel, formerly known as Mafuta Stokvel, promised hefty returns to investors. For example, R200 a month invested for the whole year apparently yielded R3 300 – representing a profit of R900, while an investment of R2 000 a month for the same period apparently fetched R36 000 – netting R12 000. in profit.

Pension tax proposals expected to be shelved

Levy on life industry's assets mooted

BD 21/2/96

56

Samantha Sharpe

FINANCE Minister Chris Liebenberg is expected to shelve the Katz commission's controversial pension tax proposals for the 1996/97 Budget in favour of a one-off 1% levy on the life industry's estimated R500bn assets.

The move, which would raise about R5bn, would obviate the need for a politically unpalatable increase in the VAT rate.

The ministry refused to comment, but sources said Finance Minister Chris Liebenberg had asked life companies to submit proposals on practical aspects of the levy by noon today. A task force had also been appointed within inland revenue to facilitate implementation of the tax.

They said the finance ministry had mooted a tax of between 0,75% and 1% on all life industry assets, which could add between R4bn and R5bn to state coffers in financial 1996/97.

The proposed levy followed in the wake of a meeting late last week between inland revenue, the finance ministry, the Financial Services Board and industry players to discuss the practical implications of the Katz commission recommendations, they said.

Labour was absent from the talks, but the issue is likely to be raised when labour and government meet for Budget negotiations over the next couple of weeks. Speculation is that Liebenberg will seek labour's support for a tax on pensions in return for holding off on a higher VAT rate.

The sources said fears that the commission's recommended 30% tax on pension funds' interest, rental and other trading income would be impossible to implement speedily had spurred government to come up with a substitute tax.

Liebenberg has expressed concerns about the new taxes on pensions mooted in the Katz report, although the parliamentary standing committee on finance has given full support to the commission's proposals.

Sources said the one-off levy would allow government a "revenue stopgap", while providing an opportunity for additional discussion and debate on Katz's call for a pension fund tax.

It would also give inland revenue some time to put its house in order, with improved tax administration still a crucial element to efficient revenue collection, they said.

Liebenberg has hinted that the merger of inland revenue with customs and excise is a far bigger task than initially anticipated.

Life industry sources said that while they were averse to any ad hoc tax, "the one-off levy might be more favourable than a hasty implemention of the Katz proposals".

Guardian National posts R81,3m profit

BD 21/2/96 (58)

Adrienne Gillomee

SHORT-term insurer Guardian National Insurance Company posted a 53,7% increase in attributable profit to R81,3m for the year to December, after turning its underwriting loss into a profit.

Earnings a share were 53,4% higher at 800c, while a final dividend of 200c (156c) brought total distribution to 334c (268c).

Gross premiums increased 16,7% to R1,4bn, aided by an underwriting profit of R22,3m. This compared with a R19,6m loss previously.

Guardian National MD Andy Jack said the growth in premiums was due to increased business and not rate increases.

"In most cases we were able to keep premium rates at their 1994 level, and in many instances, we actually reduced premiums."

Corrective action had been taken to improve the underwriting loss, which included selective rating increases, the cancellation of unprofitable business as well as a focus on theft prevention, Jack said.

"Although motor theft and hijackings remain at an unacceptably high level, the incidence of such losses is not increasing as fast as it was through most of 1994."

Jack said the results could have been better had it not been for the heavy rains and serious flooding throughout the country in December, which led to a significant number of claims.

Income from investments grew a modest 9% to R69,7m, as the improved underwriting performance was converted into a significant increase in invested funds only towards the end of last year. In addition, interest rates had shown no significant average change on an annual basis, he said.

Profit before taxation amounted to R92,3m (R52,8m).

Profit after taxation of R78,5m (R50,2m) was significantly offset by a quadrupled tax charge of R13,8m, compared with R2,6m previously.

Income from associates amounted to R2,9m.

Shareholders' interest — which moved up 27% to R720,8m — was enhanced by the good performance of equity and gilt investments in the second half of the year, together with a better level of retained earnings.

The group had a solvency margin of 69,2% at year-end, compared to 64,1% at the end of financial 1994.

Star 28/2/96

Home Affairs link to fake ID book scam

58

By Tamsen de Beer

A network of corrupt government officials and conmen is costing Gauteng businessmen millions of rands each year by forging ID documents which can be bought for as little as R100.

At least 1 000 cases of stolen cheque and ID book fraud are reported in Gauteng each month, police say. And debt collectors are struggling to retrieve goods valued at hundreds of thousands of rands after conmen, often in possession of several ID books, vanish into thin air.

Former police officer Daniel Nkosi, now tracer supervisor at First National Bank's First Pref Retailer division, has stumbled across a syndicate of corrupt Home Affairs Department and border control officials whose co-operation in selling stolen IDs allows swindlers to con large chainstores out of thousands of rands.

His division intends handing the information to the police.

The first sign of the syndicate came when First Pref last year took over the accounts of the Beares Group, and investigated the apparent fraudulent loss of more than R12 000 in goods bought in Johannesburg.

Nkosi has traced the goods to a Mozambican who had bought an ID book at the Komatipoort border post last year for R100.

The immigrant replaced the photograph of the true owner with his own, paying a further R30 to a corrupt Home Affairs official for the state-issue laminated plastic seal to cover the page.

The man then transported the goods to Maputo and could not be traced to pay the debt until the true ID book holder, who had lost the ID in a Soweto taxi in 1994, was apprehended by Nkosi.

Nkosi said he handled cases like this daily and police were investigating at least a thousand similar cases each month.

Capt Percy Ueckermann of the Brakpan Fraud Unit said using fake ID books was a common fraud suffered by shopowners.

He said ID books were often heated to lift the plastic seal, and a false name or photograph inserted before the plastic was replaced.

But Nkosi had evidence of a more devious swindle, which Ueckermann confirmed as another common fraud.

Nkosi produced photocopies of two cheques used by foreign residents who had changed their first names to Diner, and re-used cheques paid out to Diners Club.

In one instance, a Zimbabwean, now jailed, became Diners James Mabena, adding the last two names to a cheque for more than R15 000 made out to Diners Club by a hotel guest.

Somehow, the cheque was intercepted by the Zimbabwean, who changed the name in his ID book, again paying R30 for a seal. He defrauded Beares of R11 000.

A Home Affairs spokesman said the department took allegations of corruption seriously and the matter would be investigated.

Co-op report completed

(38)

Louise Cook

BD 22/2/96

PRETORIA — The trade and industry department has handed its report into usury allegations against the Western Province farming co-operative to the Western Cape attorney-general.

Small business chief director Alistair Ruiters of the department said yesterday that the investigation had found the Malmesbury co-operative had contravened the Usury Act.

The organisation had calculated and capitalised financing costs on a monthly basis, rather than calculating them on a simple interest basis over one year.

Financing costs had also been recovered "having been calculated on a monthly compound basis instead of a simple basis on the outstanding capital debt, calculated from time to time over the particular period of a year", he said.

He declined to say how much money was involved, but it is believed the co-operative was being accused of having overcharged 14 farmers by R1 000 a year each.

A spokesman for the attorney-general's office said if the co-operative had broken the law, prosecution would start. But the Usury Act was open to interpretation.

Life industry slams mooted 1% levy

BD 22/2/96 (58)

Samantha Sharpe

CAPE TOWN — The life industry yesterday slammed the mooted 1% levy on its retirement fund assets, saying the proposal smacked of expediency driven by a desperate need for cash.

The proposed one-off levy emerged on Tuesday as an alternative to implementing the Katz commission's recommended 30% tax on pension funds' rental, interest and other trading income.

It is understood the levy would apply also to retirement fund managers outside the life industry. But Life Offices' Association executive director Jurie Wessels said it was nonsense to justify the tax as a necessary interim measure until discussions on the Katz proposals could continue. "This is not an interim measure to combat arbitrage. This is an interim measure to raise a very large amount of money."

Neither the Katz commission nor the finance ministry would comment.

Comment: Page 14

Insurer sees small profit rise

BD 22/2/96 (58)

Adrienne Giliomee

INSURANCE company Auto & General increased profit after tax by a modest 6,25% to R33,5m for the year to December despite a sharp jump in its underwriting surplus.

Gross premium income rose 39% to R431,4m following real growth in its client base, while the underwriting surplus surged 69% to R31,1m, contributing to a 15% increase in profit before tax of R50,3m.

Chairman Douw Steyn said the underwriting surplus had increased despite the rise in crime-related claims to "unprecedented" levels.

The results illustrated the company's commitment to rating the risks underwritten at the correct commercial premium, and had been aided by savings achieved through scientific underwriting and innovative and advanced computer systems, he said.

Auto & General had a R14m surplus on realisation of investment in financial 1994 that substantially buoyed profit after tax during that period. The company said this was the main reason why taxed profit in the review period was only marginally higher.

Shareholders' funds increased 18% to R152,3m, helped primarily by bottom-line earnings. The company paid out R10,5m (nil) in dividends.

Steyn said Auto & General expected continued growth during the year and would generate premiums of more than R500m.

The solvency margin — including contingency reserve — of 50% was well above the current requirements of the company, which had sufficient capital to support substantial growth in premium income.

"I do not anticipate that any additional capital will be required in the short to medium term," he said.

MAIL & GUARDIAN February 23 to 29 1996

Two more pyramid schemes collapse

(58) M+G 23-29/2/96

The scandal of get-rich schemes is harming legitimate stokvels, reports **Vuyo Mvoko**

AUTHENTIC stokvels' members are angry about the trashing of their "good name" by pyramid schemes. And scores of investors have lost thousands of rands after the operators of the get-rich-quick schemes fled with their money.

Yet another two schemes collapsed during the past week. One, Future Progress, was based in Rustenburg. The other, previously known as Mafuta and now called The Mini Millionaire, operated out of Sandton, and its director has reportedly disappeared with R21-million.

This follows hard on the heels of the much-publicised South African Reserve Bank freeze of R46-million belonging to the Sun Multi-Serve (SMS), the investment operation which had all the qualities of a pyramid scheme.

SMS, which had 28 branches countrywide, was closed late last year by the Registrar of Financial Institutions, Christo Wiese, amid suspicion that it was an illegal operation which contravened the Banks Act.

Last weekend a spokesman for the investors declared they were going to resume operation last Monday. But Sapa on Monday quoted another SMS spokesman, Victor Monamodi, who said although the previous spokesman "echoes the wishes of SMS investors who are disappointed by Mr Wiese", they were not going to resume operations until the finalisation of legislation and the release of funds.

SMS disguised itself by posing as a stokvel and even obtained membership of the National Stokvels Association of South Africa (Nasasa) umbrella body.

How? Nasasa executive members too are still baffled and would not comment.

When SMS ran headlong into conflict with the Reserve Bank last year after its legality was put into question, it played the black economic empowerment ticket and accused the banks of racism. Its members staged demonstrations outside the banks which had kept their funds in an unsuccessful attempt to let the scheme operate again.

But SMS investors have reason to be thankful. The registrar stepped in before the collapse of their scheme, so they will get back their frozen funds. They have already been asked to submit claims, while legal action against the directors and management of the SMS scheme is pending. The matter has been referred to the Office for Serious Economic Offences.

Professor Louise Tager, head of the Harmful Business Practices Committee, says she has long had problems with schemes which"offer astronomical returns without a proper investment base". She agrees "they have used the word 'stokvel' for something totally different. A pyramid is a different concept altogether".

Mohau Phatlane (41), of Tladi in Soweto, is a very worried man. He has spent half his life associated with stokvels, and for the past 10 years he has been working for Nasasa.

The impact of pyramid schemes on stokvels has been "so vast", he says, because people now cannot distinguish between the two operations.

Phatlane's dilemma: "We warned people long before that 'this (pyramids) will burn your fingers; now they are saying 'why didn't you tell us'. You explain to people, but they don't listen."

Chris Monyela, an organiser of jazz/fusion CD collectors stokvel scheme, echoes the sentiments.

He says it is people in need who are most likely to be duped, and "it is especially difficult for them to resist if there is a living example they can point to".

Pyramids vs stokvels

PYRAMIDS operate like this: a person invests X amount of money, and is promised at least a 300% yield on condition that s/he recruits at least three others to invest. When the three have invested, their money goes on to pay the first person, and the process goes on.

Danger lies on the fact that when the scheme runs out of new recruits, those who have not been paid lose everything. This is usually the moment when the directors or management of the operation run away with the money, as happened with Mafuta and Future Progress.

A stokvel, on the other hand is usually a small group of people who know one another and who contribute equal amounts of money on a regular basis to a pool.

Each month/fortnight/week the members get together to give money to one beneficiary, on a rotation basis, in the presence of others.

Stokvels usually have defined objectives, for example, to buy each other household appliances, CDs, groceries, or to enable one another to raise capital so as to avoid going for a hire purchase or a loan.

Members of a stokvel hold regular meetings to discuss their activities.

According to the present laws, a stokvel is not allowed to exceed R9,9-million in its bank deposits.

Cusaf posts rise in attributable income

(58) CT(BR) 26/2/96

By Llewellyn Jones

Johannesburg — Commercial Union of South Africa (Cusaf), the insurance and financial services group, has reported substantially improved results for the year to December, reflecting the continued turnaround in the short-term underwriting account reported at the half-year mark.

Attributable income rose to R125,9 million (R67,8 million) mainly because of the R51,7 million turnaround in underwriting results to a profit of R38,1 million from a previous loss of R13,6 million.

Other significant factors were a 30 percent increase in group investment income and an improved contribution from Commercial Union Life of R25,7 million (R21,5 million).

Roger Wanless, the group's managing director, said the improved underwriting result was achieved largely because of corrective action taken by the management in 1994 and early last year, and a levelling out in the rate of increase in crime-related claims during the year.

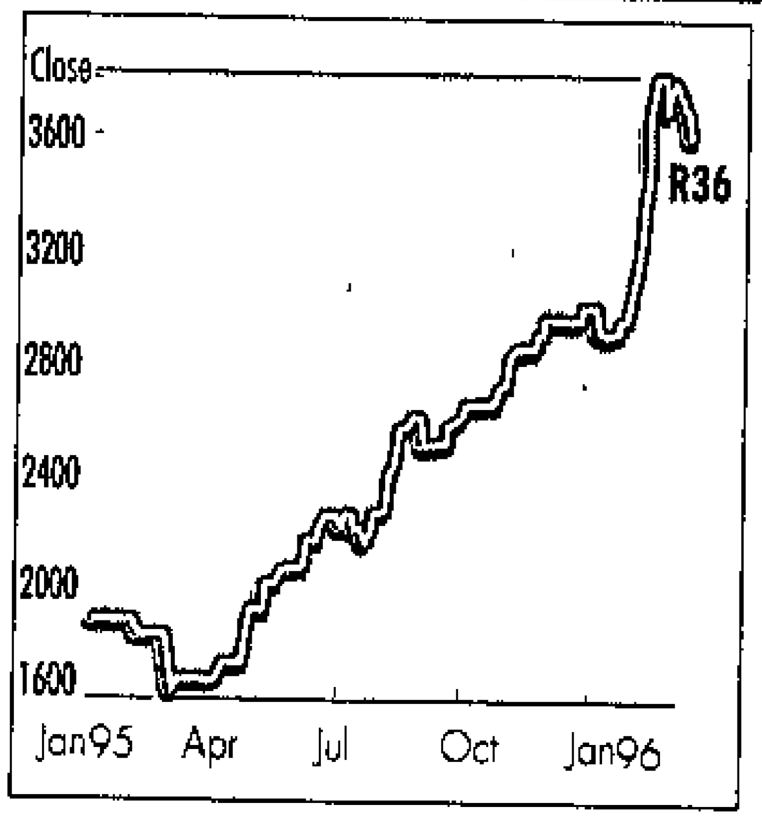
Gross premium income for the short-term business increased 22 percent to R848,4 million, partly as a result of the acquisition of Sentrasure. Group premium income rose 16 percent to R1,52 billion.

The company's tax charge rose to R11,4 million (R4,1 million), but its effective tax rate remained low as it used tax losses from previous years. The balance sheet remained healthy. Cash on hand rose to R161,6 million (R111,8 million).

The short-term insurance company's solvency margin fell to 83,9 percent (100,4 percent).

Wanless said he was confident the major initiatives on which the group had embarked would be reflected in the results for the first half of this year.

Commercial Union



Privatisation a boost for insurers

(58)

By Llewellyn Jones

CT (BR) 26/3/96

Johannesburg — Privatisation will boost the risk management and insurance industry as public companies start to shift ultimate responsibility away from the government and on to their own balance sheets, says Roger Voysey, the managing director of risk financing company Guardrisk.

Voysey was speaking ahead of today's risk conference in Johannesburg organised by the South African Risk and Insurance Management Association and the Society of Risk Managers.

"The shifting of the centre of gravity of certain large enterprises away from the state will inevitably imply a corresponding shift in their risk exposures," Voysey said.

"What the government implicitly covered before, companies will have to start covering themselves."

Privatisation was only one of a number of structural factors responsible for the growing importance of risk management in South Africa. These included increased competition as well as the growing local presence of international companies experienced in risk management.

Also heightening the risks South African companies now face are the growing threat of litigation, new corporate governance constraints, the high price or non-availability of certain kinds of insurance cover and the growing tendency by companies to seek more cost-effective tailor-made risk financing solutions.

BMW had recently achieved the latter, according to Voysey, by isolating the hijacking and theft risk of its vehicles from other vehicle risk.

Varsity students boycott classes

(50) Sowetan 26/2/96

By Pamela Dube
Political Reporter

STUDENTS at the QwaQwa campus of the University of the North in Phuthaditjhaba went on class boycott on Friday demanding that charges against their three academics be dropped by the University Council.

The three academics – Dr Mashupye Kgaphola, Professor Thandwa Mthembu and Mr André Van Zyl – are to appear before the board of inquiry next month for allegedly inciting students and workers last October to pass a motion of no confidence on Uniqwa management.

The students went on class boycott and strikes for over three weeks.

University of the North vice-chancellor Professor Njabulo Ndebele stated in a letter of November 28 1995 that the three academics were charged with, among other things:

- Co-writing and publishing a document which called for the QwaQwa campus community to nominate five persons for the purposes of the election of a caretaker management (sic);
- Publicly making adverse comments on campus in such a manner that it brought the University in disrepute:

Mthembu and Kgaphola then wrote several letters to Ndebele and the University Council stating their reservations on the manner in which they were being investigated.

They stated that they were being targeted because "we have taken a public stand against corruption, indiscipline and poor leadership that account for most of the under development and retrogression on campus."

Instead of working towards a common purpose of transforming, the two said, the university management was singling-out those spearheading change for disciplinary action.

Withdraw charges

In a petition to Ndebele on February 15 this year, members of the five student bodies on campus – the SRC, Sasco, Paso, Azasco and Student Christian Fellowship – called on the Council to withdraw charges against the three academics because " they are based on attempts to halt the necessary transformation on campus".

Asked to respond, the University's head of Labour Relations, Mr Enerst Leeuw, said: "We cannot comment on matters outside the ambit of the university."

STALS TELLS TOLLGATE INQUIRY ...

Bank bailout 'normal'

CT 27/2/96 (58)

THE REASONS FOR creating R1,5 billion to prevent a major bank from going under were outlined at the Tollgate inquiry yesterday by the governor of the Reserve Bank. **PETER DENNEHY** reports.

TOUGH DECISION MAKER: Dr Chris Stals, governor of the Reserve Bank, explains to the inquiry into the liquidation of Tollgate Holdings yesterday that his central bank helps out sparingly, and usually only when the whole banking system would suffer from one institution's liquidation. *PICTURE: BENNY GOOL*

RESERVE BANK governor Dr Chris Stals told the Tollgate inquiry yesterday that what the central bank had done in temporarily creating R1,5 billion to help out a struggling private bank was not essentially different from what any central bank would do.

"Central banks are very special institutions. They are empowered by sovereign governments to create money," he said.

"This ... places a great responsibility on central banks ... to manage the monetary system of the country in the interest of the total community."

When Bankorp, one of the country's major banks, had approached the Reserve Bank in 1985 for special assistance to cope with bad investments it had inherited from Trust Bank and Mercabank, which it had taken over, the Reserve Bank had had to decide whether to help out, or whether to allow Bankorp to be liquidated.

Stals said there are macro-economic social costs involved in helping a bank, because there are effects on the money supply and inflation.

But there are also adverse consequences for taxpayers if the Reserve Bank does not help the struggling bank, he said. Failure to help would have led to the liquidation of, not only Bankorp, which had R20bn in depositors' funds, but also of many of its debtor clients.

In those circumstances the Reserve Bank had intervened by creating money which had not existed before.

The Bankorp Group would get the benefit of the interest on that money for about five years from government stocks and the Reserve Bank, in which it was invested, until the total reached R1,125bn.

At that stage the created money was cancelled again by a book entry.

The interest that had been earned in the meanwhile was used to write off Bankorp's accumulated losses.

The question that the inquiry has to deal with is whether or not the Tollgate Group was unnecessarily liquidated by Amalgamated Banks of South Africa (Absa).

Absa bought Bankorp in 1992, along with its then-existing Reserve Bank lifeline.

Former Tollgate managing director Mr Hennie Diedericks claimed in evidence before the commission that Absa had liquidated Tollgate Holdings because it knew that at least part of the cost would be covered by the Reserve Bank lifeline and some of the remaining costs by a tax write-off.

But Absa lost R215m when Tollgate went under, and it emerged in Stals' evidence yesterday that none of the Reserve Bank lifeline money had actually been used to write off Tollgate's debts.

However, there had been a possibility once that some of the money could have been used for this purpose.

Stals told the inquiry yesterday that when Bankorp's doubtful debts amounted to R1 930m in 1991, a list had been drawn up of about 100 institutions which together owed this R1 930m to Bankorp.

The list included a provision of R75m against the name of Duros/Tollgate. Since the lifeline covered only 58% of all known potential losses at that time, the Reserve Bank would only have covered R43,5m of realised losses on the Tollgate liquidation.

Bankorp, and later Absa, had been free to use their own discretion in deciding what losses from the accepted list would be charged against the Reserve Bank facility, and what write-offs would be debited to shareholders' funds. If a large amount of the total were used to cover Tollgate's losses, there would be that much less to use for the rest.

Stals disclosed that Bankorp's bad debts, when taken over by Absa, came to R5 400m in total.

But the Reserve Bank's assistance programme had since been successfully concluded. And Absa, which now owns what used to be Trust Bank and Bankorp assets, "is in a position to function as a sound and well-managed banking institution".

Absa had known exactly what Bankorp's position was when it took Bankorp over, he said, and Absa had obviously adjusted, accordingly, the price it was prepared to pay for Bankorp upon takeover.

The assistance the Reserve Bank provided to the Bankorp Group and later Absa had been justified in terms of common practices applied by central banks in the rest of the world.

Stals said the loans made to Bankorp and Absa between 1985 and last year had at all times been recorded in the books of the Reserve Bank, had been regularly audited by its internal and external auditors and had been included in the published financial statements that served before board meetings and meetings of the committee of governors.

However, the bank's directors and staff were bound by restrictions under the South African Reserve Bank Act from disclosing any information on the loans to outside parties, he said.

● The Tollgate inquiry may be stopped if a compromise between major creditors was reached former judge Mervyn King, recently appointed mediator to settle the dispute between three major banks, said last night.

He said he might issue a statement after he had heard what had transpired at yesterday's inquiry .

Defiant parents start 'own' school

(50)

Sowetan 27/2/96

By Khathu Mamaila

Other hopes appear to be pinned on forum of politicians to resolve issue

WHITE PARENTS who withdrew their children from Laerskool Potgietersrus in protest against the admission of blacks have vowed to establish an Afrikaans-only "private school" in two church buildings.

A spokesman for the school's governing body, Mr Koos Nel, confirmed yesterday that the pupils were being taught by professional teachers at "places where they gather".

Sowetan established yesterday that the two churches involved are the Nederduitse Gerformeerde Kerk and the Nederduitse Hervormde Kerk in the town.

Education MEC Dr Aaron Motsoaledi said he had been informed that the white pupils who did not report to Laerskool Potgietersrus were being taught in two local church halls. He said the pupils did not wear uniforms.

Motsoaledi said the majority of white pupils stayed away from the primary school, which was forced to open its doors to all races last week.

Nel said the pupils were receiving good education from professional teachers and other volunteers.

Said Nel: "The parents are very angry about the new arrangement. I am trying my utmost to keep the peace."

He said the white parents would establish a fully fledged private school for their children should the proposed forum to be called by President Nelson Mandela fail to meet the demand of Afrikaners for a separate school for their children.

Asked if all the parents could afford fees in a private school, Nel said some parents would be forced to keep their children at the public school because they could "barely survive".

He said he was hopeful however that the proposed forum of political parties would resolve the matter in a manner that would satisfy Afrikaners.

"Friday's meeting (between premier Mr Ngoako Ramatlhodi and right-wing leaders General Constand Viljoen and Dr Ferdie Hartzenberg) gave me some hope.

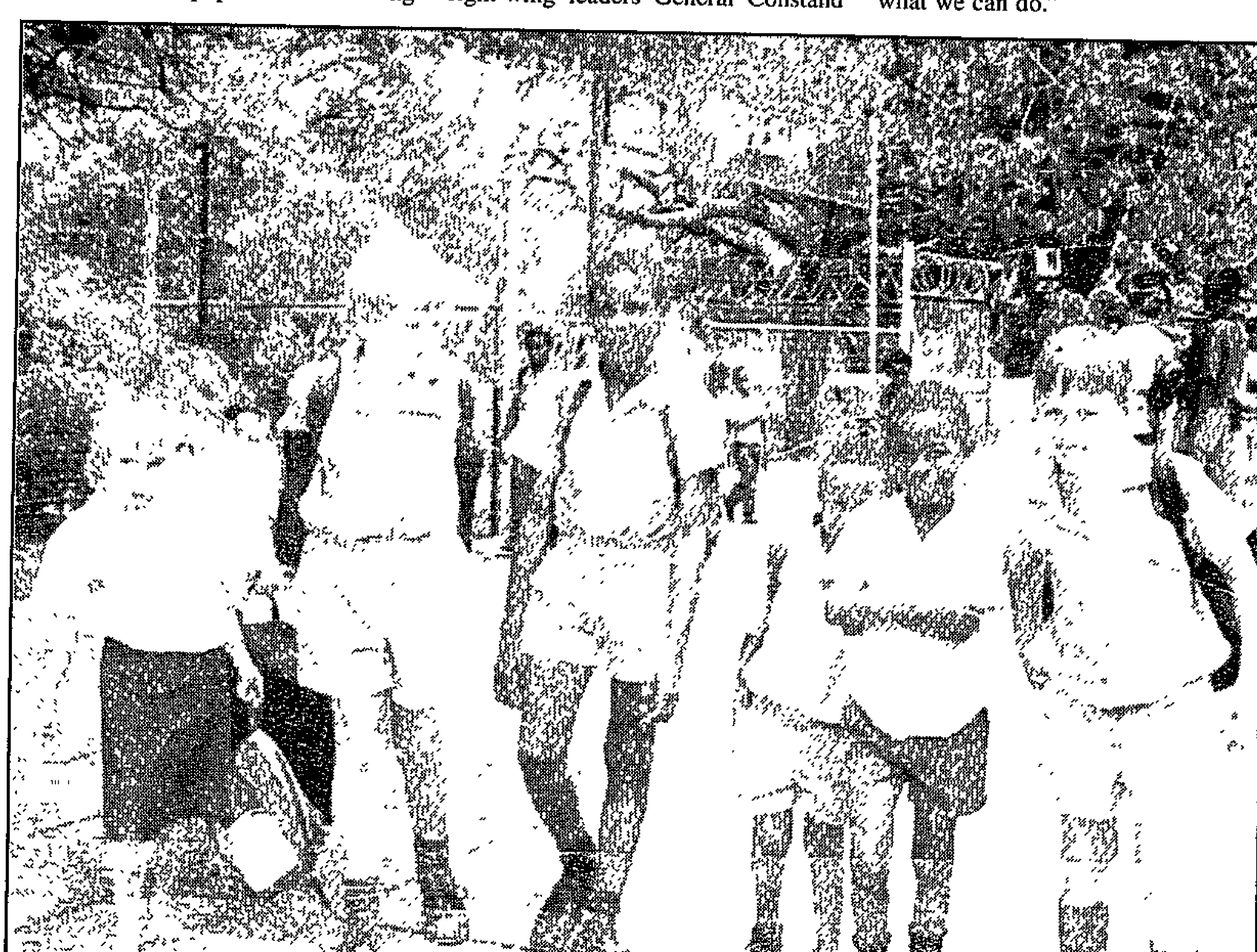
"We realised that it would be senseless to continue with the court case while we are also waiting for the outcome of the forum," said Nel.

However, Motsoaledi said the white parents decided to suspend their plan to approach the Constitutional Court because they knew they would lose the case.

Nel said he was confident that the forum would establish a principle within the next two weeks.

Motsoaledi said it was unrealistic to expect the forum, still to be constituted, to sit and resolve the issue in two weeks.

Asked if white children who stayed away for more than two weeks could be replaced by black applicants, Motsoaledi said: "We will have to look at the departmental rules and see what we can do."



FLASHBACK: Black and white pupils at Laerskool Potgietersrus seen leaving the school on Friday. Some of the protesting white parents yesterday took their children to two local churches. The protesting parents are planning to establish a private school.

PIC : JONAS MANKGA

Bankorp returned its R1,5-bn 'lifeboat', Stals tells inquiry

(58) Star 27/2/96

Cape Town – Reserve Bank governor Chris Stals has answered criticism of the bank's R1,5-billion loan to save the Bankorp group in the 1980s before the group was incorporated into Amalgamated Banks of South Africa.

Testifying at the Tollgate inquiry in Cape Town yesterday, Stals explained the so-called "lifeboat" extended to Bankorp and the secrecy surrounding the transaction.

Stals said he wanted to put right misleading and incorrect statements quoted in the media about the loan.

He said the lifeboat extended to Bankorp was in fact a loan which had been repaid to the Reserve Bank in October last year.

Bankorp's bad and doubtful debts amounted to R5,4-billion in 1992, far more than the R1,5-billion advanced by the Reserve Bank.

He agreed that the secrecy surrounding the loan was a controversial matter, but said this was common practice in other countries, including the United Kingdom.

Disclosure of massive aid could undermine public confidence in the banking system, thus worsening the damage.

The inquiry continues today. – Sapa.

Creditors want claims mediated

Bankorp aided for seven years as debts grew

(58)

BD 27/2/96

Linda Ensor

CAPE TOWN — The Reserve Bank sank money into Bankorp over seven years, despite Bankorp's inability to control its bad debts, evidence by Bank governor Chris Stals to the inquiry into Tollgate's collapse showed yesterday.

Stals's testimony coincided with a bid by industrial group Tollgate's major creditor banks — Absa, Standard and First National — to circumvent the inquiry by appointing Frame Group chairman Mervyn King as mediator over their claims for more than R300m. The move, initiated by Standard Bank, has been prompted by disenchantment with the lengthy inquiry's mounting costs.

It also emerged at the hearing that Tollgate had given three TrustBank officials — MD Chris van Wyk, Chris Morland and Gerbie Strydom — shares worth R375 000 in 1988 as thanks for their role in arranging a R65m overdraft for Tollgate. Tollgate's auditor, Kessel Feinstein, had sought the protection of the Constitutional Court to avoid having to testify about the transaction before the inquiry.

Stals was called to give evidence following testimony by former Volkskas MD Hennie Diedericks that Bankorp parent Absa had used the Bank lifeboat to protect itself when it pulled the plug on Tollgate in 1992.

Stals testified that the Bank had stepped in four times to help Bankorp, but the decision had been based on the widespread damage Bankorp's collapse would have inflicted.

The Bank gave Bankorp a R200m low-interest loan in April 1985, followed by a further R100m loan in 1986.

Bankorp warned in 1990 that it was unable to make its first repayment of R60m on the loan, prompting the Bank to undertake a four-month investigation which highlighted Bankorp's "desperate" circumstances.

"The Bank was confronted with the option of either closing the institution or providing further assistance," Stals said. "The SA economy was then in recession and the liquidation of Bankorp at that stage would not only have adversely affected other banking institutions and the many depositors of the bank, but would also have forced the liquidation of many of the debtor clients of the bank."

The loan was increased to R1bn on condition that Bankorp restructure by June 1991. But external auditors reported a further deterioration in Bankorp's circumstances by that date.

Its accumulated doubtful debts had risen to R1,93bn, which were not covered by the R150m yearly income generated by the Bank's support package.

Continued on Page 2

Bankorp

(58)

BD 27/2/96

Continued from Page 1

The auditors said Bankorp did not comply with the capital requirements of the Banks Act so they could not certify its statements. The loan was then increased to R1,5bn. The lifeboat was to absorb about 58% of Bankorp's potential and confirmed losses.

By March 1992, just before its takeover by Absa, Bankorp had doubtful debts of R5,4bn. By November 1995 the cumulative writeoff exceeded R1,9bn. The deal with Bankorp and Absa remained in force until October 23 1995 when support was withdrawn. By that time the banking conglomerate had earned R1,125bn on the package.

Stals said after giving evidence that the subsequent success of the Bankorp/Absa group vindicated the Bank's decision to step in.

Meanwhile, sources said Tollgate's major creditors were growing impatient with the inquiry, which was depleting Tollgate's few assets.

King confirmed that he had been appointed by "major creditors" to reach a compromise, but would not elaborate.

Commission chairman Bertrand Hoberman said that although the commission had sat for three-and-a-half years, it had done so sporadically. "What we have recovered as a result of information extracted from this inquiry has far exceeded the costs of the inquiry itself," he said.

Legal counsel for the liquidators Gavin Woodland said the liquidators would not be bound by any agreement reached by creditor banks.

See Page 6

Protea posts R22,9m turnaround

(158) CT(BR) 28/2/96

By Audrey D'Angelo

Cape Town — Income from investments and a good performance by its life division helped composite assurer Protea Assurance achieve a R22,9 million turnaround in the year to December 31.

Attributable profit of R14,9 million was declared, compared with a loss of R8,8 million the previous year. A final dividend of 70c a share was declared, making a total payment of 100c (80c) for the year — a rise of 25 percent.

General business profit was R10,7 million, compared with a loss of R12,1 million last year.

The underwriting loss was reduced to R23,5 million (R42,5 million). Andrew Tainton, the managing director, said that underwriting losses were curtailed as a result of "a concerted effort to eliminate non-profitable business through the implementation of strict underwriting criteria".

The life business lifted earnings 20 percent to R5 million (R4,2 million). Its renewable premium income rose 38 percent and its total premium income rose 30 percent. Investment income rose to R34,3 million (R30,4 million).

Peter Mitchley, the general manager of Protea Insurance, said that so far the floods had cost the short-term operation R2 million and there would be further claims.

He said South African short-term insurers faced increasing competition from foreign companies coming into the market.

Short-term sector lifts Protea

BD 28/2/96 (58)

Samantha Sharpe

CAPE TOWN — Composite assurance company Protea Assurance showed a healthy recovery in the year to December with attributable earnings of R14,9m against a previous R8,8m loss, boosted by an improvement in its short term business.

MD Andrew Tainton said the group had curtailed its short-term underwriting losses, with an "excellent performance" from life business and good investment results also key factors in the turnaround.

The group's recovery was reflected in share earnings of 189c against a 112c share loss at the same time in 1994 and a 25% hike in total dividends to 100c.

General business, which excludes life activity, showed a R10,8m profit compared to a R12,1m loss, reflecting a turnaround largely in the last quarter of last year.

Tainton said the improvement was even more marked given that development costs of approximately R6,5m for a new business initiative were included in the underwriting results.

The group's general business underwriting loss shrank to R23,5m from R42,6m in financial 1994, with a rise in investment income to R34,3m from R30,4m leading to the short-term business profit. Protea's pre-tax profit increased to R12,1m from an R11,4m loss, with a reduced tax charge — there was no secondary tax on companies payment last year — showing an after tax general business profit of R12,1m against R11,9m.

On the life side, a relatively small part of. group business, earnings came to R5m from R4,2m a year before.

Protea Life GM Nick Criticos said new business had shown 38% growth, while recurring premium income grew at 35% and total premium income at around 30%.

Tainton said the Protea investment team's performance was reflected in the increase in shareholders' funds to R550,4m against R472,6m at the same time in 1994.

"Our investment portfolios performed satisfactorily and in line with the strong gains on the JSE in the second half of the year."

Medium-term economic prospects were positive, which should sustain the group's general business arm, he said. However, the recent floods could have a negative impact on the group's property portfolio, he said. Initial estimates were that flood claims could cost the group about R2m.

Protea's actuarial balance sheet would be made available later in the year.

African Bank set to write off R184m

(58)

Business Day Reporter

BD 28/2/96

AFRICAN Bank is poised to write off R184m in its accounts for the year to March, with doubtful debts covering about 30% of its R500m total advances accounting for most of the figure.

CEO Colin Franks said yesterday the first preliminary report of the bank's doubtful debts was being compiled and Afbank would write losses off in full in its current financial year.

The write-off would be covered by government under the agreement struck when New Africa Investments, NBS and Metropolitan Life bought Afbank in November.

Government has offered R262m of public money on deposit with Afbank as a write-off cushion. It forms part of deposits by the Transkei Public Debt Commissioners and other parastatals.

Franks said little of the bank's bad debt had been recovered since the takeover, and not much more was expected to be brought in, though Afbank would continue to vigorously pursue the debts. A detailed report of the doubtful debts would be tabled by July, by which time government has said it hopes to determine the full extent of its involvement in the rescue.

The bank had investigated all its branches, with the preliminary find-

Continued on Page 2

Afbank

(58)

BD 28/2/96

Continued from Page 1

ings assembled only last week.

About R154m of the doubtful debt stemmed from loan advances, another R16m from dubious suspense accounts and a further R14m from alleged fraud. The Office for Serious Economic Offences is investigating, its focus including former Afbank CE Jack Theron.

Franks said the bank was likely to show an operating loss of R7m for the full year, but that it should stage a recovery in the new financial year.

Afbank will meet some of its shareholders in Johannesburg today to brief them on the bank's recovery and plans.

Franks said the bank had provided the office with documentation relating to Theron last Friday. It had also begun civil proceedings against Theron to recover more than R4m he borrowed to buy an apple farm.

Comment: Page 20

The MINISTER FOR SAFETY AND SECURITY.

Yes

The docket has been referred to the Gauteng Attorney-General for his decision A team of four (4) investigators and two (2) advocates has been appointed to finalise the investigations

SAPS Commissioner: travel expenditure

*13 Mr A J LEON asked the Minister for Safety and Security.

(1) Whether any costs to the State were incurred by a certain commissioner, whose name has been furnished to the South African Police Service for the purpose of his reply, for the purpose of travelling between his home in Pretoria and his workplace in Cape Town; if so, (a) what was the total expenditure involved during the period 1 March 1995 up to 31 January 1996 in respect of flights and (b) how many such flights were undertaken during this period,

(2) whether any restrictions were placed on the number or cost of flights so undertaken; if not, why not; if so, what restrictions;

(3) whether the said commissioner claimed any away-from-home allowances during the above-mentioned period; if so, what total amount was paid to him?

N120E

The MINISTER FOR SAFETY AND SECURITY:

(1) Yes,

(a) The total expenditure in respect of flight costs amounted to R25 057,00

(b) During the period 1 April 1995 to 31 January 1996, 18 flights were undertaken by the said commissioner.

(2) No restrictions were placed on the number or cost of flights undertaken.

All flights were undertaken for official purposes and dealt with according to Police Regulations 23. As Commissioner he was a member of the Board of Commissioners which is a constitutional body that handles the transformation and rationalisation of the former police agencies. The Commissioner was obligated to attend meetings and management forums at management level. These forums and meetings were held at weekly intervals

Air transport was used to minimise the period of absence due to the distance travelled.

(3) During the Commissioner's stay in Cape Town he resided with family and no interim residence claim was paid to him.

During official visits to Pretoria, travelling and substance claims were only paid to the Commissioner from the time he departed from Cape Town until his official proceedings ended in Pretoria as well as for his travelling time to Cape Town. No claims for the actual expenditure were received as he stayed in his own home in Pretoria.

His total travel and subsistence claims in accordance with Regulation 22 of the Police Regulations, for 1 April 1995 to 31 January 1996 amount to R5 545,71 which consisted of 21 claims.

Dams in rivers: progress in building

*4. Mr A FOURIE asked the Minister of Water Affairs and Forestry:†

Whether any progress has been made in building dams in the (a) Letaba, (b) Olifants and/or (c) Luvuvhu Rivers; if not, why not; if so, what progress in each case?

N121E

The MINISTER OF WATER AFFAIRS AND FORESTRY:

(a) Yes, in the form of the recently commenced Groot Letaba Water Resource Development Feasibility Study. On the Groot Letaba River, the Janetsi Dam site which was previously identified in the pre-feasibility study is being scrutinised further so as to size the dam, to quantify all relevant water demands and requirements and to determine environmental releases. Similarly, a dam on the Letsitele River is being investigated but local communities could be significantly affected. This issue is being actively pursued with the communities and will have to be resolved if any useful progress is to be made This study is due for completion by the end of 1996, after which construction will begin if acceptable results are obtained and funding is available.

(b) On the Olifants River, the Rooipoort Dam site has been recommended as a result of the recently completed Olifants-Sand Transfer Scheme Feasibility Study. The purpose of the dam will be mainly to provide domestic water to Pietersburg and also to rural communities in the region. This proposed dam will have an initial capacity of 450 million cubic metres. The project will also incorporate a raw water pump station, treatment works, a pipeline to Pietersburg (and other communities along the route) via Chuniespoort and additional pumpstations/reservoirs. The dam will only be constructed once the other existing sources have been fully used. Construction is envisaged to start in the year 2000.

(c) Yes The Department is busy with the Luvuvhu Dam Feasibility Study. This study started early in 1995 and is due to be finished at the end of April 1996. Two dam sites have been identified for development, one at Mutoti on the Luvuvhu River for primary water supply to Thohoyandou and environs and the Malamulele District, and the other on the Latonyanda River, a tributary of the Luvuvhu River (near the Albasini Dam) for primary water supply to Louis Trichardt and environs. It is envisaged that a white paper on this scheme will be tabled in Parliament within the next two months.

Water from Limpopo River

*15. Mr A FOURIE asked the Minister of Water Affairs and Forestry:†

Whether pumping water from the Limpopo River to the (a) Njelele and/or (b) Nwanetsi Dams is under consideration; if not, why not; if so, what are the relevant details in each case?

N122E

The MINISTER OF WATER AFFAIRS AND FORESTRY:

Both proposals (from the Town Council of Messina) were appraised by the Department of Water Affairs and Forestry and were found not to be viable, due to high pumping costs, high capital investment required, and high operating and maintenance costs These factors would make the cost of water unaffordable, and if the schemes were implemented it would over extend the financial resources of the region The proposed schemes also seem to be mainly agricultural developments, with primary water supply tagged on as incidental motivating factors, with resulting low probabilities of cost recovery. Both proposals should be viewed against a number of water supply options that have already been identified for the region. The development of dams in the Luvuvhu and the Nzhelele Rivers is currently being investigated by the Department.

*16 Dr P J WELGEMOED—Transport † [Question standing over]

Inquiry into provision of Rural Financial Services: report 58

*17. Mrs M J BADENHORST asked the Minister of Land Affairs:

(1) (a) Who are the members of the Commission of Inquiry into the Provision of Rural Financial Services and (b) when is the report of this Commission expected;

(2) whether the Commission's report is to be tabled; if not, why not; if so, when,

(3) whether he will make a statement on the matter?

N124E

The MINISTER OF LAND AFFAIRS:

(1) (a) The following persons were appointed as members of the Commission of Inquiry into the Provision of Rural Financial Services by virtue of Proclamation 93 of 19 January 1995 in Government Gazette No 16235 Conrad Barend Strauss as chairperson and Deon Theron Brand, Helena Maria Dolny, Steven Goldblatt, Johannes Stephanus Hugo, Bonile Simon Jack, Johannes Stefanus Gideon Joubert, Michael Peter Lamont, Busisiwe Totsie Memela, Daphne R Motsepe, Kgotoki Nhlapo, Jacob Wouter Raath, Nick Vink and Peter George Abner Wrighton

(b) It is anticipated that the report of the Commission will be handed to the President towards the end of March 1996

(2) A decision on whether or not to table the report will be taken after the Cabinet has had an opportunity to consider it.

(3) I am willing to make a statement after the Cabinet has considered the matter.

Dispute resolution body/mediation service: establishment

*18. Dr E A SCHOEMAN asked the Minister of Land Affairs:

Whether any steps have been taken or are to be taken to establish a (a) dispute resolution body and (b) mediation service, as contemplated in the green paper on land affairs, if not, why not; if so, what steps?

N125E

The MINISTER OF LAND AFFAIRS:

(a) and (b)

The Department of Land Affairs has recognised the potential for conflict and disputes around land reform in South Africa and has committed itself to providing appropriate mechanisms for dispute prevention and resolution. To date the following steps have been taken to fulfil this commitment:

The Department of Land Affairs has commissioned an investigation into appropriate mechanisms to deal with conflict prevention and resolutions to support the process of land reform in South Africa The report from this study is near completion and will be presented to the Department of Land Affairs within the next three weeks.

In the interim, the Department of Land Affairs has established a National Land Reform Mediation Panel supported by donor funding made available by The Kingdom of the Netherlands. The Panel is made up of professional mediators selected from nominations received from a range of mediation and conflict resolution agencies throughout South Africa. The panellists have been provided with training by the Department on the policy and legislative framework for land reform, currently in operation. Panellists may be accessed for mediation work by the Regional Directors of the Department of Land Affairs, the Regional Commissioners of the Commission on Restitution of Land Rights, District Managers of the Land Reform Pilot Programme, or heads of departments responsible for land matters in the provincial governments. For 1996, the Panel is administered on behalf of the Department of Land Affairs by the Independent Mediation Services of South Africa (IMSSA).

Lesotho Highlands Water Scheme: landslides

*19. Mr P W SAAIMAN asked the Minister of Water Affairs and Forestry:†

(1) Whether any landslides have occurred in the vicinity of the dam in the Lesotho Highlands Water Scheme; if so,

(2) whether these landslides have been caused by the pressure of the mass of water in the dam; if so, what are the relevant details, if not, what are the reasons for these landslides;

(3) whether there is any danger that further landslides could cause a disaster as the dam becomes fuller; if not, what is the position in this regard; if so, what steps are being envisaged to (a) prevent possible loss of life, (b) provide accommodation for persons who must be moved and (c) pay compensation for losses that could be suffered; if not, why not; if so, what steps?

N126E

The MINISTER OF WATER AFFAIRS AND FORESTRY:

(1) No landslides have occurred in the vicinity of the Katse Dam in Lesotho. I should, however, inform the House that since the commencement of the filling of the Katse Dam, mild local earth tremors have been observed at the village of Ha Mapeleng, by the name of Ha Mapeleng, some six kilometres north of the dam wall. At the same time new cracks in the crust of the earth appeared along a weak zone in the rock, which can be observed over a distance of 1,5 kilometres. A number of dwellings close to the cracks have been damaged and four nearby natural springs have dried up.

(2) As already stated, no landslides have occurred. The earth tremors are considered to be directly related to the filling of the reservoir at the Katse Dam The tremors are associated with the release of energy in the underlying rock as it adjusts to the additional mass of the stored water and to the changes in the water pressure in the rock mass These tremors, commonly referred to as "reservoir induced seismicity", are a common phenomenon, especially at some dams with water depths of more than 100 metres and storing a large volume of water. Such tremors were observed during the filling of the Gariep Dam

(3) The occurrence of landslides into the reservoir of the Katse Dam with disastrous consequences is not foreseen This has been reconfirmed by a recent technical investigation into the matter by a team of technical experts. Obviously the occurrence of small or local slides involving small volumes of rock in uninhabited areas is expected to occur, but would not be of any significance.

It is expected that local tremors could occur until the filling of the Katse reservoir is complete and possibly for a short period thereafter. It is not possible accurately to predict future earthquakes and tremors, but experts have indicated that tremors measuring 4,0 to 4,5 on the Richter scale cannot be ruled out. Such tremors could cause damage to nearby structures not designed to resist such earthquakes, such as the traditional houses in the Highlands of Lesotho. The Katse Dam has been designed to withstand the effects of a much larger earthquake and would not be damaged by such tremors.

(a) The inhabitants of damaged houses in the village of Ha Mapeleng have already been given alternative accommodation as a precautionary measure by the Lesotho Highlands Development Authority, the authority responsible for the Lesotho Highlands Water Project in that country. The main hazard for villagers is that the walls of their traditionally built homes could fall on them at night. Villagers in the area around the reservoir are being informed about possible future tremors and advised on how to react if this should occur.

(b) At present there is no need to relocate people, but the situation will be monitored.

(c) The Lesotho Highlands Development Authority will fully compensate people for losses suffered.

Lesotho Highlands Water Scheme: phases in development completed

*20. Mr P W SAAIMAN asked the Minister of Water Affairs and Forestry:†

(1) What phases in the development of the Lesotho Highlands Water Scheme had been completed as at 31 January 1996;

(2) whether it is the intention to complete all the planned phases of the scheme, if not, (a) why not and (b)(i) which phases will be completed and (ii) what is the time schedule in respect of the completion of the phases that will be pursued;

(3) whether he or his Department has made any investigations or intends having any investigations made concerning the possible negative effect of the completion of the water scheme on the availability of water in the lower reaches of the Orange River; if not, why not; if so, what are the relevant details? N127E

The MINISTER OF WATER AFFAIRS AND FORESTRY:

(1) Phase 1A was about 75% complete and work on Phase 1B was in the initial stage of implementation

(2) No.

(a), (b)(i) and (ii) The Treaty on the Lesotho Highlands Water Project commits South Africa to the completion of Phase 1 only. No decision has yet been taken on implementation of further phases.

(3) The Department has appointed consultants to study the availability of water for transfer out of the Orange River This study is referred to as the Orange River Replanning Study and will consider numerous social and environmental issues in the Orange River basin. It is being done in close liaison with all interested and affected parties in the basin and is due for completion early in 1997.

Stokvel men cheat death

Directors nabbed by angry investors

(58) Sowetan 1/3/96

By Lulama Luti

THREE directors of Masakhane Society, a get-rich-quick scheme in Mogwase, near Rustenburg, narrowly escaped death on Wednesday night at the hands of investors, angered by the mystery disappearance of R1 million from the offices of the pyramid scheme.

The incident occurred after the three directors, Mr Vincent Mbusi, Mr Andile Madyaka and another official known only as Lucas, were called by the irate investors to the scheme's offices at the Mogwase shopping complex yesterday, following reports that the funds were missing.

Mbusi told *Sowetan* yesterday that they were held hostage for hours on Wednesday afternoon by the group, who demanded to be refunded.

The three men were rescued by police, who whisked them away to the local police station.

The investors, some of whom had invested thousands of rands in the scheme, yesterday flocked to the Mogwase police station to demand their money. They later went to Masakhane office, where they were addressed by the directors of the scheme.

Mbusi claimed that about 800 000 people had invested in the scheme. He said trouble began when a payment of R2,5 million was made to investors shortly after the disappearance of the amount of R1 million.

"If we wanted to run away with their money, we wouldn't have come here," said Mbusi, shortly after addressing the investors.

"We came because we were told there was a problem and we came to address it. We are not conmen," he said.

He said the scheme had branches in Mogwase, Zinnaville, Northam, Brits in the North West and Lusikisiki, Bizana, Mount Frere, Flagstaff and Butterworth in the Eastern Cape and Welkom in the Free State.

An angry Mrs Joyce Matjila, who together with her husband had invested a total of R11 840, said Government involvement in such schemes was necessary to safeguard investors' interests.

"The Government has to be involved so that when these schemes collapse we will not lose our monies," she said.

In a heated meeting at the scheme's Mogwase offices yesterday, a decision was reached by the directors of the scheme to refund investors on Tuesday next week.

Masakhane is one of several get-rich-quick schemes that have run into problems with their investors in the Rustenburg area in recent weeks.

Last month, tens of thousands of investors in the Future Progress scheme were left stranded following the disappearance of the directors from Rustenburg.

Another scheme, Sun Multiserve, had more than R50 million seized by the Registrar of Financial Institutions for flouting regulations governing stokvels.

Liberty Life arm to start global operation

John Cavill

(58) BD 1/3/96

LONDON — Liberty Life's offshore arm, TransAtlantic Holdings, has set aside nearly £550m to develop its financial services activities in the US and the UK.

The group, in which Liberty has a 66% stake, said yesterday it was ready to develop an international financial services operation which would form a core component of the Liberty group.

Chairman Donald Gordon said the group was just waiting for Wall Street share prices to become "more realistic" before launching its long-awaited acquisition. He said the programme — which he dubbed the Millennium project — would take Liberty back into financial services and would develop new prototype investment products and pilot schemes. "This is a highly innovative medium-term strategic plan for the period to the end of the century encompassing the methodology for the re-entry of TransAtlantic and Liber Life into the UK, US and offshore financial services," Gordon said.

Continued on Pa

Liberty

(58) BD 1/3/96

Continued from Page 1

The plans follow the group's decision earlier this month to establish an offshore asset management and life operation, Liberty International Jersey, and rename TransAtlantic as Liberty International.

The cash pile had been built up partly with the £527m the group had raised last August, when TransAtlantic pulled out of the UK life industry by selling its 50% stake in Sun Life to French group UAP.

TransAtlantic's pre-tax earnings, also unveiled yesterday, rose 9% to £93,8m for the year to December before an exceptional £110m profit on the sale of the Sun Life stake. The disposal produced a net gain of £260m over the original cost of the stake. TransAtlantic had put a balance sheet value of £413m on the investment.

Property investment — via Capital Shopping Centres and the commercial developments owned by Capital and Counties — generated income of £95,6m after administration costs, which grew 12%, while eight months of income from Sun Life totalled £29,9m (£46,7m for 1994 full year).

Profit before interest, tax and capital gains was slightly down at £125,5m. But net interest paid dropped £15,2m to £31,7m.

Earnings a share before capital profit rose 20% to 17,6p (51p including exceptionals) and the total dividend was increased 10% to 14,5p.

Borrowers set to be refunded millions of rands

(58) ARG 2/3/96

Own Correspondent

DURBAN. — Bank customers are set to be refunded millions of rands charged in illegal administration fees on their personal loan accounts following a Durban Magistrate's Court judgment.

Magistrate Garth Davis found Wesbank Durban guilty of 54 counts of contravening the Usury Act. The company was fined R50 admission-of-guilt fines for each offence.

However, the magistrate said the consequences of the judgment would be far greater than any sentence he could deliver.

Although lawyers acting for the bank indicated it would appeal against the court ruling, the judgment goes further than just Wesbank.

Cases against several other major banks were pending, involving thousands of account holders, a source in the Department of Trade and Industry said.

The department is investigating contraventions under the Usury Act.

Speaking after the judgment, prosecutor Mike Vehbi said it was time banks were brought to book "in these transparent times".

"Millions of rands were generated by Wesbank through the back door."

Wesbank and Saambou were served summonses in October last year specifying 94 cases of charging illegal administration fees on their clients' personal loan accounts. Forty of these cases were from Saambou and 54 involved Wesbank clients.

Both banks were given the option of R50 admission-of-guilt fines, but only Saambou took up the offer, paying R2 000 and refunding clients. Wesbank opted to fight the case in court.

The case against Wesbank stemmed from personal loans called "Cash Power Application for Cash Power Finance". A "client protection and disability insurance" was available to cover the loan but was not compulsory in order for the loan to be approved and clients could indicate that they did not want the insurance.

It cost account holders an administration fee of R9,69 a month.

In the 54 cases against Wesbank these account holders were selected "at random" as test cases. Although the borrowers indicated they did not want to take out insurance, it was charged nevertheless.

This, according to Robin Shales, the bank's customer services division senior general manager, was a mistake by personnel employed by Wesbank and any queries would have led "to the situation being rectified", magistrate Davis said in his judgment.

But in many cases, the magistrate found, the administration fee was as much as three times higher than the monthly premium.

"Particularly in those cases where the administration fee exceeds the insurance premium, one would expect a reputable financial institution, especially one with the reputation and size of Wesbank, to advise its clients that it is in their best interests to secure the loan directly with the insurance company," said Mr Davis.

"The reason why Wesbank do not do this is easily apparent. Their aim is to secure their debt . . ."

Taxi-owners angry with 'rip-off' banks

ARG 2/3/96 (58)

JEAN LE MAY
Staff Reporter

■ Taxi-owners have threatened to blockade the Cape Town in a dispute with banks over finance charges.

MINISTER of Justice Dullah Omar has given his support to action against banks and financial institutions which are charging clients more than they should.

The issue has been boiling up for months among owners of minibus taxis, who threatened yesterday to blockade Cape Town if they were not refunded money overpaid on vehicle financing agreements.

Saturday Argus reported in October last year that problems with the financing of taxis were partly responsible for recurrent taxi wars because taxi-owners had to compete for routes to get money to meet escalating payments.

Steven Williams, vice-chairman of the Cape Amalgamated Taxi Association (Cata), said yesterday that a delegation from Cata had interviewed Mr Omar.

"Taxi-owners have discovered that they are being ripped off. If we don't get our money back we may be forced to take action by blockading the streets," he said.

Mr Omar said he would facilitate a meeting between Cape attorney-general Frank Kahn and directors of the Cape-based Financial Research Foundation (FRF), which has investigated thousands of cases.

Mr Omar said he "shared the concern" and that consumers needed protection. It appeared that banks and financial institutions were contravening the Credit Agreements Act, a criminal offence.

He suggested that people who could show they had been overcharged should also bring civil actions.

Trevor Manuel, Minister of Trade and Industry, also met the FRF. He was not available for comment yesterday.

Gerrit Breyl, Department of Trade and Industry deputy director-general (trade), said the department had "only recently become aware of these breaches and contraventions and was currently exploring the most satisfactory way to deal with them".

FRF director Laurie Friedman said they had given Mr Omar and Mr Manuel details of 636 contraventions of the Usury Act and 248 contraventions of the Credit Agreements Act.

Banks involved were Absa (300 cases), Standard Bank and Stannic (103 cases), First National Bank and Wesbank (95 cases), Boland Bank (91 cases) and other banks (47 cases).

Local authorities and several well-known business firms were among the claimants, according to an FRF schedule.

Overall, claims amounted to millions of rands, said Mr Friedman. Claims by minibus taxi-owners averaged R20 000.

Mr Friedman said that over and above the cases discussed with the two ministers, the FRF had received thousands of complaints from minibus taxi owners whose agreements had been made before 1991 with Wesbank, the vehicle-financing arm of First National Bank.

Problems had arisen, he said, because in 1991 Wesbank formed a new bank, Future Bank, as a joint venture with the Foundation of African Business and Consumer Services (Fabcos), Taxi SA Marketing and the Get Ahead Foundation.

Wesbank's problem child — the "taxi book", for the financing of minibus taxis — was handed over to Future Bank, which described itself as "the bank with the new attitude".

Earlier agreements by Wesbank with taxi-owners had been handed over to Future Bank. However, Future Bank had refused to provide all the information necessary to investigate accounts on which taxi-owners felt they had been overcharged, said Mr Friedman.

Claimants against Future Bank included two taxi owners from Johannesburg and Port Elizabeth, who were claiming R75 000 and R53 000 respectively, according to the FRF schedule.

Future Bank's managing director, Neville Watchurst, denied to Saturday Argus that it had been unhelpful, saying that letters of complaint from investigators had "flooded in", but that "they had not been able to prove anything".

In an acrimonious exchange, Mr Friedman told Wesbank that "FRF has not disputed your formula on the running of accounts, although it seems rather old".

However, "human-driven" errors had arisen, he said, such as "bank officers not informing clients of the contents of agreements, agreements not complying with the Usury Act and the Credit Agreements Act, insurance not done according to the Act and agreements with a third party (such as insurers) being concluded without this being specified in the agreements with the client".

"We shall let the law take its course," said Mr Friedman.

R1-m kept in dustbin

58

Theft from stokvel was not reported to police

By Lulama Luti

ABOUT R1 million, which mysteriously disappeared from the unguarded office of the get-rich-quick scheme Combination Masakhane Society in Zinnaville, near Rustenburg, was kept in a rubbish bin.

Masakhane co-director Mr Vincent Mbusi told *Sowetan* that the theft, which allegedly occurred a fortnight ago, was discovered by the scheme's staff members at the office.

"Our representatives (who man the Zinnaville office) said the money was stored in a rubbish bin in the office overnight and that when they reported for work the following day, the money was nowhere to be found," said Mbusi.

Masakhane director Mr Vincent Mbusi.

Mbusi could, however, not elaborate on how the money was stolen or why the money was stashed in a dustbin in an unguarded office.

Questioned further, Mbusi shrugged his shoulders and said, rather nonchalantly: "It's just gone and no one knows who exactly took it."

The mystery surrounding the incident deepened at the weekend when police said they had no record of R1 million being stolen from the scheme.

Rustenburg police spokesman Sergeant Elize Lubbe told *Sowetan* on Friday that no report of the missing money was made to police and no complaint was lodged with them.

However, Mbusi could not be reached for a comment yesterday. His co-directors, Mr Andile Madyaka and another known only as Lucas, are believed to be visiting some of the scheme's offices in the Eastern Cape.

A spokesman for the Masakhane investors, Mrs Pauline Ratlou, yesterday disputed the theft allegations, saying: "There is no way that anyone can lose that amount of money and not report it to the police."

Ratlou said investors at Mogwase were supposed to have received their returns last Wednesday but were told they would now receive their money tomorrow.

The disappearance of the money led to a fracas last Wednesday in which Mbusi and his co-directors were held hostage at their Mogwase Shopping Complex offices by angry investors who demanded to be refunded amid fears that the scheme would collapse.

Mbusi said they were rescued from irate investors by police who whisked them off to the local station.

About 300 Mogwase investors, some of whom had invested thousands of rands in the scheme, had gathered at the tiny North West town's shopping complex, demanding to be refunded.

They questioned a R2, 5 million payout made to investors in Zinnaville, where the alleged theft took place. The Mogwase investors were worried that the scheme's directors had used their investments to pay their Zinnaville counterparts.

Sowetan 4/3/96

Strained Community Bank to meet funders

BD 5/3/96 (58)

Amanda Vermeulen

CASH-STRAPPED Community Bank and its original lenders would meet on Friday to decide whether to continue support for the institution, which needed to raise R500m to operate over the next two years, Community Bank executive trustee Cas Coovadia said yesterday.

Coovadia said the bank, one of the most significant lenders into the low-cost housing market, had entered into talks with institutional and government investors to raise the money.

The World Bank's investment arm, the International Finance Corporation (IFC), was negotiating to inject 20% of the R200m the bank needed to raise this year, but its participation depended on the bank pulling a consortium together in time, he said.

Local IFC representative Vincent Rague said the corporation was having discussions with the bank, but no commitment had been made.

Coovadia said that institutions approached for funding included Southern Life's Future Growth Fund, the Investment Development Unit of the Life Offices Association and the Eskom Pension Fund.

The bank would report an assessed loss of R45m for the 27 months to March, higher than the R28m it had initially projected. Original funders were the Development Bank of SA, the Independent Development Trust, the Industrial Development Corporation, Standard Bank, First National Bank, Nedcor, NBS and Absa who had capitalised the bank at R200m, of which R127m had been drawn down. Coovadia was confident the bank would continue to get support from the initial funders. The liquidity crisis could partly be attributed to the slow start to the housing programme, he said.

Community Bank defends R45m loss

(58) BD 5/3/96

By Thabo Leshilo

Johannesburg — Cas Coovadia, the chief executive officer of the Community Bank, confirmed yesterday that the bank would suffer losses of R45 million for the period January 1994 to March this year. He said there should be no concern because the loss had been budgeted for.

"In our original projections, we predicted a loss of R30 million. But, it must be borne in mind that the higher loss includes establishment costs and the R10 million-a-year interest we pay the Development Bank of Southern Africa (DBSA), the Industrial Development Corporation (IDC), and the five major banks on their loans for the initial capital," Coovadia said.

He put the bank's actual loss at R8 million when the costs of establishing its 18 branches and the interest were taken into account.

Coovadia said that when the bank was conceptualised three-and-a-half years ago it was agreed it would run at a loss for the first five years. It had to raise institutional capital because its low-income clientele could not provide enough deposits to fund its loan book.

He said that since its establishment 18 months ago, the bank had raised R20 million from 22 000 clients. Its initial capital was R200 million, of which R130 million was paid out by the bank's initial funders. A total of R50 million was still due from the DBSA and R20 million from the IDC.

The two organisations are due to decide on Friday whether to pay the outstanding money.

The bank expects to lend R200 million this financial year and R200 million next year at which point it would break even. The bank was speaking to local and foreign institutions to raise R400 million over the next two years.

Christo Wiese, the registrar of banks, said the Community Bank was complying with all statutory requirements and he was not aware of any major problems.

Mutual & Federal turns a previous loss into profit

BD 6/3/96 (58)

Edward West

MUTUAL & Federal Insurance Company boosted net income 139% to R123,4m in the six months to December after turning the last half year's R16,6m underwriting loss into a R74m profit, said MD Ken Saggers.

Share earnings were up 139% to 261c and an interim dividend of of 50c (42c) was declared. Gross premiums increased 19% to R992,6m. Investment income increased 26% to R86,1m due to improved cash flow and higher dividends from listed investments.

Shareholders' interests increased 20% to R3,7bn during the period. The solvency margin — the ratio of net assets to net premiums — was more than 200% at the end of December.

Referring to the underwriting surplus, Saggers said the floods experienced in recent months would affect the underwriting account in the second half. Losses resulting from water damage in the first six months were in line with those of the previous year, but the rains since January had caused major weather and flood claims.

Saggers estimated water-related insurance claims to the company potentially to be about R40m-R60m. "We set aside funds for water damage in the Highveld, but not this much," he said.

The incidence of crime-related losses, notably burglaries and stolen or hijacked vehicles, appeared to have peaked. In the period under review the frequency of crime-related losses had remained unchanged. The incidence was still "alarming", with Mutual and Federal handling 900-1 000 vehicle-related crimes a month.

The company was experiencing a high level of large industrial fires, which was becoming of concern to the industry, Saggers said.

Although it was difficult to pinpoint reasons for industrial fires, during tough economic circumstances safety housekeeping and plant maintenance and renewal were neglected. Over the past six months the company had dealt with 45 industrial fire claims of more than R500 000 each, with some totalling up to R30m.

Mutual & Federal's foreign operations in Botswana were performing satifactorily. Looking ahead, Saggers said the nature of short-term insurance was such that the results of the first six months were not necessarily indicative of results for the remainder of the financial year.

Masakhane pays back investors

~~123~~ 58

Sowetan 6/3/96

By Victor Mecoamere

COMBINATION Masakhane, a get-rich-quick scheme, refunded some of its investors yesterday in a tense atmosphere after earlier reports that R1 million was missing.

Scores of people queued outside the scheme's offices at the Mogwase shopping complex in Rustenburg. Ten people at a time were allowed into the 2nd floor office during a prolonged payout process.

While most people were happy to receive their money, some complained that they had expected bigger payouts. One of the investors said he had invested R2 400 and had been told this would yield R7 600 on February 28.

None of the directors of the scheme, including Mr Vincent Mbusi and Mr Andile Majaka, were present.

Last Wednesday Mbusi and his co-directors were held hostage in their offices by investors demanding refunds amid fears that the scheme would collapse following the disappearance of R1 million from the scheme's offices in Zinnaville.

The money, allegedly left in a dustbin overnight, was found missing the next day. The theft was, however, not reported to the police.

Investors' fears persisted yesterday. Mr Peter Phasha, who said he was a senior employee at Masakhane, told concerned investors: "Masakhane is not going anywhere. That is why we are keeping our promise by refunding people today."

He later allowed me into his office and showed me a plastic bag full of R50 notes, "proof" that investors who wished to withdraw would be refunded.

"There has been a lot of misunderstanding," said Phasha. "We could not refund people last Wednesday because of a technical problem but we are fulfilling the promise made."

He refused to say anything about the missing R1 million.

M&F doubles net income

(58) CT (BR) 6/3/96

BY SEAN FEELY

Johannesburg — Mutual & Federal, a short-term insurer, more than doubled net income in the first six months because it wrote more policies and improved insurance controls, the company said yesterday.

Net income increased to R123,4 million in the six months ending December from R51,6 million in the same period a year ago.

Earnings a share rose 139 percent to 261c from 109c.

Net premiums increased by 21 percent to R843 million in the first half from R695 million and investment income rose 26 percent to R86,1 million from R68,5 million.

Profits were lifted by an underwriting surplus of R74 million, compared with a deficit of R16,6 million in the previous period. The surplus was spurred by a reduction in the number of claims and tighter controls on insuring.

Ken Saggers, Mutual & Federal's managing director, said that the underwriting account would be affected in the second six months by the recent heavy rains and continued "severe" fire losses.

Saggers also cautioned that the first half's results were not necessarily indicative of those for the rest of the financial year ending in June because of the volatile nature of short-term insurance.

Mutual & Federal said it would pay shareholders an interim dividend of 50c a share, 19 percent up on the 42c for the period last year.

Mutual & Federal shares closed unchanged at R95, marking a 39,7 percent gain in the last six months compared with a 41,3 percent advance in the Johannesburg Stock Exchange's index of insurance companies.

Bank denies taxi loan rip-off

'We ensure our rate is never above legal limit'

ARG 7/3/96 (58)

Staff Reporter

A LEADING bank has denied overcharging taxi owners and other clients on their interest.

Last week The Argus reported that a number of taxi drivers and associations had threatened to blockade Cape Town roads, alleging they were being ripped off by banks.

Standard Bank's national manager for motor finance, Henk Vosloo, said that while mistakes could occur, the bank had control mechanisms in place that made this almost impossible.

"We have long ago taken the necessary steps to ensure that our computer system will reject any interest rate entered which is above the maximum permitted by law. All agreements get loaded into the system immediately and even if there is an error of 0,125 percent, the programme will reject the data."

He said although the taxi industry was a high-risk operation for the bank, taxi owners were being charged the same interest rate levels as any other client.

"It is a high-risk segment of the industry with lots of bad debts, but it is also an industry we need and will look after. We handle them with a great deal of empathy as we know and understand the background."

Mr Vosloo said the bank had established a dedicated unit to look at claims relating to the recalculation of interest and that to date, no payouts had been made relating to the allegations of the taxi drivers.

"While there is always room for improvement in this business, our own investigations into the allegations revealed that no errors had been made.

"We are open for scrutiny and if any mistakes are found we will rectify them immediately, and even pay interest on the refunds," he said.

He urged taxi owners to go directly to the bank if they had any problems relating to the agreement they had signed, and he promised that the bank's staff would do everything in their power to explain all aspects of the contract to them.

Mr Vosloo said the bank held discussions with members of the Cape Amalgamated Taxi Association (Cata) on the issue and would continue its open-door approach in trying to address their concerns.

"There is no need to blockade streets to highlight their plight.

"They must come in and speak to us, and I am sure the confusion about the recalculation of their interest rates would be sorted out," he said.

Standard denies usury claims

By Françoise Botha

Cape Town — The Standard Bank has denied allegations by Western Cape taxi owners that Stannic had charged excessive interest on vehicle hire-purchase agreements and exceeded the maximum interest rates stipulated by the Usury Act.

Henk Vosloo, deputy general manager of motor finance at Stannic, said that lending to taxi owners was a "high risk" market, but the interest rates charged were determined by the security offered by the client and hisability to repay the loan.

He said that Standard Bank had taken the necessary steps not to breach the Usury Act. These included programming the group's computers to reject a contract if, through human error, the interest rate entered was higher than the Usury Act maximum.

The allegations stem from the findings of Financial Research Foundation (FRF), an independent interest calculation firm .

The foundation, which last year investigated allegations in more than 300 cases, claimed that an average of R20 000 was overcharged in the region.

"In many cases, their programs differed from ours and when we checked back, we found that there was no claim," Vosloo said.

Representatives of the FRF met Dullah Omar, the justice minister, last week to put forward claims on behalf of taxi owners.

The minister agreed to take up the issue and is set to meet taxi owners this week.

(58) CT (BR) 7/3/96

BACK ON TOP

Six months to	Dec 31 1994	Jun 30 1995	Dec 31 1995
Gross premiums (Rm)	831	1 137	993
Pre-tax income (Rm)	51,9	141,5	160,1
Net income (Rm)	51,6	111,8	123,4
Earnings (c)	109	237	261
Dividends (c)	42	84	50

MUTUAL & FEDERAL (58)

POSITIVE INDICATORS

FM 8/3/96

The swing from an underwriting loss to profit has a remarkable gearing effect on the income statement of a short-term insurer.

Even granted that Mutual & Federal (M&F) was showing a smaller loss than most a year ago, and recorded a strong R74m underwriting profit over the first half, with a useful 26% increase in investment income to R86,1m, the combined effect is a whopping 208% climb in pretax income.

The gain in investment income, largely from increased cash flows and higher dividend returns from equities, would have been 33% but for R12,4m taken by M&F in capitalisation issues.

After this purple first-half performance, what can be expected for the full year? MD Ken Saggers is, as always, cautious, though barring a major natural disaster the outlook is good.

There have been 18 000 reported water losses in the first two months of the year, he says, worth about R80m.

But under more normal weather patterns water claims cost about R10m-R15m a month anyway — if the floods let up the effect on underwriting will not be debilitating.

A pleasing aspect he notes is that crime losses, mainly burglaries and stolen or hijacked vehicles, appear to have peaked, with the incidence of these claims static in the first six months.

Still of concern is the high level of large industrial fires in the commercial book. Saggers believes rates are a little thin here.

Generally, though, he does not think rates will increase, on average, more than the rate of inflation, with the possible exception of the motor account. Regarding concern by some short-term companies about a possible rates war as direct selling techniques are introduced to SA, Saggers does not believe the SA market is ready for this.

"We estimate only about 40% of motor vehicles in SA are insured. Intermediaries still play a strong role which they won't give up easily."

Over the past year the share price has more than doubled, to R95 earlier this week, tracking the 139% growth in EPS. It must now be considered expensive, though it's probably the premium an investor has to pay for one of the few short-term insurance shares that can be considered a long-term hold. *Shaun Harris*

TALKS INVOLVING RAND MERCHANT BANK, NBS AND NORWICH LIFE

UNIVERSAL BANKING MOOTED

(58) FM 8/3/96

Is Rand Merchant Bank about to swallow NBS? MD Paul Harris confirms talks involving RMBH, NBS and Norwich Life are taking place but says resolution is far off.

A merger of the three companies and a pooling of their collective assets would create a powerful force in the financial services industry It would spin off a management combine commanding control over more than R50bn of assets.

Norton

At this point, the discussions are likely to be concentrated on whether the parties should take the issue beyond the debating stage This is what you would expect in the early stages of what promise to be complex and lengthy negotiations.

The three parties each bring different elements to the table but also overlap in a number of crucial areas — and it is these which may scupper a merger.

Harris

Gafney

Harris is adamant RMBH will not try to take over anyone. "NBS," he says, "is a lot bigger than us, anyway" — not that that is an insuperable obstacle.

But this deal will — if consummated — highlight the difficulty of bringing a variety of financial services into a single operating structure. However flexible, it will make unusual calls on its top echelon.

RMBH brings Momentum Life with it — a big stake in the asset management business and a successful wholesale (merchant) bank with a strong track record in corporate finance, mergers and acquisitions.

NBS is a well-bred retail bank, SA's fifth largest and highly profitable (RoE of about 20% at last interims) It is particularly big in home mortgage business It also has a life insurance business, tied largely to its natural home lending activity. And it shares ownership of short-term insurer Aegis with RMBH.

Norwich is substantially different Only recently listed, it comprises a good life assurance business with a strong and highly regarded asset management capability. Norwich has a 22% stake in NBS, much of it held in its life portfolio; NBS has a similar size stake in Norwich

NBS MD Tony Norton, previously president of the JSE, says· "Only in the past three weeks have we started a thorough strategic review of the business and our group and I really don't know where this will lead us But, yes, obviously we will think about mergers with either one or both of our closest allies "

Of course, thinking about marriage does not mean it will happen — and, in the case of these three businesses, it is easier to construct more reasons to live apart than to get cosier At a time when many organisations have leapt on to the unbundling wagon, taking the contrary view requires serious imperatives.

Each aspect of their businesses faces difficulties. SA merchant banks say competition has sharpened since the arrival of international competitors, many of them equipped with a dazzling array of skills and backed by formidable wallets and placing power.

Assurance companies are up against another set of problems Increasingly discerning buyers are spurning policies with hefty front-end loadings The phenomenon is marked in the US and the UK. And, if it hasn't made itself felt, a cold shower lies ahead for SA's life assurers.

Retail bankers, by contrast, are having a happy time of it. As interest rates have dipped, so their lending margins have grown. Altogether, the past two years have been a great time to be a banker.

But no-one is safe and the better the profits the more avaricious become the potentially acquisitive. It doesn't escape notice that the original reason for the cross-holding between NBS and RMBH was to provide the Natal institution with a shield against predators and a semi-guarantee of independence.

The most powerful of the negatives, however, must be the presence of two substantial life businesses, Momentum and Norwich

Momentum has only recently emerged from a long period of reorganisation and restructuring, a time of pain and dislocation. Its managers are not likely to be enthusiastic about undergoing a similar experience a second time.

Managing the process will require great skill, not least in NBS, centred on Natal and soundly built by John Gafney on that provincial base. His successor, Norton, also originated in Natal

Whatever else it does, the suggestion that a merger of this magnitude is being contemplated will concentrate minds in the industry wonderfully *David Gleason*

ACCOUNTANCY RESTRUCTURE

RIVALS ELBOW FOR ROOM

The territorial battle rages on in the accounting profession. The SA Institute of Chartered Accountants (Saica) will hold a referendum among members this week on creating a four-tier membership structure

The design is aimed at taking in the new classes of accountants that will be created by the ruling body's restructuring of the profession. Impetus for change comes from the Public Accountants & Auditors Board's *Future of Accounting*

Education in SA initiative.

This is in the spirit of the National Qualifications Framework, created by an Act of parliament, last year.

The proposed structure will create more entry points to the profession and provide accreditation for three levels of nonchartered accountants. Research by the institute has shown a huge demand in commerce and industry for the services of accountants with general and technical, rather than highly specialised skills.

There have also been calls to relax the statutory audit requirements for private companies. Should these prevail, smaller private companies and close corporations would not be required by law to employ a chartered accountant to report on financial statements.

Saica's move to restructure could thus be seen partly as a response to a gap in the market and partly as a move to diversify its activities. Whatever Saica's motive, the change is perceived as a threat by the Institute of Commercial & Financial Accountants, a satellite organisation established by Saica in 1982 to meet business's need for accounting support staff. Its own Competency Based Education & Training Programme already caters for intermediate level accountants, conferring the CFA qualification.

The organisation, which broke away from its parent body, fears it will be reabsorbed, possibly losing control of its training programme.

Saica claims it is not trying to entrench its dominant position in the industry. But it could be accused of equivocation.

It says it is merely "repositioning itself to better meet the changing needs of the community." But it has told members the repositioning "is necessary to maintain Saica's status in the business world and to expand its sphere of influence."

Saica is a formidable force in the profession. Much of its power lies in its internationally recognised framework of standards — and in its network of members in commerce and industry. Presumably employers who are members of the institute, will be more likely to employ candidates bearing the Saica seal of approval.

But Saica members' acceptance of the four-tier structure will not automatically signal the CFA's demise. Though only a third of Saica's size, it is growing rapidly — as is the stature of the qualification it offers. ■

INSURANCE BROKERS AND AGENTS

CONSUMERS' CHECK LIST

Investigations by the inspectorate of the Financial Services Board into the short-term insurance industry — plus a promised crackdown by law enforcement agencies on insurance scams — have placed the spotlight on the role of brokers and their agents.

The *FM* reported last year (*Economy* September 22) that, at a conservative estimate, 30 000 insurance "policyholders" who regularly pay their premiums are without cover They are victims of a scam — or series of similar scams — which involve more than R10m of premiums a month.

Ben Groenewald

It also recorded (*Economy* February 23) that clients pay excessive policy fees and commissions and that, in many instances, premiums are changing hands between brokers and agents and never reach the insurance companies.

Ben Groenewald of insurance loss consultancy Adjustkor says policyholders should understand that there are many intermediaries who describe themselves as "brokers" but are not registered as such.

"They are often cash agents and if they fail to pass a client's premium over to the insurer or act negligently, the insured would be unable to recover any losses."

Groenewald says that registered brokers have to lodge a financial guarantee — relating to their obligations for the handling of premiums paid by policyholders — in a trust account "They are also required to arrange, for themselves, professional indemnity insurance."

These brokers are normally members of one of the two broking associations, the SA Insurance Brokers' Association or the Insurance Brokers' Council (of SA)

"Both associations call for financial guarantees from and professional indemnity cover for members It is, however, not clear whether the associations obtain written proof that this cover is in place and annually maintained

"Policyholders should insist on proof of these two safeguards Your broker should be able to produce written proof of his direct agency agreement with the insurance company of your choice and that he's not merely a subcontractor to an-

TAX CONFERENCE

PROPER PACKAGING

As there could be implications in next week's Budget for the Katz Commission's proposals to tax pensions, it has been decided to postpone the *FM*'s conference on pension taxation from March 6 to April 18.

In addition to Katz's controversial proposals, the Smith Committee's proposals on tax are being reviewed by the Parliamentary Joint Committee on Finance at the end of March.

The conference will be broadened to ensure a comprehensive analysis of Katz and Smith's proposals against the background of Finance Minister Chris Liebenberg's Budget speech.

If you would like to reserve a place at this top level tax conference call Steven Rogers, tel (011) 784-3810, or fax (011) 784-3814. ■

No takers for Community Bank until govt offers a 'sweetener'

(58) BD 8/3/96

COMMUNITY Bank's pleas for continued support from the banking sector are falling on deaf ears, we hear. Crisis meetings will be held today with the original lenders — the five major banks and the Industrial Development Corporation, the Independent Development Trust and the Development Bank — in the hope of drumming up the R500m the bank says it needs for the next two years.

But the banking community is having none of it. Sources say unless government comes to the party in much the same way as it is shoring up African Bank, no private sector bank will bail out Community Bank.

The five banks involved in the original R200m capitalisation — First National, Standard, Absa, Nedcor and NBS — contributed only about R22m. One banker said Community Bank had approached "everyone", but until government sweetened the deal, there would be no takers.

The World Bank's investment arm, the International Finance Corporation, has apparently said it may commit up to R40m — but only if the bank finds other backers.

INSIDER TRADING

Edited by Amanda Vermeulen

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WE HEAR the Development Facilitation Act, aimed at fast-tracking development projects, is becoming increasingly bogged down in KwaZulu-Natal. The Act was passed last September and is seen as a vital component of the RDP and low-cost housing programmes.

The news comes at a time when figures from the national housing department show the province has spent only about 15% of its allocation on housing and related projects. So effectively, more than R500m of taxpayers' money has yet to be spent on housing the province's millions of homeless.

Gauteng is moving ahead well with the implementation of the Act and most other provinces support it and are making plans for implementation. The exception is the Western Cape, which rejected the Act and is close to completing its own legislation.

KwaZulu-Natal housing and local government MEC Peter Miller says the provincial cabinet has not decided on the implementation of the legislation and is still considering its options. We hear there is a strong divide within the provincial cabinet on the way forward, with a number of ministers fearing that adopting the Act would undermine the province's own planning and development legislation.

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THE banks are pulling out all the stops to fight allegations from "consultants" — to the taxi industry, among others — that they have been overcharging interest on loans. They are compiling a report for harmful business practices committee chairman Prof Louise Tager.

Apparently Trade and Industry Minister Trevor Manuel was told by the banking community this week that some of these consultants, with whom he has held discussions, have doubtful credentials.

The Council of SA Bankers (Cosab) tells us Standard Bank has refused to discuss anything with the consultants.

The banks claim that some of the consultants take advantage of less sophisticated bank clients, promising them that for an upfront fee they can recoup amounts allegedly overcharged in interest, and possibly sue banks claimed to be in the wrong.

The banks say on occasions when they have been shown to have made mistakes on the interest rates, they have always been happy to recompense the injured party.

Cosab GM Nico van Loggerenberg says the accusations against the banks are unfounded. The report for Tager is expected to be submitted in a few weeks.

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STANDARD Bank and Wooltru appear to have bedded down problems surrounding Woolworths' private label card, but we hear the reconciliation was not that amicable, with one of the parties "suing for divorce".

Insiders say Standard was unenthusiastic about a split when it considered "repossessing" last-minute Christmas shopping items and calling in final payment notices on grocery purchases, possibly while Woolworths opened a second card.

Comment from both parties is that a satisfactory arrangement has been reached.

We hear the Woolworths account might not be the only one of the 16 financed by Standard to have caused the banking group a headache.

Standard Bank retail banking card division assistant GM Peter Abbott concedes that the group's private label cards are "in various states of maturity. If you look at the overall portfolio we are probably not happy with some of those cards' performance."

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IT APPEARS that not only Mossgas's top men are signing off from the parastatal. Just days after MD John Theo and Central Energy Fund chairman Roy Pithey announced their resignations, two Chemical Workers' Industrial Union shop stewards opted for voluntary redundancy packages.

What makes their decision surprising is that they spent months campaigning against the synthetic fuel operation's rationalisation programme.

We hear that when some other union members found out about their comrades' decision and decided to do the same, they were told they had missed the deadline.

Meanwhile, back at the top of the Mossgas management ladder, it seems a few other senior managers are quitting Mossel Bay for greener pastures. The union claims that "a number of the top managers have given themselves golden handshakes".

A couple of them, we hear, are teaming up with a new company, Bambanani, which wants to enter the fuel retail business. Some say Bambanani wants to buy its product directly from Mossgas. Bambanani joins the ranks of fuel company shells such as Powerlib which are looking (unsuccessfully) for ways into the tightly held sector.

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THE JSE is getting a little touchy about The Investor's Guide allegedly selling advertising using a JSE logo on its rate card. This, the exchange says, implies the book has been officially endorsed.

The guide says on the front that it is "the only JSE working manual that helps you make more profitable investment and business decisions". But MD Taco Kuiper says it has never claimed to have official sanction.

While the JSE has written to Kuiper twice, and may be considering taking some action against him, Kuiper says the title has never implied it had the backing of the JSE, nor does it carry the official JSE logo on the front cover.

"We actually emphasise to advertisers that we are not associated with the JSE as this will automatically mean free distribution." Kuiper says since the JSE withdrew "official JSE backing" in August, advertising support for his title has increased to four times that of the JSE Handbook.

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WE HEAR that Kersaf financial director Alan van Biljon resigned from the group on February 29 and left the same day, apparently after a row with chairman Buddy Hawton. Hawton played down reports of a major disagreement with Van Biljon, saying it was a small incident which probably brought to a head the former director's lack of job satisfaction and a need to find an alternative career.

Hawton said Van Biljon "did an outstanding job and made a major contribution to the company". Van Biljon said he was looking at a number of proposals, both inside and outside the casino industry.

Bank's declining influence

Chris Stals, the Reserve bank governor, addressed a gathering in Durban yesterday to celebrate the first anniversary of Business Report. His speech was entitled The Integration of South Africa in the World Financial markets. This is an edited version of that address.

The turnover in the South African foreign-exchange market provides further evidence of the opening up of the South African markets for foreign participation and competition.

The Reserve Bank's influence over this market is declining. This market is gradually taking over the function of providing forward cover for South Africans with foreign currency exposures. The Reserve Bank's net oversold position in spot and forward foreign currencies declined from more than $20 billion at one stage to less than $10 billion.

The integration of the South African financial markets in the global village has important implications for the monetary policy of the Reserve Bank.

Firstly, the Bank's influence on the liquidity of the banking sector is less effective. South African banks have access to an outside source of liquidity and have become less dependent on the discount window of the Reserve Bank.

Secondly, the level of interest rates in South Africa has an important influence on the capital flows into and out of the country.

The difference between South African interest rates and those in the major financial centres, adjusted for inflation differentials, provides an indication of the risk premium foreign investors demand in South Africa.

Thirdly, the money supply, which has been used since 1986 as an anchor for monetary policy in South Africa, is now a less reliable barometer of underlying inflationary pressures. Changes in the Reserve Bank's net gold and foreign-exchange reserves can at times have an important influence on the total money supply.

The Bank is reluctant to fix the exchange rate at any predetermined level

Fourthly, the exchange rate of the rand is more exposed to the whims of international investors and can easily be influenced by changed international perceptions of the South African political, social and economic situation. The fundamentals, such as purchasing-power parity and the international competitiveness of a country, do not necessarily determine the equilibrium level of the exchange rate, particularly not in the short term.

The turmoil in the South African foreign-exchange market over the past few weeks provided some further evidence of the consequences of participating in global financial markets.

It is true the combination of a number of unfounded rumours about the health of President Mandela, an imminent relaxation or even abolition of exchange controls and a contentious assessment made by economist gnomes of the Bahnhofstrasse in Zurich about the exchange rate of the rand all contributed to the speculation and the consequent wide fluctuations in the foreign-exchange market.

CT (BR) 8/3/96

The rumours referred to above certainly triggered the events, although there were also some more fundamental reasons for the frenzy in the markets.

Firstly, it must be noted that there was some nervousness, particularly in the capital markets, on a worldwide basis. During that time, investors in many countries and particularly in the United States, were disinvesting from fixed-interest-bearing bonds, for example government stock.

Taking account of the large amount of foreign investments made in South African bonds recently — R3,1 billion in January and the first two weeks of February this year — it can be understood that the global action of investors to become more liquid also affected South Africa.

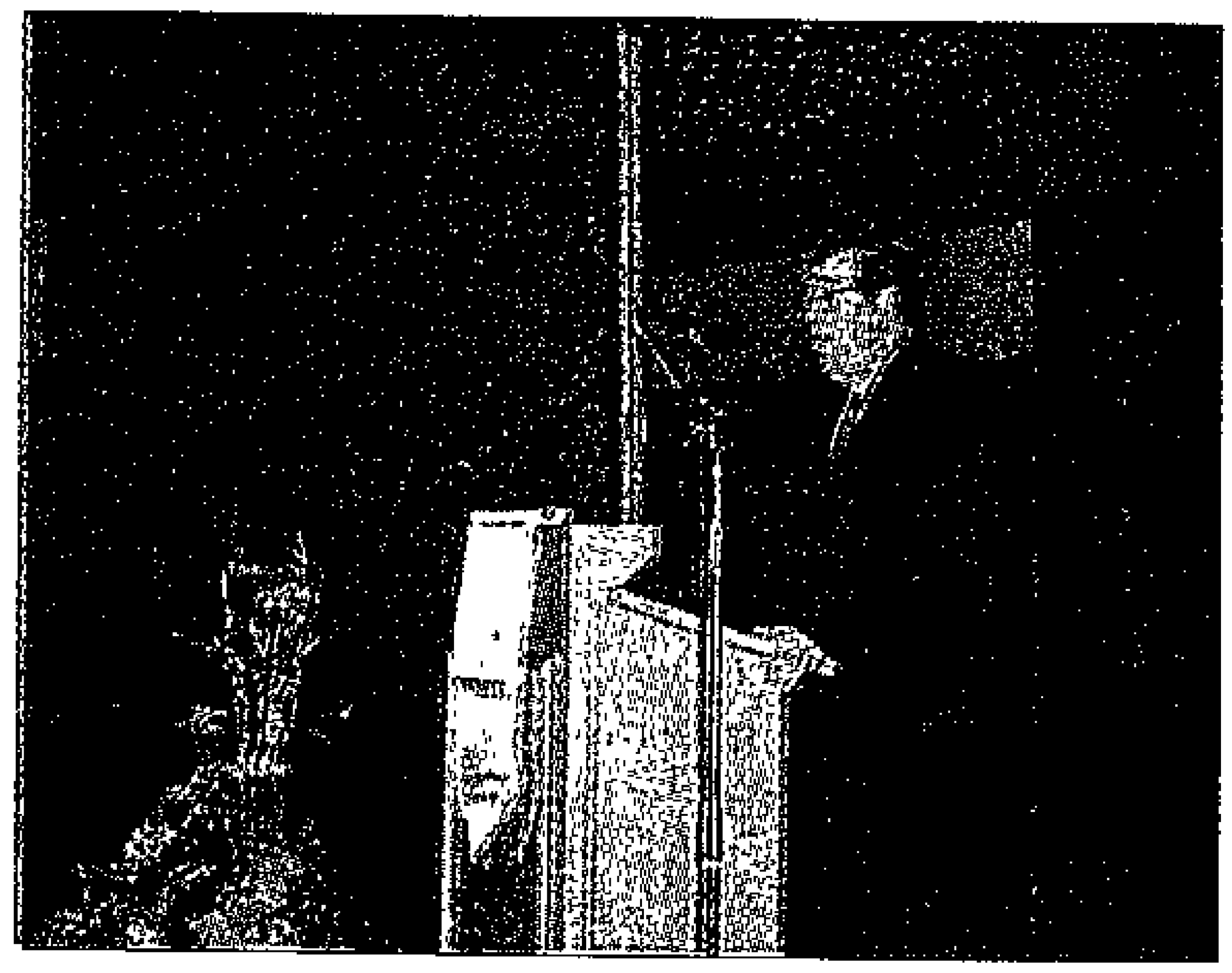
Secondly, the South African rand appreciated from May 1995 to the middle of February 1996 by almost 6 percent, mainly under the pressure of a persistent large inflow of capital.

In a situation of large and persistent net capital inflows it is extremely difficult to decide what a correct exchange rate for the rand should be. The conventional definition of purchasing-power parity becomes difficult to apply as the country can afford in this situation to run a permanent deficit on the current account of the balance of payments.

Any calculation must be based on many subjective assumptions, for example, how permanent is the net capital inflow into South Africa and what will happen once exchange controls will be relaxed further?

It is because of such complexities that the Reserve Bank is reluctant to target the exchange rate, or to try and fix the exchange rate at any predetermined level.

Taking account, however, of the relatively higher rate of inflation in South Africa compared to the average rate of



MONEY MAN *Chris Stals, the Reserve Bank governor*
PHOTO PURI DEVJEE

(58)

inflation in our major trading partners, and of current trends in the average unit labour cost of production in South Africa, an appreciation of the rand will not be sustainable in the longer term.

The Reserve Bank, as all importers and exporters and foreign investors, does not like the abrupt way in which the adjustment took place in February. This, however, is part of the consequences of becoming more integrated in the global financial markets.

In this environment, South Africa will be tested from time to time, and political, social and economic developments in South Africa will have profound effects on the exchange rate of the rand. The Reserve Bank will have to increase its foreign reserves to a much higher level should it want to smooth out all fluctuations in the market.

The Bank will, however, have to be cautious not to lure international speculators on to the bandwagon, and not to create the impression that it would be willing to support the exchange rate of the rand at a level not perceived by the market to be sustainable.

The recent disruption in the foreign-exchange market, and the abrupt way in which the exchange rate of the rand was adjusted, vindicates the Reserve Bank's cautious approach in relaxing the remaining exchange controls, applicable to the outward investment by South African residents.

The speculation that the next round of exchange-control relaxations will lead to a major downward adjustment of the exchange rate of the rand, was presumptuous. If the Reserve Bank was of the opinion that further relaxations could lead to a large outflow of capital, the Bank will not advise the minister to proceed with the programme.

The Bank is still of the opinion, despite the recent developments, that some further relaxations of exchange controls will be justified during the year. The phasing out of the exchange controls is a longer-term programme that should not be unduly upset by short-term gyrations in the market.

Kahn vows to nail greedy banks

(58) ARG 9/3/96

Test cases on the cards if overcharged clients decide to press charges

■ Western Cape attorney-general Frank Kahn has undertaken to prosecute test cases in which banks overcharge their clients when charges are laid.

JEAN LE MAY
Staff Reporter

THE commission of inquiry investigating the affairs of the Masterbond group could be extended to investigate overcharging by banks.

The commission had amassed a great deal of information in the course of its three-year investigation, said a spokesman.

The commission, under the chairmanship of Justice Hendrik Nel, has devoted much of its inquiry to the workings of financial institutions.

It had also heard evidence from Herman le Roux, who monitors the Usury Act for the Department of Trade and Industry, he said.

It has also been suggested that Mr Le Roux could be transferred to Cape Town from Pretoria to assist with the investigations.

DTI deputy director-general Gerrit Breyl told Saturday Argus that some of the department's functions, including Usury Act monitoring, were to be transferred to the provinces.

Saturday Argus reported last week that Minister of Justice Dullah Omar had given his suppport to action against banks and financial institutions which charged clients more than they should.

Contraventions of the Usury Act and the Credit Agreements Act are criminal offences. Mr Omar also suggested that dissatisfied clients should bring civil actions.

He has since facilitated meetings between the Financial Research Foundation (FRF), a Cape-based company which investigates overcharging, and Western Cape attorney-general Frank Kahn.

Mr Kahn told Saturday Argus that if the allegations could be proved and charges were laid, sample cases would be prosecuted against the banks involved.

"This means almost every bank in the country," said the FRF's Lawrie Friedman.

FRF representatives also met Tommy Prins, Cape Town head of the Office for Serious Economic Offences.

Trade and Industry Minister Trevor Manuel has also supported action against banks and financial institutions which overcharge clients.

Meanwhile Mr Friedman has challenged a statement made by Standard Bank spokesmen following last week's report in Saturday Argus.

The spokesman said that "no repayments have been made".

Mr Friedman said that this was because Standard Bank ignored claims submitted to it "in direct contravention of the Credit Agreements Act".

The spokesman also said that "we are open to scrutiny and mistakes will be rectified".

However, said Mr Friedman, the bank levied substantial "non-negotiable" charges for making clients' records available and many people could not afford them.

The bank charged a R1 000 "audit fee" for every year's records, as well as a R5 fee for every statement copy required.

In a letter shown to Saturday Argus, Mr G A Garbers, manager of Standard Bank in Cape Town's Blue Route Centre, said that "we require upfront payment of R8 270 to enable us to provide the information required".

Stokvels: It's not just a great way to party

(58) Star 9/3/96

JIM SMITH
GROUP FEATURES EDITOR

VOSLOORUS – Nombuso Mazibuko and her stylish friends in the Spiced Gold Ladies Club are proud trendsetters, blending the richest African traditions with cutting-edge financial acumen in a movement that could make a profound contribution to post-apartheid South Africa.

And, not coincidentally, these ladies throw great parties.

The Spiced Gold Ladies Club is a stokvel, one of the ubiquitous savings societies that have played an influential role in personal finance in South Africa's black communities for more than 150 years.

Market research indicates that as many as 30 percent of all adult blacks are members of some form of stokvel; that means six to seven million people put anywhere from R10 to R1000 or more into their stokvels a month, accounting for well over R200 million per month in contributions.

In recent years, stokvels have advanced from a hazy semi-legal status to claim a prominent role backed by a national association with 150 000 signed-up members.

From the initial purpose in the last century of providing a dignified burial, some stokvels have evolved into complex investment programmes supported by the Perm, Standard Bank, Community Bank and First National Bank – now linked to unit trusts and shareholdings in emerging black corporations.

'We are sharing together, putting our hands together to give ourselves a boost'

At the same time, several less savoury schemes have sought to exploit the growing acceptance of stokvels. In particular, pyramid schemes — illegal and unconnected to stokvels in theory or practice — have surfaced to cash in on naivete and trust, often with devastating consequences.

In response, the stokvel movement is lobbying for increased protection and backing for its members, and tougher action against those who prey on it.

The stokvel movement embraces a variety of savings forms. At least two-thirds of all stokvels simply provide basic burial society protection to members. The overwhelming majority of stokvels still have fewer than 50 members; regardless of their size or purpose, these small groups rely on the same spirit of communal trust and reciprocity that helped black society survive the era of exclusion from white institutions.

"A stokvel to blacks is like a bootstrap to whites. We are sharing together, putting our hands together to give ourselves a boost," said Chris Monyela, branch co-ordinator for the National Association of Stokvels of South Africa (Nasasa), who accompanied a journalist to the Spiced Gold stokvel party on a recent Sunday evening.

The skill of the Spiced Gold ladies in hosting parties is not coincidental. The party stokvel is one of the better known forms of stokvel thanks to its boisterous public events, which characterise the mixing of profit-making and socialising – the essence of a successful stokvel.

Mazibuko and 10 friends — all single black women from Vosloorus — formed Spiced Gold two years ago, naming it after an imported rum.

Many stokvels take on such names, usually reflecting their social aspirations; Benetton, Palazzo Pitti and Lacoste are other better-known stokvels.

The upmarket nature of Spiced Gold is immediately apparent from the amount of money each woman kicks in – R500 per fortnight. The 14 current members – three married women have since joined – deposit their contribution straight into a bank account so they won't have to contend with piles of cash at meetings. Then the party starts.

The premise is straightforward: the women take turns hosting the fortnightly parties at their homes, and reap the considerable profit.

The host must cook a sumptuous meal for the members, served on white china with gleaming cutlery. The members pay R50 for the meal, and guests pay R20 per person.

But the real money is in the alcohol. Mazibuko described the economics of the party she hosted in November: she bought R4 000 worth of beer and hard liquor on credit from one of the township suppliers who thrive on the stokvel party trade, and she spent R1 000 for the food.

The party started in the early evening. About 150 people stopped by before it ended at 3 am.

The beer cost R37 per tray of four six-packs; she sold the six packs at R20, or R80 a tray, a more than 100 percent markup. Her net profit was R6 000, in addition to the lump-sum return of the fortnightly contributions she had made to the stokvel over the previous months.

Mazibuko, a dauntingly strong-willed 40-year-old single mother with a teenaged daughter, pointed proudly to the fruits of her successful November party. She had redecorated the interior of her matchbox house in the Mailula Park neighborhood of Vosloorus.

The R1 000 she pays in each month is hard work for a woman on a clerical salary at Amalgamated Beverage Industries, but Mazibuko said it would be far harder to try to keep up such a savings pace as an individual.

"The power of the group is stronger than the individual," she said. "And if you put money in a bank, you can be tempted to spend it. This way, you have a responsibility to the other members."

'The prices are high and the people who come match the prices'

This peer pressure is a cornerstone of stokvels, and largely accounts for the near-zero default rate of stokvels in townships where bond and rate boycotts are common.

Clara Mekgoe, secretary of Spiced Gold and owner of a clothing boutique in downtown Johannesburg, said not one member had failed to make a payment in the two years of Spiced Gold's existence.

Applicants are grilled fiercely by the group before being accepted, and once aboard they are subject to stiff fines for offences such as arriving late at meetings.

The standards for the food are demanding, and members are judged by their colleagues after each party on whether the buffet was worth the money each member and guest had to pay. Those whose food was found lacking paid in the difference as a penalty.

Reciprocity is a key ingredient of stokvel parties; turnout at your party depends in part on how loyally you have supported party-givers from other stokvels. The most popular and supportive hosts attract guests from far away – including some who have spotted a particular stokvel's party in newspaper listings of Stokvel events.

The power of the social glue in the stokvel is apparent; these women know each other well and depend on each other when personal crises arise. They also have joined hands to assist street children in the area. But the main goal is inward-looking – to care for the well-being of the closed circle of the stokvel members and to support the group's common purpose.

The prices at the party are intentionally steep, Mekgoe said, to feed the high-class mystique of Spiced Gold. "The prices are high, and the people who come match the prices."

At Spiced Gold's recent party, hosted by Patty Moagie, patrons came from as far as Witbank, some in new BMWs parked on a dusty soccer field on the edge of a vast squatter camp in Katlehong.

Mighty Bohata had come from Witbank's kwa Guqa township to support Spiced Gold. Bohata said his own stokvel was more modest, costing its 30 members R50 per month each as an investment towards opening a shopping complex in Witbank.

Andrew Lukhele, chairman of Nasasa and author of "Stokvels in South Africa," said he was certain that stokvels would continue to evolve to meet the needs of making finance available informally to the black community.

(PICTURE TRAVIS McCUE)

GOLDEN TIMES: Members of the Spiced Gold Ladies Club, one of the trendiest stokvels in Gauteng, gather around chairwoman Nombuso Mazibuko (seated, in red dress) during a recent stokvel party in Vosloorus on the East Rand. The women take turns hosting the club's fortnightly parties - and make a handsome profit thanks to the hefty markup on food and liquor. Stokvels are a powerful form of traditional finance in the black community

(58)

Illegal pyramid schemes leave stokvel investors angry, confused and poorer

Star 9/2/96

JIM SMITH
GROUP FEATURES EDITOR

JOHANNESBURG – When is a stokvel not a stokvel? Painfully often lately schemes that exploit the goodwill of the stokvel principle are turning out to be old-fashioned scams, leaving tens of thousands of investors angry, confused and a lot poorer.

Stokvel association leaders have joined Reserve Bank and Finance Ministry officials in warning the public to be wary of illegal pyramid schemes that call themselves stokvels but in fact bear no resemblance to the traditional savings clubs.

Most notoriously, the Reserve Bank in December froze an estimated R50 million in "investments" collected from 53 000 investors by Sun Multi-Serve, declaring it an illegal pyramid scheme and definitely not a stokvel.

The defining characteristics of a stokvel, recognised in Reserve Bank rules in effect since January 1995, include that of "a common bond" between a closed circle of members who have set up a "rotating credit scheme with entertainment, social and economic functions."

Further, the stokvel "fundamentally consists of members who have pledged mutual support to each other towards the attainment of specific objectives (and) relies on self-imposed regulation to protect the interest of its members."

The stokvel, therefore, depends on trust to achieve a common goal. Trust implies personal acquaintance among the members, and most stokvels are indeed small groups of 10 to 50 people who know one another and who are often bound together socially.

HOW STOKVELS WORK PAGE 15

In contrast, a pyramid scheme depends on a constant inflow of new members. These recruits pay in money that is used to pay the inflated returns promised to previous members. Thus, an exponential supply of new members is required in order for all to profit – which becomes a logistical impossibility. Inevitably, new membership fails to keep up and the whole scam crumbles.

Finance Minister Chris Liebenberg noted in a statement in January that given the scale of South Africa's informal sector, "it is prudent and vital for government to support and encourage informal community-based savings."

He said South Africa was believed to be the first African country to accord stokvels legal status, through the 1995 regulations exempting stokvels from the Banks Act.

Those rules set a ceiling on stokvels, saying subscriptions from members may not total more than R9,9 million. Any stokvel with subscriptions worth between R1 million and R9,9 million must submit an audited annual financial report to the National Stokvels Association of South Africa, which has 11 500 affiliated stokvels. Any bigger, and the stokvel must register as a mutual bank.

Andrew Lukhele, chairman of Nasasa, has argued that an "institute for informal finance" should be created to educate and advise stokvel organisers and perhaps play a self-regulatory role.

With stokvels gaining respect and emerging as an important vehicle for financing small enterprise, "we cannot afford to allow people to come (and) abuse stokvels," Lukhele said in an interview.

SA banking stronger, but failures are on the cards

(58) ST(BT) 10/3/96

SOUTH Africa's banking industry is stronger than it was five years ago, according to debt ratings agency Republic Ratings.

Dave King, the managing director, says ailing banks are less likely to be supported, and increasing competition, margin squeeze and greater risk complexity could lead to further bank failures in the medium term.

The accompanying table shows only the banks that achieved investment-grade ratings in Republic Ratings' latest survey. This establishes the degree to which they are able to repay deposits timeously.

Banks not appearing fall into two categories: foreign banks which have recently established a presence in the country and domestic banks which declined to be rated or did not achieve an investment-grade rating.

In the case of the foreign-owned banks, credit risk is reduced by the fact that they are supported by powerful financial institutions. However, most of the domestic banks which declined to take part are smaller banks.

A number of smaller banks have failed since a policy change towards market-oriented regulation by the SA Reserve Bank in 1991. These banks include Cape Investment Bank, Alpha, Pretoria, Prima and African Bank. Banks rescued included Bankorp and the four banks operating under Sechold.

When the Banks Act was implemented in 1991, regulatory barriers to entry were lowered and a more competitive environment emerged. Banks had to become more adequately capitalised and Mr King reports a 167% increase in the industry's total capital base in the past five years.

In the same period, assets (amounts lent out) climbed by only 61% as many customers, notably corporates, repaid borrowings.

Asset quality generally improved against the backdrop of economic recession for several reasons. First, banks themselves rationalised and consolidated their positions after previously fighting for market share. Second, wide interest margins in 1990-1994 enabled the major banks to be conservative in bad-debt provisions. Total loan-loss reserves as a percentage of advances have increased considerably. Third, says Mr King, concentrated large exposures as a percentage of a bank's capital base have generally become less of an issue. Where such exposures still exist, these usually involve highly rated counterparties.

"It is true that depositors' risk increases as soon as the industry becomes less regulated," says Mr King, "particularly if the industry can no longer rely on a 'big daddy' to support ailing banks. However, an overprotected environment serves only to foster inefficiency and is not in the long-term interests either of the industry or the country's financial system as a whole."

Mr King says that with a few exceptions, the standard of external reporting both to the central bank and to the general public has improved exponentially.

"The combination of greater public disclosure and greater legislative responsibilities for bank executives enables depositors to make more-informed decisions."

A formal, independent rating process also entails an in-depth investigation of a bank's creditworthiness and is probably the best protection afforded to the general public at large, he says.

However, Republic says that reporting requirements for derivatives leave much to be desired, although the Sechold and Barings derivatives debacles have clearly served to focus managements' attention in this area.

"We are concerned that it is not practically possible to place a foolproof control environment around the dealers," says Mr King. "Furthermore, one has only to read the Nick Leeson story to realise that the executives of Barings did not understand the risks involved."

Republic is of the opinion that the Reserve Bank will become increasingly reluctant to provide lifelines of the sort handed out in the past. "In particular, we believe that wholesale depositors will not be bailed out again."

Mr King says it is possible that the strong banks will get stronger and the weak weaker. But even the major banks will have to be monitored constantly in view of the increasing risk complexities and the need to adapt to the profound social, political and economic changes taking place.

"Increasing competition and narrowing margins could tempt certain banks to take on greater risk exposures which could rapidly lead to problems in a volatile market." Depositors are advised to place greater emphasis on a bank's credit rating when considering making a deposit or comparing rates."

Clearly a case of *caveat depositor*.

WATCHFUL: Dave King of Republic Ratings

CREDIT RISK IN THE SOUTH AFRICAN BANKING SECTOR

			R-million			%			
Year end	Bank	Rating	Total year end capital	Year end earnings	Assets (Oct '95)	Bad debt charge/ average assets	Return on equity	Return on assets	Capital adequacy
Sep '95	FIRST NATIONAL	A1+	4 270	649	65 057	0,5	21,9	1,0	10,3
Mar '95	ABSA	A1+	5 565	575	104 986	0,5	13,2	0,6	8,5
Dec '94	STANDARD	A1+	5 812	700	81 789	0,6	19,7	1,0	11,9
Sep '95	NEDCOR	A1+	3 464	596	51 840	0,3	22,6	1,0	8,3
Mar '95	INVESTEC	A1	1 938	148	9 147	0,5	17,1	1,1	21,2
Mar '95	NBS	A1	803	100	16 174	1,2	19,8	0,7	10,2
Sep '95	UAL	A1-	320	81	4 918	0,4	29,0	1,7	16,9
Sep '95	FIRSTCORP	A1-	314	67	4 368	0,1	30,2	1,5	8,9
Jun '95	RMB	A1-	539	73	6 235	0,4	24,2	1,3	9,7
Mar '95	BOLAND BANK	A1-	275	29	5 857	1,5	17,7	0,7	8,4
Mar '95	SECHOLD	A2+	449	56	4 711	0,0	23,7	1,1	>25
Sep '95	CAPE OF GOOD HOPE	A2	141	28	2 020	0,5	24,0	1,5	8,9
Sep '94	SYFRETS	A2	196	11	3 959	1,2	13,0	0,5	9,4
Sep '95	FIDELITY	A2	200	31	2 150	0,8	24,0	1,5	12,5
Mar '95	SAAMBOU	A2	294	30	5 926	1,3	9,9	0,5	6,6
Dec '94	FRENCH	A2-	176	8	2 210	0,1	7,6	0,3	11,2
Mar '95	MLS	A2-	103	19	1 769	0,3	26,9	1,4	8,9
Mar '95	INVESTEC MERCHANT	A2-	49	n.d.	1 825	n.d.	n.d.	n.d.	n.d.
Mar '95	SECINV.	A3	53	13	1 516	0,0	24,2	1,1	>25
Mar '95	NDH	A3	41	16	553	0,0	43,5	1,9	>25
Mar '95	SECFIN.	A3	43	8	815	0,0	17,2	0,7	>25
Mar '95	DISTRICT SEC.	A3	37	7	1 041	0,0	18,3	0,5	>25
Sep '94	UNIBANK	A3	94	9	1 105	0,6	17,7	1,5	11,4
Mar '95	NEW REPUBLIC BANK	A3-	130	7	1 034	1,0	12,2	1,1	11,6

Graphic FIONA KRISCH

n.d. = not disclosed

Source: REPUBLIC RATINGS

Community Bank totters

(58) ST(BT) 10/3/96

By THABO KOBOKOANE

THE Community Bank could be forced into a merger with a larger bank after two of its founding shareholders on Friday failed to reach agreement on a lifeline to meet "lending commitments" for the next two years. The bank needs a lifeline of R500-million.

At a crisis meeting, two of the shareholders, the Development Bank of Southern Africa and the Independent Development Trust, would not commit themselves to paying outstanding loan capital of R50-million and R20-million respectively in terms of an agreement entered into when the bank was founded. Other founding shareholders include the Industrial Development Corporation and major commercial banks.

"No final decision was taken, but a few options were put on the table including meeting the Reserve Bank and the Finance Minister, possibly ahead of this week's Budget," said Cas Coovadia, Community Bank's executive trustee. "If our attempts fail to raise the R500-million we will look at a number of options including a merger with existing banks. If all else fails closure is the last resort."

The Community Bank was launched in 1994 to provide loan capital for low-cost housing.

The bank this week acknowledged it had liquidity problems and it needed to secure additional funding.

The DBSA said it would release the additional capital only if the Community Bank was able to secure further funding from other institutions and depositors. However, the commercial banks are reluctant to put in the money unless the government backs the bank in much the same way it did with African Bank.

"We are not prepared to waiver that condition," said DBSA's acting chief executive, Div Botha.

The bank will report an assessed loss of over R30-million at March this year, "mostly a result of high operational costs".

The slow start of the housing programme meant the bank could not lend money until May last year.

Since last year, the bank has disbursed 1 500 loans valued at R71-million, and Mr Coovadia said there was no serious arrears problem.

'Director' pleads for mercy

(58)

Sowetan 11/3/96

By Lulama Luti

ONE of the directors of yet another get-rich-quick scheme in Rustenburg in North West who fled the area about three weeks ago, is now pleading with investors to allow him back.

Mr Julius Molebatsi, co-director of the now-collapsed Future Progress came to the *Sowetan* offices in Industria, Johannesburg, on Friday with a plea to investors to allow him to come clean with them.

Molebatsi fled Rustenburg on February 12 and said he had been staying with relatives. He said he wanted to explain to investors that he had fled the area for fear of his life following the scheme's collapse.

Molebatsi said he did not know where his colleague Mr Cillian Segone was and that he had not been in contact with him.

"I want to go back there but I fear for my life because the investors feel I pocketed their monies. If I had that money with me I would have sought citizenship in countries faraway, but I don't," said Molebatsi.

He added that about R923 000 collected from 220 people who had each invested R4 200 was paid out in November to about 71 investors. Their 300 percent turnover yielded about R13 000 for each person.

According Molebatsi, payments during December and January had gone smoothly as there were still people investing in the scheme. Troubles began in February when numbers started dwindling and the coffers ran dry.

"When there were not enough people signing anew, our reserves dried up and there was no money left to carry out further payments.

"We held a meeting to explain this to investors and most of those who now seek reimbursement were not at this meeting," he said.

Reserve Bank looks at UN's rural banks

(58)

Samantha Sharpe

BD 11/3/96

CAPE TOWN — The UN is seeking Reserve Bank approval for a new banking initiative aimed at bringing financial services to SA's rural population — a project which could become a key element of the RDP programme.

The village banks project functions along the same lines as a credit union, with each rural bank attached to a commercial banking sponsor which is responsible for its clearing and settlement activities.

Banks registrar Christo Wiese confirmed that the Bank had received a full submission on the UN's village bank scheme, which included an application for legal status and special permission to take deposits.

He said the Bank was meeting UN representatives this week to obtain clarity on some issues, with a decision on the UN request likely within a few weeks. "We are very positive about the whole thing."

The UN's international fund for

Continued on Page 2

Village banks

(58)

Continued from Page 1

BD 11/3/96

agricultural development, which is driving the village bank project, said the absence of an effective rural financial system posed immense problems to government, with village banks offering an effective system to channel resources to RDP programmes.

Three test banks had been established in the Northwest, with two others planned for next month and applications from eight other communities on hold pending an evaluation of the project later in the year.

Fund spokesman Ahmed Jazayeri said each village bank worked on a shareholding basis and had the freedom to determine interest rates, loan sizes and operational matters.

"The village bank project is further unique in its linkage with a commercial bank through which the village banks become part of the country's banking system. The village banks are effective windows through which the commercial banks extend their services to the rural communities."

He said the Bank was considering a Village Bank Act to control the banks, with the project estimated to target more than 16-million rural South Africans through 2 000 banks.

Community's funding uncertain

(58)

Amanda Vermeulen

BD 11/3/96

BELEAGUERED Community Bank is no closer to securing additional funding despite holding urgent meetings with its initial funders on Friday to plead for continued financing.

Bank executive trustee Cas Coovadia said at the weekend negotiations had been held with the Development Bank of SA, the Independent Development Trust, the Industrial Development Corporation and the banks who were its original funders, to ask for the R500m the bank needed to support its operations in the next two years.

The final decision as to whether the original funding agencies would continue their support lay with Finance Minister Chris Liebenberg, he said.

The bank was also in negotiations with the World Bank's investment arm, the International Finance Corporation, for it to fund up to 40% of the R200m the bank needed to fund operations this year.

Sun Multi Serve funds to be freed

Lukanyo Mnyanda (58)

BD 11/3/96

SUN Multi Serve investors could collect claim forms for the return of their frozen assets at magistrate's courts in their areas during the last week of this month.

The fund manager appointed by the Reserve Bank to wind up the scheme's affairs, Tim Store, said at the weekend that investors, after a wait of four months, should be able to receive their investments, worth a total of R46m, by the end of next month.

Sun Multi Serve spokesman Victor Monamodi said the scheme was not aware of Store's intentions, but he was confident that "legitimate" investors would not heed his call.

Community Bank to meet Reserve Bank

(68)

By Thabo Leshilo

J(BR) 11/3/96

Johannesburg — The management of Community Bank is due to meet the Reserve Bank today to discuss Community Bank's liquidity problems after it failed to secure more funding from the Development Bank of Southern Africa (DBSA) and the Industrial Development Corporation at the weekend.

The two backers have hesitated to commit additional funds because Community Bank is expected to show losses of R45 million from January 1994 to March this year.

Cas Coovadia, the chief executive officer of Community Bank, confirmed yesterday that the DBSA could not meet its commitments of R50 million and the corporation could not meet its commitments of R20 million until the bank had secured additional funding from other sources.

Coovadia said he had already briefed the ministry of finance about the bank's failure to secure the funds from the two parastatals, which fall under the control of the ministry.

He hoped to discuss the matter with Alec Erwin, the deputy minister of finance, this week.

Coovadia said the R70 million expected from the DBSA and the corporation was the unpaid portion of Community Bank's R200 million founding capital.

Options

Community Bank needs to raise a further R200 million this year to enable it to meet its commitments. An additional R200 million must be raised over the next two years.

Coovadia said it was important that the bank's original backers paid to "trigger other institutions to come to the party".

He mentioned the International Finance Corporation, Southern Life and Eskom Pension Fund as some of the parties interested in funding Community Bank.

He said Community Bank could consider merging with one of the major banks or other financial institutions if it failed to resolve its liquidity problems.

"We will consider all options because we remain convinced that community banking is working as a concept," he said.

Christo Wiese, the registrar of banks, said his office would use today's meeting to determine if Community Bank's liquidity problems were only temporary.

If so, the bank could be allowed to use its legal reserve requirement — the 5 percent deposit it is required to keep with the Reserve Bank to cover its liabilities — to solve the liquidity problem.

However, the money would have to be repaid soon.

Lender nerves hit Community Bank

BD 12/3/96 (58)

Amanda Vermeulen

COMMUNITY Bank's failure to secure institutional funding stemmed from lender nerves after the collapse of African Bank last year, executive trustee Cas Coovadia said yesterday.

The bank was trapped in a liquidity crunch after failing to persuade its original lenders to continue releasing funds promised in the start-up capitalisation.

Coovadia said the bank would, however, continue meeting lenders to obtain R30m it needed by the end of the month.

The institutions had been approached last year, but the collapse of African Bank had rattled the lenders. They had now shied away from any commitment unless other potential investors came forward.

The bank had received promises of capital to the tune of R200m from its original lenders, the Development Bank of SA, the Industrial Development Corporation and the Independent Development Trust. Standard Bank, First National Bank, NBS, Nedcor and Absa contributed about R20m of that amount.

The bank had already received R127m from the institutions, but the development bank had frozen the remaining R50m of its committed funds until other lenders could be found. Other lenders were noncommittal, saying they were waiting to see continued funding from the development bank before providing money.

The bank needs about R200m to operate this year, and about another R200 to R300m for the subsequent 12 to 18 months.

Community Bank, due to meet Finance Minister Chris Liebenberg soon after the Budget speech tomorrow, met Reserve Bank registrar Christo Wiese yesterday to discuss its predicament.

Wiese said it was essential to restore confidence in the institution via a capital injection, but could not say which lender would provide the money. A decision would be made this week.

Strauss commission given more time

BD 13/3/96 (58)

Louise Cook

PRETORIA — Government has extended the lifespan of the Strauss commission, which was set up to examine deficiencies in rural financial services.

Commission chairman Conrad Strauss said yesterday its report, due to be handed over in January, would be finalised only by July, and further hearings were scheduled in coming months.

The commission is expected to recommend changes to the Banks Act, with stokvels and village banks identified as key mechanisms to plug the gap in financial services in rural areas.

Commission secretary Gerhard Coetzee said it was "looking very closely" at village banks — which operate on a similar basis to credit unions — in its brief.

It emerged at the weekend that the UN was seeking Reserve Bank approval for the banks, which could become a key element of the RDP programme.

Roughly R88 000 had been deposited into two village banks by about 550 people as part of a pilot project started in 1994 under the auspices of the UN's international fund for agricultural development. The programme is targeting a rural market of about 16-million people. The Bank is expected to give a ruling on deposit-taking and the legal status of village banks this week.

The Northwest RDP office has proposed to the commission that ownership and control of village banks remain with the community, and that consideration be given to supporting such banks through training.

Theta Securities to help troubled bank

(58) BD 13/3/96

Amanda Vermeulen

COMMUNITY Bank has called in financial services firm Theta Securities to help raise the cash it needs to stay afloat beyond the end of the month.

The appointment coincides with suggestions that the reluctance of its original lenders — the Development Bank of SA, the Industrial Development Corporation and the Independent Development Trust — to help the bank stems in part from their discontent with its management.

Executive trustee Cas Coovadia said yesterday the IDC had said last month it was unhappy with the bank's performance, but had not elaborated, and there had been no similar signs from the other lenders.

Continued on Page 2

Theta

(58) BD 13/3/96

Continued from Page 1

However, Reserve Bank sources said earlier that Community Bank's performance and plans helped lead the bank into its liquidity crunch.

The bank — which needs R500m to carry on operating for the next two-and-a-half years — has already been forced to curtail its marketing and branch expansion plans.

Theta executive director Daan Wandrag said yesterday Theta was helping to raise funds, but declined to comment further.

The development bank board, which is withholding about R50m of the original R200m committed to the bank when it was first capitalised, will meet tomorrow to discuss its position.

The Reserve Bank said last week that it could provide a form of bridging finance, but this would be only as a temporary measure.

Coovadia said bank representatives would meet Finance Minister Chris Liebenberg on Monday

Spruit's pollution by gasworks probed

By Shirley Woodgate

The Northern Metropolitan Substructure has appointed consultants to investigate the pollution of the Braamfontein Spruit by the gasworks at Cottesloe, and to recommend solutions before the 14ha site is sold off and redeveloped.

Redevelopment is scheduled for July next year, when ambitious plans to change the entire nature of the area, within a stone's throw of the CBD, could include a shopping centre, townhouses and a greenbelt linking with the spruit.

Established in the mid-1920s near the spring at the source of the spruit, the gasworks has been the scene of refuse, rubble and waste-product dumping since before World War 2, says Johannesburg administration water and gas director George Keay.

Coal and coke stored on site for the processing plant contributed to pollution of the fill material, and the spruit water has been polluted by increased salt levels.

The pollution is not considered dangerous but it may have harmed aquatic life and animals drinking the water.

Solutions proposed to prevent water running through the polluted site include encapsulating the material, immobilising it by adding grout, introducing a form of bio-remediation (bacteria to attack the pollutants) or – the least cost-effective – removing about 100 000cu m of rubble.

(56) Star 13/3/96

COMPANIES

Standard widens Mozambique link

Amanda Vermeulen (58) BD 13/3/96

STANDARD Bank of SA has increased its shareholding in one of Mozambique's largest private banks, Banco Standard Totta de Mozambique (BSTM), to 40,7% for R6,2m.

The group said yesterday that Lisbon-based seller Banco Totta & Acores would keep management control.

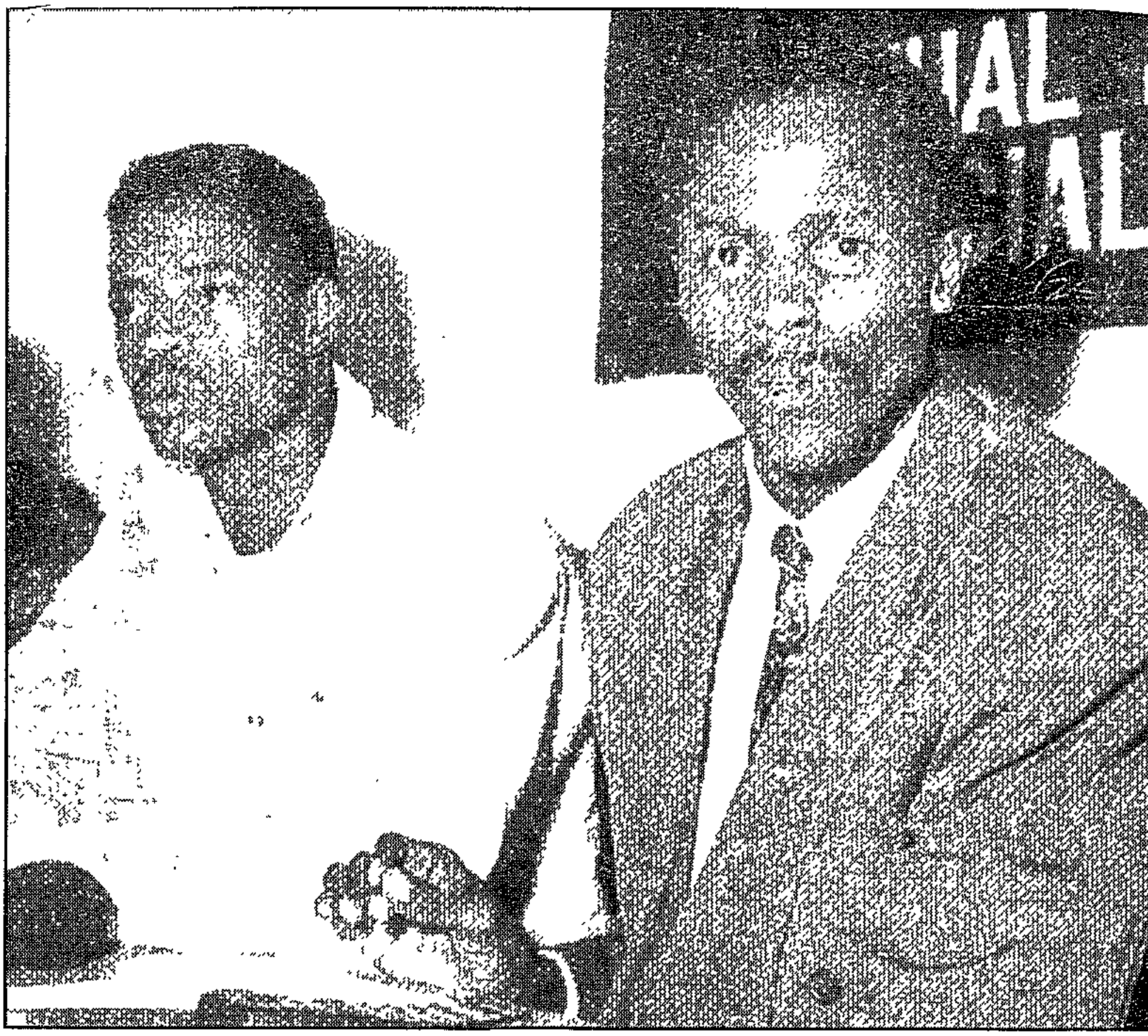
BSTM, with assets adding up to US$110m, had 14 branches and agencies in Mozambique, including Maputo, Beira, Quelimane, Nampula and Nacala, Standard Bank said. It concentrated primarily on corporate and commercial business, as well as foreign exchange, treasury and trade finance.

Standard Bank (SA) Africa Banking Group senior GM Graeme Bell said the group had wanted to return to Mozambique for some time. "The deal further strengthens our position as a major regional bank in Africa," he said.

Standard Bank opened branches in Mozambique in 1894. In 1966, however, it sold its branch network to BSTM which had as its main shareholders Banco Totta & Acores, Standard Chartered Bank and Standard.

Standard's shareholding declined until it held only 0,72% and Standard Chartered Bank subsequently sold its shares to Banco Totta & Acores.

Bell said plans to reopen the Mozambique corridor between Komatipoort and Maputo, as well as the rail link between the two countries, could make the bank's investment its most significant in Africa.



Sun MultiServe Mutual Assistance Society investors committee chairman Mr Piet Baartman and general secretary Mr George April at a Press conference in Johannesburg yesterday after police raids at six of their 28 branches on the same day. PIC: JOE MOLEFE

Sun MultiServe slams police raids on offices

Sowetan 14/3/96 (58)

By Victor Mecoamere

INFORMAL savings scheme company Sun MultiServe Mutual Assistance Society has slammed police raids at six of its branches yesterday, claiming that important documents were confiscated.

Mr David Mogashoa, the company's technical adviser, and public relations officer Mr Victor Monamodi and four leaders of the investors committee, said among the papers that were seized were declaration forms signed by 80 percent of investors in 28 branches in support of the national leadership of Sun MultiServe.

Mogashoa, Monamodi and investors committee members Mr Isaac Lesole, Mr Piet Baartman, Mr George April and Mr Nicholas Neniels rejected the Registrar of Banks' proposed redistribution of the R50 million that was frozen late last year on the grounds that Sun MultiServe's liquid assets exceeded R9 million.

The six men said the company held Minister of Finance Mr Chris Liebenberg responsible for the losses suffered by "our people" due to the crumbling of fly-by-night saving schemes in North West and elsewhere. April said legislation was needed to ensure the continued operation of registered savings schemes.

Police spokesmen Superintendent Eugene Opperman and Sergeant Mark Reynolds could not confirm the raids yesterday.

Police raid offices of 'frozen' stokvel

(58) Star 14/3/96

BY PATRICK PHOSA

Sun MultiServe (SMS) has expressed outrage at the Registrar of Banks for allegedly sending police to raid its offices to confiscate investors' declaration-of-confidence forms.

SMS national investors committee secretary-general George April said yesterday that the Sasolburg, Rustenburg, Brits, Welkom, Pretoria and Kempton Park branches had been raided.

He said Finance Minister Chris Liebenberg – "who should resign" – and Registrar of Banks Christo Wiese would face the wrath of investors if they did not release SMS funds after a court case next Tuesday.

Last year, Wiese ordered the freezing of SMS's accounts after investigations showed it had contravened the Banks Act, which stipulates that a stokvel may not control assets worth more than R9,9-million. The scheme, which offered returns of 300% to about 53 000 investors, has assets of about R50-million.

"We as investors will use all peaceful means in our endeavour to recover our money," said April.

"We will not be in a position to control the anger of our people anymore. Registrar Christo Wiese and those responsible for these actions must take full responsibility for whatever happens."

If the funds were freed they would be transferred to societies under the umbrella of SMS. Those who wanted to continue investing could do so, or investors could be paid out.

VAT still at 14%, but financial services lose their exemption

(58) BD 14/3/96

Linda Ensor

CAPE TOWN — Value-added tax would remain at 14% but would be charged on all fee-based financial services currently exempt from the tax from October 1, Finance Minister Chris Liebenberg announced yesterday.

Government accepted that VAT was an efficient tax and that zero-rating and exemptions should be kept to a minimum to enhance this efficiency. It also caused few economic distortions.

However, it was a regressive tax that had more of an effect on the poor, creating the need for compensatory measures on the expenditure side.

"The government has decided to retain the present VAT dispensation in this Budget, a decision that has been facilitated by the expected benefits flowing from improved cash management and improved tax collections," he said.

Liebenberg said premiums paid on life policies and contributions to pension, provident, retirement annuity and medical aid funds, as well as the charges built into the selling price of unit trusts, would be exempt from VAT.

In view of the fact that the majority of financial services rendered by the banking industry would now be subject to VAT, it was proposed that this industry be exempt from the financial services levy, which had been introduced as a "proxy" for VAT.

The insurance and "superannuation" fund industries would continue paying the levy.

The accrual basis for taxing interest on financial instruments would be extended to cover those instruments issued on or before March 15 1995 which were not yet within the scope of the system.

The difference between all amounts which had accrued for tax purposes and the amount which would have accrued until March 13, had the proposals been in force, would for tax purposes be accounted for on the date of the instrument's transfer or maturity, whichever was the earlier. By extending this accrual system government hoped to collect an additional R140m in revenue.

Meanwhile, Liebenberg has provided some relief for hard-pressed taxpayers, increasing the level of income at which the maximum marginal rate kicks in to R100 000 from R80 000.

The total cost of the relief, together with the alleviation provided for lower and middle income earners, would be R2bn. Liebenberg said fiscal constraints prevented government from doing more to reduce the overall burden of personal income tax.

Measures introduced included a cut in the number of income brackets from 10 to eight, an increase in the primary rebate, a rise in the minimum tax threshold and an increase in the minimum tax threshold for people over 65, who were also granted an additional rebate of R2 500.

The Budget said about three-quarters of the benefit of these adjustments to taxpayers would be felt with those whose taxable incomes fell below R80 000.

Along with the proposed increase in the primary rebate to R2 660 from R2 625, the minimum tax threshold for individuals under the age of 65 was increased 6,7% to R15 580 from R14 600.

Using the example of a taxpayer under the age of 65, with a normal taxable income of R25 000, Liebenberg noted that last year his/her tax liability would have been R2 125. After the amendments, the liability would be R1 890, a tax saving of R235.

Liebenberg also provided relief for people older than 65 years by raising the threshold of taxable income from salary, interest and rental below which they are exempt from provisional tax to R50 000 from R35 000.

On another front, estate planners are expected to be critical of the increase in estate duty and donations taxes to 25% from 15%.

The increases take effect from today and would apply to deceased estates and to the value of any property disposed of through donations. The donations tax exemption threshold would be increased from R20 000 to R25 000 from the 1997 year of assessment. This was the first adjustment since 1988.

The Budget Review said compared internationally, SA's rates of estate duty and donations tax were relatively low. However, Old Mutual's Abri Meiring described the increase as a "crude" attempt to revise an imperfect system.

Liberty group gains from transparency

CT (BR) 15/3/96 (58)

By Llewellyn Jones

Johannesburg — A healthy performance from life assurer Liberty Life and other subsidiaries, together with changes in accounting policy, helped lift attributable profit from insurance group Liberty Holdings 54,7 percent to R714,6 million in the year to December compared with the previous year.

This translated into a record 51,4 percent rise in earnings a share to 1 506,3c.

A final dividend of 382c a share was declared, taking total dividends for the year to 700c.

Donald Gordon, the group chairman, said the Liberty Life Group had undertaken a review of the principles and presentation of its financial results last year, particularly those affecting the group's life business with its traditionally conservative accounting policies.

This had come in response to the international trend towards greater transparency and clarity in financial reporting generally, and not least in the life insurance industry.

As a result, Liberty Life showed a 58,1 percent increase in its net taxed surplus to R1,204 billion for the year, which Gordon said would constitute a new base for future years.

This reflected the move to the more realistic financial soundness valuation, which is the newly prescribed basis for valuing life assurers' actuarial liabilities.

The increase in earnings of this order was not expected to recur. It was likely that greater volatility in earnings would result from the new standards because the previous system resulted in an artificial smoothing of earnings.

The increase in taxed surplus translated into a 54,2 percent increase in earnings a share to 498,4c, while the dividend for the year rose 25,5 percent to 256c.

Gordon said that in future dividend policy would be linked to medium-term trends as opposed to the surplus emerging in any particular year. This implied a higher dividend cover in future.

The results also included statements of total surplus attributable to shareholders for the year and total shareholders' capital and reserves employed.

These showed surplus attributable to shareholders for the year of R3,576 billion and total capital and reserves of R19,86 billion.

The latter figure also includes a release from prior year surplus from life fund reserves resulting from a change in actuarial valuation basis.

☐ See Page 20

Community Bank options to be aired

(58) BD 15/3/96

Amanda Vermeulen

DEPUTY Finance Minister Alec Erwin has summoned the Development Bank of SA (DBSA) and the Industrial Development Corporation (IDC) to an urgent meeting today to discuss the funding crisis facing Community Bank.

It is understood options up for discussion include DBSA providing bridging finance for Community Bank and freezing interest payments worth R10m on the bank's debt.

The meeting, which will also be attended by Community Bank officials, follows months of talks between the bank and its original lenders — DBSA, IDC and the Independent Development Trust — which have so far failed to secure more cash for the bank. DBSA acting CE De Villiers Botha has refused to unlock the R50m allocated for the bank until it secures funding from other lenders, and the bank faces closure unless new funds are found by the end of this month.

Community Bank CE Archie Hurst said the soon-to-be formed National Housing Finance Corporation had agreed in principle to help, while the International Finance Corporation had also indictated it would help. Hurst said discussions would be finalised with the International Finance Corporation early next month.

Hurst dismissed claims that the lenders were unhappy with management decisions.

He said they had been given full reports of the bank's forecast losses and investments and there had never been any objection.

There had been some overspending on the marketing budget, and this had contributed to the increase in the forecast loss for the 1996 financial year to about R30m from R25m.

The IDC had raised some concern last year that the bank's management did not compare with that of the other major banks, but had later apologised for the way in which the report had been handled, Hurst said.

Two audits on management late last year had given the bank a clean bill of health. Hurst said there had been some recognition from the board of trustees that it had to beef up its commercial expertise, and this was being addressed.

Botha said DBSA was not a grant funder, and would only commit financing to institutions which were able to repay their loans. But Hurst said the bank had not defaulted on repayments to DBSA.

Finance institutions to 'restructure or close'

(58) BD 15/3/96

Robyn Chalmers

MOST of SA's estimated 150 provincial development finance institutions would have to be completely restructured or closed down, finance ministry sources said yesterday.

They said legislation to be tabled soon in Parliament would outline guidelines for the running of these institutions to ensure they were not a drain on the fiscus, and that revenue was supplemented from capital market resources.

Finance ministry sources said government guarantees would not be issued for private sector companies entering into partnerships with development finance institutions or parastatals on development projects.

The ministry recently completed an audit of most of the institutions under the control of provincial governments around SA which have largely been used as conduits of public finance for developmental projects.

It has also assessed national institutions such as the Industrial Development Corporation (IDC), Land Bank and Development Bank of SA (DBSA).

Iraj Abedian, co-ordinator of the project, and UCT economics professor, said yesterday that most of the provincial institutions were unsustainable in their present form.

"Strong emphasis has been placed on ensuring the financial sustainability of institutions and establishing appropriate guidelines for project financing and cost recovery," he said.

He said the majority of institutions in the provinces did not qualify under this framework, and would have to be restructured substantially and refocused, or else closed down. However, it was important to ensure that capacity was not lost.

Provincial governments would have to take some hard decisions on the future of these institutions, which a number had already done, he said.

Another important element of the framework was the integration of investment from the three levels of government, development finance institutions as well as private domestic and foreign investors.

Abedian said good progress had been made on the restructuring of the IDC, DBSA, Land Bank and Small Business Development Corporation. He also said that the setting up of the National Housing Finance Corporation was imminent.

New business for Liberty tops R4bn

BD 15/3/96 (58)

Amanda Vermeulen

INSURANCE group Liberty Life reported a 58,1% increase in net attributable taxed surplus to R1,2bn in the year to December after record new business levels boosted bottom line.

Earnings a share increased 54,2% to 498,4c and a final dividend of 140c (108c) was declared, bringing the total dividend to 256c (204c).

Group chairman Donald Gordon said by the year end, total capital resources of the group, which included minority shareholders' funds, life fund reserves and the proceeds of the convertible bonds issued by Liberty Life and TransAtlantic Holdings, amounted to R25bn (R21bn). Total assets increased 21% to about R70bn.

The average annual compound rate of growth in net asset value over the 10 years since January 1986 was about 34% a year.

Record levels of new business (which exceeded R4bn for the first time) were written by Liberty Life and its 100% subsidiary Charter Life.

TransAtlantic Holdings, which would be renamed Liberty International Holdings, had built up a capital base of £1,7bn in Britain with significant cash resources, and was examining its options for world-wide expansion of its financial services, he said.

"The efforts of this company to achieve our global aims by acquisition or otherwise and become a leading and meaningful participant in our chosen field will now be co-ordinated in an exercise called the Millennium Project."

During the year, TransAtlantic sold its 50% stake in Sun Life for cash of £527m, which produced a profit of £260m including an exceptional profit of £110m for 1995.

Its London-listed subsidiary Capital Shopping Centres bought a 200-

Continued on Page 2

Liberty Life

BD 15/3/96 (58)

Continued from Page 1

year, 90% leasehold interest in The MetroCentre, Newcastle, the largest shopping centre in Europe.

There was also an agreement in principle between Capital, and retail chains Marks & Spencer and J Sainsbury to develop a major regional shopping centre in Glasgow.

He said the establishment of a financial services operation in Jersey and the 70% acquisition of British-based unit trust group, Portfolio Fund Management after the year end, was part of the Millennium project.

The consolidated taxed profit of Liberty Holdings and its subsidiaries, after the deduction of minority shareholders' interests and preference dividends, increased to R715m (R462m).

Earnings a share rose 51,4% to 1 506,3c, while a total dividend of 700c (560c) was declared.

Liberty Holdings' total assets increased to more than R70bn (R58bn). Discretionary funds and property interests under Liberty Asset Management and Liberty Life Properties from international and local pension fund clients and other institutional investors, amounted to R29bn, giving the group R100bn in assets under its control. Liberty Asset Management's taxed profit rose 25,5% to R36,4m.

Guardbank Management, jointly owned by Liberty Holdings and First National Bank, reached record levels in sales of R1,3bn (R1,1bn), while taxed profit rose 27,5% to R22,7m.

The 45,4%-held Guardian National increased earnings a share to 800c from 521,5c, with a total dividend of 334c (268c).

Speaking about the announcement on the pension fund tax, Gordon said he was not necessarily opposed to it provided it was at a modest level, geared to the effective tax rate applicable to the lowest tranche of members.

"I have a concern that this could lead to some dislocation of the pension and retirement fund industry, with serious side effects on the provision of retirement benefits for South Africans and with further cost implications for employers," he said.

Stokvel investors can make claims

(58) Sowetan 15/3/96

INVESTORS in the Sun MultiServe stokvel would soon be able to make claims to have their funds returned, newly appointed manager of the stokvel, Mr Tim Store, said yesterday.

Store, a partner in the accounting firm Deloitte and Touche, said he would be advertising venues where investors could make claims.

"We will be setting up offices at magistrates' courts across the country where we will process claims and pay out to those which are accepted," he said.

Investors would be paid from the R46 million in funds frozen by a Supreme Court order on December 19 last year. The closing of the stokvel caused nationwide protests.

Store said it was hoped the payment process would be finalised by the end of April. The stokvel's offices were raided on Wednesday in terms of a Supreme Court order granted on Tuesday allowing the Office of Serious Economic Offences and the police to search Sun MultiServe's offices and those of Mr Peter Tau, who was ostensibly involved in the stokvel's management.

The OSEO's investigation would take "considerable time", said Advocate Mr Jan Swanepoel of the OSEO. There had not yet been any decision to prosecute.

After a full inquiry a report would be submitted to Justice Minister Dullah Omar and the Attorney-General. The AG would make the decision on whether to prosecute.

Sun MultiServe technical adviser Mr David Mogashoa said yesterday they were outraged by the raids on their offices in Rustenburg, Brits, Welkom, Kempton Park, Sasolburg and Pretoria.

The raids were a "declaration of war" on them by Wiese, he said. - *Sapa.*

Bank to release 'record' loan figures

(58) (BD 18/3/96)

Robyn Chalmers

THE Development Bank of Southern Africa had released more than R1,2bn for development by the end of last month, and expects to announce a record level of disbursements for the year ended this month.

The bank — whose portfolio ranges from finance for dams, roads, bridges and electrification projects to loans for black commercial farmers — said at the weekend that the figure followed projects approved over the past two to three years coming to fruition. Total disbursements for the previous financial year stood at R1,1bn.

The announcement on disbursements was made at the bank's board meeting at the end of last week — the first board meeting to have been attended by newly appointed CEO Ian Goldin.

The meeting was held to outline the bank's business plan for the next financial year and focus on the output it was aiming to achieve against a background of the transformation taking place within the bank.

Operations GM Div Botha said the bank was "satisfied" with the level of disbursements, and aimed to disburse a minimum R1,3bn in the next financial year. This could be significantly higher if the RDP and housing programmes got off the ground.

But he said the bank was worried about the drop in applications from local authorities during the current financial year.

He believed this was largely due to the restructuring process many local authorities were undertaking, but said it was important for the bank to maintain its focus on local authorities.

Transformation of the bank, which will narrow its focus to financing infrastructure and remove its macroeconomic policy functions among others, was progressing well, he said.

The traditional reliance on government for fiscal transfers had also been phased out by mutual consent. The bank was expected to raise its shortfall of R500m in SA and foreign capital markets.

Stokvel goes bust

(58) Sowetan 18/3/96

Scheme short of R3,5 million to pay investors

By Lulama Luti
and Victor Mecoamere

YET another get-rich-quick scheme in the North West has bitten the dust – and this time R3,5 million invested in Prolite Upliftment has vanished.

This follows closely on the collapse of about half a dozen other quick-money-making ventures in the province, which has led to thousands of people losing their investments, some running into thousands of rands.

Angry Prolite Upliftment investors gathered at the scheme's locked offices in Mafikeng last week demanding refunds from directors Mr Felix Maleka and his brother Kenneth and former Mmabatho mayor Mr Joe Modungwa.

The three were invited to the meeting but did not turn up. Investors gave them one week to make the payments. However, according to Felix Maleka, funds have dried up and the scheme does not have any money.

"We are currently trying to secure funds to repay the investors. However, in order to get this money, we need collateral, which would be a guarantee that the scheme is back on its feet.

"And the only way we could ensure this is to get people investing (again) to enable us to pay those seeking refunds," said Maleka.

While Maleka was adamant that all the money collected until January 10 had been used to pay out investors, this was disputed by some investors who said not everybody had been paid out.

They produced lists of names of investors who had not been paid, most of whom had invested between R200 and R40 000 in the scheme.

The investors lashed out at Modungwa, now a school principal and local councillor. "He was the one who urged us to invest in the scheme but now he is nowhere to be seen," said an investor.

"All we are saying now is that they should give us the money that we put into the scheme, that's all. We're no longer interested in the profits that were promised to us."

Some of the stokvels that have landed in trouble with their investors are:

- Combination Masakhane, which mysteriously lost R1 million in a dustbin at a branch office in Zinnaville in North West. It failed to repay investors in February but refunded some of those who wished to sever ties with the scheme;
- Sun MultiServe, whose money – about R50 million – has been frozen by the Reserve Bank pending a proposed and equitable repayment system, which is currently being opposed by "eighty percent" of the scheme's investors in 28 branches; and
- Future Progress, which was largely based in North West and has since folded.

Meanwhile, Mr Tim Store, newly appointed manager of Sun MultiServe, said at the weekend that investors in the stokvel would soon be able to make claims to have their funds returned.

Store said venues – mostly at magistrate's courts throughout the country – where investors could make claims, would soon be advertised. He said it was hoped the payment process would be finalised by the end of April.

Partner sought for Community Bank

(58) BD 19/3/96

Amanda Vermeulen

THE Development Bank of SA is likely to continue supporting Community Bank while it attempts to find a merger partner.

The two banks said yesterday they had agreed at a meeting with the Industrial Development Corporation and the finance department that Community Bank should secure "an institutional and financial relationship with an existing institution active in the same field".

Bank executive trustee Cas Coovadia said no target had been identified and it was likely the development bank would keep up support while talks got under way.

The bank, which faces closure unless new funds are found by the month end, plans to submit a breakdown of its financial requirements for the next three months to the development bank.

Community Bank CE Archie Hurst said his bank would meet the development bank tomorrow to iron out bridging finance and whether the agency would put the additional R50m it had allocated into the institution.

The development bank's reluctance to put this cash in until the bank finds other funding sources has led the bank into its current cash crunch.

Continued on Page 2

Partner

Continued from Page 1

Hurst said there were indications the development bank's precondition could be negotiable under the merger proposal. The finance department said the role played by Community Bank and the service it offered were important. "The ministry is satisfied that Community Bank is seeking to strengthen this role through the various options now under discussion. The ministry is also satisfied the matter is being dealt with responsibly."

Development bank acting CE De Villiers Botha said the funding of the bank's operational expenses — R2,5m a month — had not even been finalised yet, but this would be one of the issues dealt with in the next two weeks.

Sources said a merger was the only workable solution, claiming again that management had been a large part of the problem at the bank. A merger would allay the concerns, they said.

Metlife starts HIV policy

BD 19/3/96 (58)

Samantha Sharpe

CAPE TOWN — Metropolitan Life yesterday launched the world's first life cover product for HIV-positive people.

The product is available to HIV-infected applicants who have no AIDS symptoms and are still at stage one or two of infection in terms of criteria set by the World Health Organisation — about 80% of SA's HIV-positive population.

Metlife AGM and marketing actuary Riaan van Wyk said there was an increasing number of prospective policyholders testing positive for HIV-infection. This prompted the group to launch the new product, which acknowledged the need to provide life cover for HIV-positive people and allowed Metlife to maintain a growth in premium income in the face of the epidemic.

"We expect the investment value of each policy will … exceed the value of the life cover after six to nine years, and will continue to grow to the policyholder's benefit."

Auction nets NBS R20m of R50m debt

Nicola Jenvey

(58) BD 22/3/96

DURBAN — Banking group NBS recouped about another R20m after auctioneer costs this week against a R50m debt incurred by local businessman Abdul Razak Dambha, when a further two buildings of his liquidated family trust were sold by public auction.

The trust and Dambha's company Republic Stationery were sequestrated last year, with the assets assigned to Dambha's creditors, including Standard Bank and New Republic Bank.

NBS, which has sole rights over the sale of four buildings owned by the family trust, received R10,9m when the Good Hope Centre in the city's central business district was auctioned last week. The property had been valued at R11,1m.

Nedbank House — the most prominent of the buildings — sold for R17,86m at an auction on Wednesday, only R60 000 higher than its valuation.

The smaller Albert Street cinema complex property closed bidding at R3,3m after being valued at R2,3m. It will require extensive revamping before being available for rental.

NBS corporate attorney Cedric Pettit said the banking group had expected to recoup R30m-R40m from the four sales. It had already brought another claim against Dambha in his personal capacity to try to recoup further losses.

Go-ahead given on borrowing-control

ARG 22/3/95

(58)

CLIVE SAWYER
Political Correspondent

THE cabinet has approved new guidelines to bring borrowing by government institutions back under control.

There has been mounting concern about the level of borrowing and issuing of government guarantees for which provision was not made in the national budget.

The new guidelines, to be distributed to all affected institutions including provinces, would bring down the levels of government risk, cabinet secretary Jakes Gerwel told a media briefing.

At yesterday's meeting, the cabinet was briefed by finance department officials on the scale and management of public debt.

The purpose of the briefing was not to make any decisions, but was geared at keeping the executive informed, Dr Gerwel said.

"They were told about how public debt was incurred and how it was being managed."

The issue is to be monitored by a cabinet sub-committee.

In other decisions, the cabinet approved the establishment of a National Housing Finance Corporation.

The move is part of improving the rate of housing-delivery, restricted thus far by lack of access to credit.

Only about 30 percent of households relied on conventional mortgage agreements to finance their housing, the cabinet was told.

The new corporation, which will bring together efforts of the government and the public sector, will attempt to broaden the base of credit available.

The cabinet also approved draft legislation to create uniform corporate law throughout South Africa, now that the TBVC states are no longer.

The Integration of Corporate Laws Bill, to be put before parliament this year, will abolish TBVC legislation regarding the registration of companies and close corporations.

The cabinet also gave the go-ahead for the implementation of a national automated fingerprint system, to take place during the next eight years.

Also approved was a new ID card project which is set to replace all apartheid-era identification documents.

It is not known, however, when the first of the new ID cards will come into use.

The Star .... Fr

Life cover for HIV-positive people hailed

(58)

A world first for local insurance company – and it is hoped the move will spark competition

Star 22/3/96

BY NIKKI WHITFIELD

Aids workers have given insurance giant Metropolitan Life guarded praise for offering life cover to HIV-positive people, a global first in a world where people testing positive for the deadly virus have always been denied policies.

It is hoped the move, which comes with certain conditions, will spark competition between insurance companies which will, in turn, increase life cover and bring down monthly premiums.

Metropolitan Life hopes to attract between 3 500 and 4 000 people with its Inclusive Life policy this year, and it is believed that a second corporation will be launching a similar package soon.

And, while cover is not as comprehensive and premiums higher than offered to HIV-negative people, it has nevertheless been heralded by the Aids Consortium as an affordable, meaningful and transparent policy.

The conditions are:

- People must be healthy – either in stage one or two of the infection, as defined by the World Health Organisation. In either stage, people testing positive for the virus could live for years as perfectly well beings.
- They must have a CD4 cell count of 350 or more. This, in the words of Metlife's Spencer McNally, "is an indicator of how many good guys are floating around in your blood".
- Their P24 antigenemia test must be negative. In layman's terms, people who test positive to this test are expected to have a diminishing of their CD4 cell count and are on the rocky road to illness. If the P24 test is negative, the chances of their cell counts improving are increased.

People applying for the policy are assured of the strictest confidence.

McNally, Metlife's product development actuary, said the company had worked closely with the Aids Consortium in developing the policy.

He said minimum premiums would be R125 for R10 000 worth of cover, compared with R110 for people entitled to normal insurance products. People can enter at between 15 and 55 years and are entitled to withdraw accumulated benefit funds.

Morna Cornell, co-ordinator of the Aids Consortium, said the policy was "not the answer to everybody's prayers" but was a genuine effort to include people previously shunned by insurance companies.

"Although the cover is not nearly as much as given to someone who is HIV negative, it does at least ensure that they are entitled to something.

"And Metlife is the first to have done it and they've done it in a remarkably open way. And hopefully it will lead to competition, which will see cover increasing and premiums decreasing."

This was a sentiment shared by a representative of the National Association of People Living with HIV and Aids.

"But R10 000 is not very much cover, so in order to get more you'd have to pay about R600 a month for around R50 000," he said. "And there are many people in this country who cannot afford this, so it might be better to go into something like unit trusts instead.

"But, even given its limitations, it's a welcome move and is bound to throw up a challenge to other insurance companies."

Life cover for HIV sufferers (58)

In spite of epidemic, SA life insurers first to address socially crucial illness

ARG 23/3/96

BRUCE CAMERON

SOUTH Africa's life assurance industry has again set world firsts in product development – this time in providing life and investment assurance for people who are HIV-positive.

Until now HIV-positive people have been considered uninsurable, leaving them to face the prospects of enormous medical costs and destitution for surviving family members.

This week two companies, Metropolitan and Fedlife, launched HIV products and Old Mutual is likely to come to the market soon with its version.

Metropolitan Life is providing death cover up to R50 000 and the Fedlife maximum is R250 000. The premiums for the cover are expensive compared with life assurance for healthy people but the assurance is considered to be "affordable" by the companies.

The life assurance and investment products will only be made available to people in the earlier stages of recording HIV-positive symptoms and will not be available to people with Aids.

HIV positive people at these levels have a life expectancy of about 10 years.

Both companies have had the risk in the policies guaranteed by re-insurers as part of assurance to non sufferers that their investments will not be undermined, placed at risk or subsidise the policies of people with Aids.

Source: METROPOLITAN LIFE

Metropolitan Life has been in the forefront of Aids research with one of its actuaries, Peter Doyle, considered the industry expert. It was the first to recognise the high risk of Aids to life assurers by making reserve provisions for earlier-than-normal-claims from policyholders dying of Aids.

Managing director of Metropolitan, Marius Smith, said in developing the product, in close co-operation with Aids organisations, his company had sought two priorities – one was to ensure that other policyholders would not be at financial risk and the other was to ensure confidentiality for HIV sufferers.

Metropolitan has added the HIV product to another product which provides cover for other "uninsurable" people, such as some forms of cancer and heart disease, to help ensure confidentiality.

The Fedlife policy, called Postive Care Plan, has an option designed to pay out on the insured person reaching the final stages of full blown Aids or at death, while the Metropolitan policy (Inclusive Life) will pay out on death, with consideration being given to payment on development of Aids.

Fedlife has also launched a product similar to the successful but controversial Southern Life Exclusive Life policy, offering policyholders a premium discount for undergoing voluntary HIV testing every five years. However Fedlife has added an additional element with a further premium discount for people who keep their cholesterol limits "within healthy norms".

For people who were initially healthy but contract HIV, a number of options are provided by the insurer to maintain their insurance but at a limited level.

Fedlife's head of individual life, Dave Avnit said assurers had to continually find ways to give policyholders a fair deal by recognising health risks by ensuring that healthy lives are not forced to subsidise the unhealthy while recognising that the country's constitution demanded there was no discrimination against the unhealthy.

Metropolitan Life has established a special section to deal with the sale and administration of the HIV products to ensure confidentiality.

Old Mutual's assistant general manager: marketing, Dave Hudson, said they had been ready to come to the market with a new HIV product for the past six months, but they were involved in the most intensive training programme for staff and intermediaries ever undertaken for a new product.

Pledges to loss-making Community Bank don't calm boardroom jitters

(58) Star 23/3/96

By WILLIAM-MERVIN GUMEDE

Nerves remained on edge in the cash-strapped Community Bank's boardroom this week despite the Government's assurances that it would not allow the troubled bank to collapse.

Reserve Bank deputy registrar of banks Andre Bezuidenhout promised the bank on Thursday that the central bank would facilitate Community Bank's bid to draw in investors to provide capital for its continued operation. The Reserve Bank would help Community Bank to enter into agreements with investors to ensure the continuing viability of the bank and prevent it from closing down, Bezuidenhout said. He said it was too early to consider appointing a curator.

Deputy Finance Minister Alec Erwin said the Finance Ministry was satisfied with the way in which discussions to save Community Bank were proceeding.

"The role played by Community Bank and the service it offers are important. The ministry offers to facilitate the ongoing negotiations where it is able, although we are satisfied that the matter is being responsibly dealt with," Erwin said.

Last weekend Erwin summoned the Development Bank of Southern Africa, the Industrial Development Corporation and representatives of Community Bank to discuss ways of solving the liquidity crisis faced by the bank.

The meeting came after months of talks between the bank and its original backers – the DBSA, the IDC and the Independent Development Trust – which have so far failed to secure more cash for the bank. "The bank's failure to secure institutional funding stemmed from lender nerves after the collapse of African Bank last year," executive trustee Cas Coovadia said yesterday. The three backers were reluctant to release additional funds after the bank forecast an expected loss of R45-million from January 1994 to March this year."

Coovadia said there was no need for concern as the loss had been budgeted for.

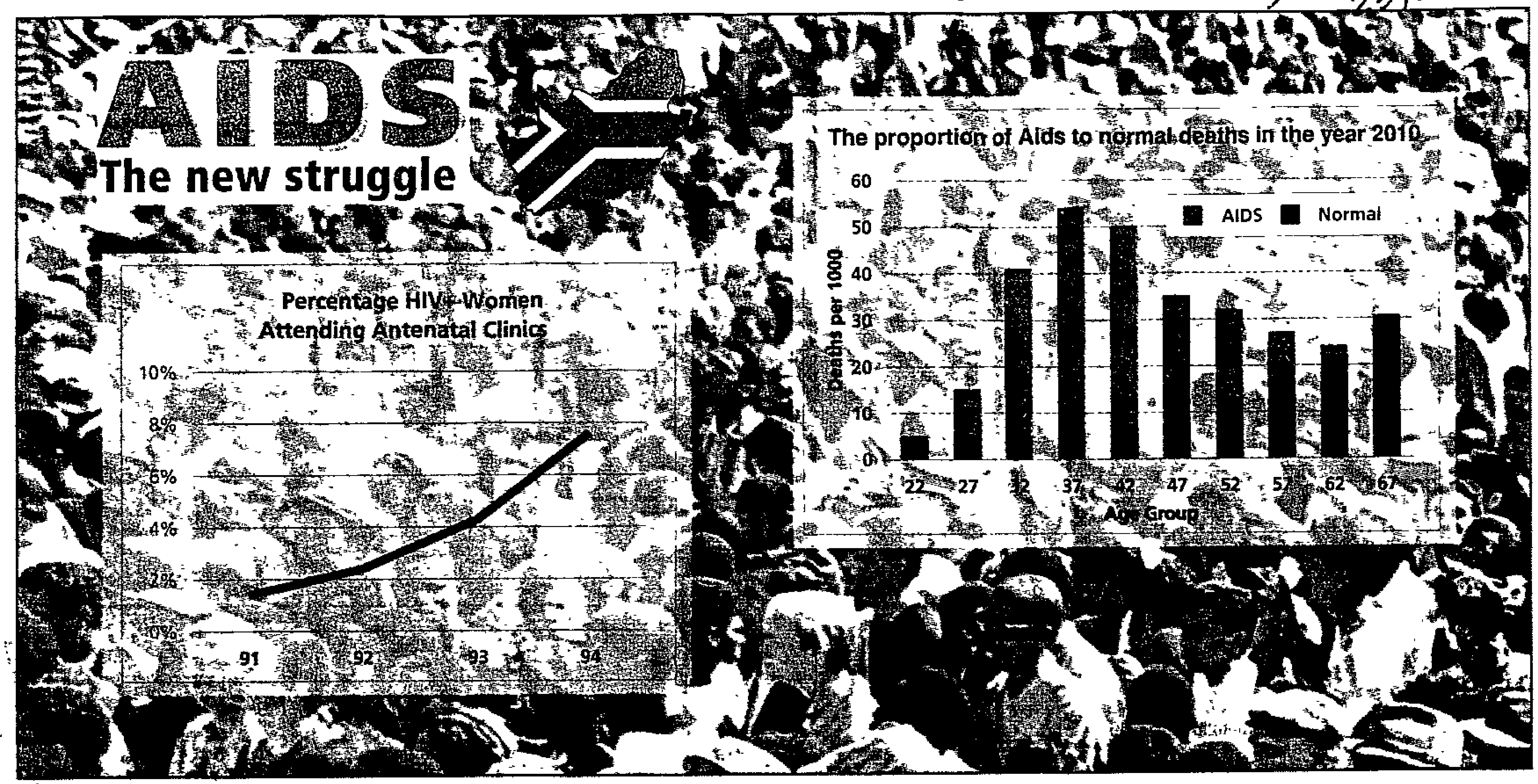
Life cover for HIV sufferers

(58)

In spite of epidemic, SA life insurers first to address socially crucial illness

Star 23/3/96

BRUCE CAMERON



SOUTH Africa's life assurance industry has again set world firsts in product development – this time in providing life and investment assurance for people who are HIV-positive.

Until now HIV-positive people have been considered uninsurable, leaving them to face the prospects of enormous medical costs and destitution for surviving family members.

This week two companies, Metropolitan and Fedlife, launched HIV products and Old Mutual is likely to come to the market soon with its version.

Metropolitan Life is providing death cover up to R50 000 and the Fedlife maximum is R250 000. The premiums for the cover are expensive compared with life assurance for healthy people but the assurance is considered to be "affordable" by the companies.

The life assurance and investment products will only be made available to people in the earlier stages of recording HIV-positive symptoms and will not be available to people with Aids.

HIV positive people at these levels have a life expectancy of about 10 years.

Both companies have had the risk in the policies guaranteed by re-insurers as part of assurance to non sufferers that their investments will not be undermined, placed at risk or subsidise the policies of people with Aids.

Metropolitan Life has been in the forefront of Aids research with one of its actuaries, Peter Doyle, considered the industry expert. It was the first to recognise the high risk of Aids to life assurers by making reserve provisions for earlier-than-normal-claims from policyholders dying of Aids.

Managing director of Metropolitan, Marius Smith, said in developing the product, in close co-operation with Aids organisations, his company had sought two priorities – one was to ensure that other policyholders would not be at financial risk, and the other was to ensure confidentiality for HIV sufferers.

Metropolitan has added the HIV product to another product which provides cover for other "uninsurable" people, such as some forms of cancer and heart disease, to help ensure confidentiality.

The Fedlife policy, called Positive Care Plan, has an option designed to pay out on the insured person reaching the final stages of full blown Aids or at death, while the Metropolitan policy (Inclusive Life) will pay out on death, with consideration being given to payment on development of Aids.

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HIV victims offered new life by Metlife

(58) ST(BT) 24/3/96

By MARCIA KLEIN

PEOPLE testing HIV positive will, for the first time, be able to get life assurance following the launch this week of Metropolitan Life's HIV policy.

The new policy has a maximum death benefit of R50 000 and is designed for applicants who have tested HIV positive but do not yet show AIDS symptoms, as defined by the World Health Organisation.

Research indicates that about 80% of HIV positive people in South Africa, representing about 1-million people, will be potentially eligible for cover.

Given the lower life expectancy of HIV-infected people, the premiums are loaded, starting at R125 for R10 000 life cover. This compares with a starting price of about R110 for traditional life cover.

Riaan van Dyk, Metlife's acting general manager and marketing actuary, says Metlife was the world's first assurer to offer AIDS cover under its health endowment and dread disease benefits.

He says Metlife has gone to lengths to ensure confidentiality. These applicants' statistical and administrative data will be separated from other policyholders', and a limited number of staff will administer their details. If the product is bought through a broker, the broker will know only that the product is part of the Inclusive Life range, which includes another "historically uninsurable" conditions besides AIDS.

Peter Doyle, Metlife's senior general manager, says there are about 1,5-million HIV infected people in South Africa, and as many as 200 000 of these could present with symptoms by 2000.

Mr van Dyk says Metlife helps HIV-infected people "to create a measure of security for themselves and their dependants". After six to nine years, the product's investment value will exceed the value of the life cover.

Bank to foot Sun Multi Serve costs

BD 25/3/96

Lukanyo Mnyanda

(58)

THE public will pay for nearly 60 advisers to help investors in Sun Multi Serve claim money locked into the pyramid scheme when its accounts were frozen by the registrar of banks.

The Reserve Bank said at the weekend it would foot the bill for the advisers and other administrative costs when about R46m was refunded to investors from today until April 12.

A spokesman refused to disclose the cost, but it is understood the advisers' main duty is to monitor investors while they complete their claims forms. Two advisers will be employed at magistrates' courts in each of the 27 towns where the scheme has offices.

Police in the towns have also been asked to watch for any trouble. The scheme has maintained a robust opposition to the registrar's efforts, including picketing banks in Welkom.

SMS spokesman Victor Monamodi said the decision to repay the funds would only "confuse" investors.

Continued on Page 2

Sun Multi Serve

(58)

BD 25/3/96

Continued from Page 1

"It is clear that his (registrar of banks Christo Wiese) desperation lacks no limits," he said.

Deloitte & Touche, which has been appointed by Wiese to manage the scheme's closure, said in an advertisement at the weekend that the first of the advisers had been hired. Mmabatho clothing manufacturer Stanley Molosioa — an ex-Sun Multi Serve investor — would recruit the other advisers who could communicate with investors in their home languages

The advertisment also warned that any fraudulent claims would be handed over to the police.

The repayment process follows recent police raids on the scheme's offices in which records were seized.

The Office for Serious Economic Offences is already investigating the scheme's management.

Meanwhile, Finance Minister Chris Liebenberg said in Parliament on Friday that the Bank was considering establishing a separate division to monitor stokvels and small credit unions, to ensure that they did not contravene the Banks Act.

Sun Multi Serve claim forms 'confuse' investors

(58)

Lukanyo Mnyanda BD 26/3/96

INVESTORS struggling to reclaim their R46m cash from pyramid scheme Sun Multi Serve yesterday had to contend with both the fund manager and the scheme's former management offering them claims forms, confusing an already confused situation.

Fund manager Tim Store, appointed by the registrar of banks to oversee the return of investors' funds after Sun Multi Serve's closure in December, accused SMS of "trying to confuse the situation" by distributing its own claim forms. He warned investors that only forms distributed from magistrates' courts would be accepted.

However, the process had kicked off smoothly except for one case in which an unidentified person had allegedly confiscated claims forms and intimidated Rustenburg staff, he said.

Sun Multi Serve spokesman Victor Monamodi said the scheme had distributed declaration forms for investors who wanted to be repaid by its directors and not by the fund manager.

He accused Store of using the scheme's letterheads in his repayment campaign to "confuse our people into thinking Sun Multi Serve is responsible for these repayments". Sun Multi Serve had not intimidated Store's staff and would also discourage its investors from doing so.

"We want to be democratic about the whole thing. If people want to collect their money from Store, they have a right to. But we don't want them to be tricked into signing these (claim) forms," he said.

Sun Multi Serve would be holding meetings around the country to look into ways of "paralysing" the repayment process, Monamodi said.

Everything was "going according to plan" with people "streaming into the courts", Store said.

Violence may halt stokvel's refunds

(58)

Lukanyo Mnyanda

BD 27/3/96

THE refunding of R46m to investors in pyramid scheme Sun Multi Serve could be halted after just two days amid intimidation of claimants and reports that officials overseeing the operation have been beaten up.

Fund manager Tim Store — appointed by the registrar of banks to oversee the scheme's closure — said yesterday he was considering halting the repayments after reports that officials had been assaulted and threatened with guns. Charges had been laid.

Store said the operation would need more security, while registrar Christo Wiese said he was "shocked". "It appears that investors don't want their money back. If they don't, then we'll have to decide what to do with it."

The operation, handled at magistrates' courts in the 27 towns where SMS had offices, started badly on Monday after SMS's former managers distributed rival claims forms to investors. SMS said it wanted to "paralyse" the repayment process.

Spokesman Victor Monamodi said that he had heard some investors had burnt claim forms and that "one guy was badly beaten in Mafikeng". He said SMS regretted the violence and would seek to restore calm. "We do not encourage this sort of behaviour but we also feel that people did it out of anger and Wiese must take responsibility."

Repayments to stokvel investors halted

(58) BD 28/3/96

Adrienne Giliomee

THE registrar of banks halted repayments to Sun Multi Serve investors yesterday after officials overseeing the process resigned in fear of their lives.

Fund manager Tim Store said yesterday investors' claim forms had been destroyed or stolen from the magistrates' courts where payouts were being handled, and staff and claimants in virtually all 27 claims centres had been intimidated with violence.

Former investor Stanley Molosioa, who had recruited 54 assistants for the operation, had quit, taking his recruits with him.

He had been beaten up twice on Tuesday, suffering a broken nose and ribs. "To continue in these circumstances would be putting lives at stake, and we clearly cannot do this," he said.

Police, who were supposed to be watching the operation following previous threats by investors, said no incidents had been reported.

Store said the operation would be put on hold pending the outcome of a Supreme Court ruling set down for April 23 on the scheme's funds. Any claims which had been made would have to be resubmitted, he said.

Registrar Christo Wiese has already called in the police.

Sun Multi Serve's former managers were unavailable for comment.

Stokvel payments halted after 'violence, intimidation' of workers

(58) Star 28/3/96

By Patrick Phosa

The process of claiming about R46-million by investors of the informal savings scheme Sun MultiServe (SMS) has been halted after just two days following a spate of intimidation of claimants and consultants overseeing the process.

SMS new manager Tim Store, who was appointed by Banks Registrar Christo Wiese, said yesterday he was forced to halt the process because he could not continue with the lives of investors and officials at risk.

"I have given out instructions to the officials to discontinue the process because we do not want to put people's lives at risk.

"The widespread violence, harassment and intimidation of people could not be endured any longer," Store said.

He cited the case of Stanley Molisioa – an official helping claimants with their claim forms in Mmabatho – who was assaulted, as the "most horrible" incident to have ever happened during the claiming process. Store said Molisioa had serious injuries to his nose and ribs.

Store said officials in other areas were assaulted and threatened with guns by people who removed the claim forms and chased claimants away from the magistrates' courts.

"A staff member in Rustenburg had to run for dear life when he was assaulted," he said.

Store added that they would await the April 23 court ruling on the fate of the funds before taking any action.

"Although we do not expect the court to rule in favour of the former SMS leadership, we will only devise new methods of making claims and paying out money after the ruling of the court.

"The process of submitting claims at magistrates' courts has not worked and it will be too dangerous to go back to this method," Store said.

SMS spokesman Victor Monamodi said they did not condone the action of the investors, however, they understood their anger.

CRISIS IN THIRD PARTY INSURANCE

27/3/96

SMALL CARROT; BIG STICK

(58) FM 29/3/96

There is uncertainty about the future of the third party insurance scheme, funded by the Multilateral Motor Vehicle Accidents Fund (MMF).

Potential victims of road accidents could well ask themselves what will happen to any claims for damages. They could be delayed indefinitely in a tangle of red tape or lost in the confusion surrounding the future of the scheme.

In recent months, short-term insurers have been pulling out — and the fund has been taking an increasing share of their administrative responsibility.

The appointed agent system operates on a roster basis. The fund apportions calendar days to each insurer and claims arising within the allocated period are handled by the appropriate agent. Before May 1994, 366 days were divided among 10 agents (but unequally). Now, the smaller agents are given 18 days a year and the larger 54.

This is perceived to be more equitable. However, the fund took the opportunity to award itself all claims incurred between the 23rd and 31st of each month. This translates to 114 days a year. And, with the departure of Mutual & Federal and Guardian National, a further 72 days have fallen to the fund, bringing the total to 186 days — virtually half the market.

On May 1 1994, there were 11 claims agents (insurers) operating. Now, only seven are left. Still in the game is SA Eagle. But MD Peter Martin says the problem with the current flat fee payment system is, no matter how complex a claim, the fee remains the same. This view was echoed by most of the market.

A big stick and a small carrot hardly creates an ideal situation for an agent to be in.

Whatever the shortcomings of the insurers, the MMF is unlikely to do better — and could do worse. Certainly the fund's actions run counter to the Melamet Commission's recommendations that the private sector should continue to handle the scheme.

However, supporters of centralisation argue the current agent system is vulnerable, and the fund accuses some agents of not handling claims thoroughly. It has established an inspectorate to remedy the defects but this has caused further problems to insurers who claim it is "a time-wasting mechanism."

Not all insurers are unhappy with the appointed agent system. Aegis's Andy Taylor says a feasibility study was completed last year and the findings showed profits made in this area were quite large. "It is important to devote a specialist division to such claims. If an agent tries to do this type of work on a random or piecemeal basis, mistakes will definitely be made. The work is complex."

Commercial Union is also happy with the status quo. It has a big investment in infrastructure. Its computer system is linked to the MMF system and a specialist department handles the claims.

It also has praise for the fund. Says a spokesman: "The MMF, in recent times, has adopted a more professional and practical approach."

Outside the industry, there are those who would prefer to see the MMF handle the entire system. The Automobile Association's Robin Scholtz says it is preferable to "a party with no direct financial interest in settling claims economically."

A more appropriate solution would be to ensure the private sector has enough incentive and there are ways that this could be done (*Leading Articles* March 1).

The ball is in government's court because it is preparing a White Paper on the administration of the system. And, until this is published, no further move can be made ■

Agricultural Credit Board must go, says Strauss report

BD 29/3/96

(58)

Louise Cook

PRETORIA — The government-appointed commission into rural financing has called for the scrapping of the Agricultural Credit Board and for the opening of the Land and Agricultural Bank to the entire rural sector.

The Strauss commission, in its interim report, also recommended that the Land Bank Act be urgently redrafted so that the bank could serve sectors outside farming, and called for the ending of credit provision by all agricultural departments.

The bank should be transformed into a rural bank with a new board of directors, becoming the "key institution to act as the state's agent in the rural financial services sector". Provision should be made for a name change to the Rural Bank of SA.

The commission suggested government's direct role in agricultural financing should change, recommending credit provision by the national and provincial departments of agriculture and the Agricultural Credit Board be ended as soon as possible.

The report said it was unlikely commercial banks would be willing to enter the land reform programme in a big way.

Properties owned by the Land Bank were a potential source of land and the bank should put these farms on the market, offering reasonable financial packages.

Monitoring village banks and development corporations should be done by the Rural Bank and the RDP office.

No changes were recommended to the Banks Act, but the report said laws governing farming, banking and land should be "harmonised".

Coovadia puts his money on the community

(58) Star 30/3/96

By ALEXANDRA SMIT

Community Bank's executive trustee Cas Coovadia has maintained a brave face in the flurry of detrimental activity involving his bank's finances. Despite the public's misgivings, his optimistic confidence paid off and the bank was rescued at the eleventh hour.

Former political activist, now community banker, Coovadia has faced foes and friends alike to disclose what his bank is about and what makes the man.

Before committing himself to Community Bank, Coovadia was number 22 on the ANC's PWV election list. He had four stints in jail for his political activities during the P W Botha regime. As part of Actstop, Coovadia campaigned against the Conservative Party's programme of "ethnic cleansing" in Hillbrow.

He was involved in the Seven Buildings Project which involved seven buildings in the inner-city area and the proposed plan by tenants to buy the flats with a view to running the buildings.

Many obstacles were encountered, but the tenants were recently granted the go-ahead.

"It's very good that it's off the ground," Coovadia says. "It's a move in the right direction; let's hope they make it a success."

Coovadia is matter-of-fact about where his bank stands at the moment and what mistakes have been made in the past. Establishment costs for the 18 new branches all over the country formed a large part of the bank's expenditure, but he says this was "put forward during our projections".

The bank was founded in the middle of 1994 with the purpose of filling "the gaps left by commercial banks' inability to give loans to low-income groups because of the risks involved".

Together with former Absa chief banker Archie Hurst, the aim was to "break the red-line areas" where residents cannot get home loans because banks do not want to invest in risky areas. Another initial purpose was to encourage savings.

Critics asked whether this concept was based on socialist principles, but Coovadia discounted this, saying: "There's this misconception that the development of the community is socialism. It's necessary! We're not going to make any progress (with the RDP) unless we start empowering the community."

These words still ring true in 1996 for Coovadia, who has found that well-intentioned investors are still reluctant to put their money where their mouths are.

YOU CAN BANK ON IT: Former activist Cas Coovadia says he might return to politics in a few years' time, but right now his priority is ensuring the empowerment of the community.

PHOTOGRAPH: ANTON HAMMERL

"We recognised that the potential for raising deposits was not going to be high, but that the demand for loans was going to be high. We'd have to raise institutional investments, and our initial funds came through on that basis," he says.

He started speaking to potential investors in the middle of last year when the bank was still cash flush.

"The housing project had just taken off and we hadn't done much lending. The investors said it wouldn't make much sense lending us the money then."

However, by October it became clear that Community Bank would be needing extra money if it was to continue with its plan of action.

"Unfortunately that was when African Bank crashed and investors became more cagey and conservative in their approach.

"It became a case of wait-and see for potential investors, who were waiting for the original investors to make the first move.

"The bank considered changing from its present mutual option and becoming an equity bank, but the Reserve Bank and the Government both dissuaded them, saying they want mutual banks to be successful," he says.

Pausing to sip his coffee, Coovadia reassures: "We do not have any managerial problems and there's no danger to any investors at this stage. The Reserve Bank is perfectly happy with our reports, which are up to date."

The Development Bank initially promised bridging finance for the bank while freezing interest payments worth R10-million on the bank's debt and an additional R50-million which is frozen until investment is sorted out.

"As a very last option we would consider a merger, but recent developments look positive."

Discussions with both the Government and the Reserve Bank were positive but the South African National Civic Organisation (Sanco Investments) is expected to close a deal with the bank in the near future which "could lead to both institutions influencing major capital and development projects affecting millions of people in the townships".

An agreement with the South African Housing Trust is also expected to be clinched soon.

Community Bank has been filling a niche not served by the other financial institutions by providing home loans for those in the lower-income market. However, it now has a "short-term liquidity problem" and promised investment is not forthcoming because the bank is young and relatively inexperienced.

When applying for a home loan, prospective clients have their references verified by respected members of their community, and if they are earning about R1 500 a month, they could qualify for a home loan of R40 000.

"We have been told by the Gauteng and Western Cape housing boards that 90% of the individual housing approximations have gone through the Community Bank," says Coovadia, who adds: "We have made a substantial impact and we have no service arrears problems at the moment."

"If you compare us with the other banks, the E-Banks and the People's Bank, we have the greatest community," he says proudly and adds: "We're the only institution that has really been active in this market."

He expands: "Last year we took the decision to cut our operating costs, thereby saving some R6-million in the coming year and not to expand for the next two years."

He was touted to become a prominent member of local government but instead chose to serve his community by providing the means for them to elevate their status.

With a struggle just behind them, Community Bank under his co-leadership looks set to stay in the banking world for some time to come.

Asked whether he might return to politics in the near future, Coovadia reflects and admits: "I would say, ja. By 1999 I might find myself back in politics."

With his past record, it would be hard for Coovadia to leave that field entirely.

Coovadia is down-to-earth and approachable. His past reflects the man he has become, with involvement in student issues, upliftment of his neighbourhood while on the White Blocks Residents' Association, and fights against slumlords in Actstop.

His efforts on Actstop's behalf earned him wry respect from the Johannesburg business community and he served on the Metropolitan Chamber, continuing his efforts to upgrade the inner city.

Coovadia admits he has simple tastes, but his one vice is to dress well.

What does he do in his spare time?

"What spare time?" he laughs. "Unfortunately I can't cook," he discloses, but divulges: "I have a daughter turning one on April 12 so I'm spending a lot of time with her and my wife.

"She's pretty busy at the moment," he says. "I like listening to music, mainly classical and jazz. I love Abdullah Ibrahim, Julian Bream on classical guitar, Tchaikovsky and Mozart."

He also does a lot of reading. "Mainly political reading, not theses but more current political debates." Agatha Christie thrillers and the James Mortimer *Rumple* series about an English barrister also keep him entertained.

The new SABC-TV line-up passes muster with Coovadia, who enjoys Tuesday's British sports promoter series, *Ellington*.

"On the local front, I really enjoy *Suburban Bliss*, I think it's a good sendup of interracial relationships."

He also tunes in to *Murder She Wrote* while still enjoying *Future Imperfect* with debates chaired by Professor Denis Davis.

To really relax, Coovadia finds he has to get away from it all by going into the country.

"I take the occasional weekend off to do a little bit of hiking.

"I like to go to places where there are no TVs and no phones It's absolutely essential and is very rejuvenating."

In his mid-forties, no-nonsense, to-the-point but armed with a sense of humour, Coovadia strikes an imposing figure until you speak to him. With an accumulated hour of conversations between us, the impression of Cas is very favourable.

SEEKING THE ROUTE FOR COMMUNITY BANKING

WINNERS AND LOSERS

(58)

FM 22/3/96

Community Bank's liquidity crisis suggests microlending is a risky business. But a Deloitte & Touche Consulting Group study suggests it need not be.

"Not only is it possible to provide loans without collateral and achieve recovery rates comparable to conventional banking but it can be done in a cost-efficient, financially sustainable manner," says the study.

Deloitte's development finance expert Gabriël Davel says. "It boils down to a sound understanding of credit methodology and good management."

The study says factors separating the winners from the losers are usually debt management, management information systems and institutional structure.

Survival depends on:

- Immediate follow-up of arrears;
- Close monitoring of branches;
- Strict enforcement of performance standards, and
- Knowledge of the customer base.

The study concludes that, for lending to be profitable, cost-efficient procedures, appropriate interest rate structures and "outstanding management and control techniques" are vital.

Davel says: "There's no one specific type of institution that is appropriate for successfully providing financial services to the emerging market. Nor is there any one 'correct' way of doing it.

"Grameen Bank in Bangladesh emphasises highly regulated and strictly supervised group-based lending. Bank Rakyat Indonesia uses a system based on transparent incentives and rigorous enforcement of penalties. BancoSol in Bolivia applies 'relationship banking' based on knowledge of the market, service and frequent contact between borrowers and loan officers."

In SA there are fewer than 20 microlenders, ranging from banks to provincial bodies and nongovernmental organisations. The last face the toughest challenges in terms of asset base and staffing.

Sizwe Tati, CE of Khula Enterprise Finance Ltd, a wholesale financing institution set up by the Department of Trade & Industry, says: "Many of the microlenders are on the cutting edge. The Small Enterprise Foundation in Tzaneen and the Rural Finance Facility — rural outreach programmes — are showing recovery rates of around 99%.

"Women make up 80% of the rural client base. With rural outreach, mirolenders are going where the banks do not go. Without their support for small business, government would have to deal with a far greater poverty problem."

What are the successful microlenders doing right?

Innovation seems to be the cornerstone. "For example," says Tati, "start-up businesses find it hard to secure loans. The Startup Fund is now meeting that need

"And successful sizing of loans is also a factor. Clients with no credit history are initially given small loans and, as they build up a track record, can graduate to larger amounts. The average loan period is two to three months. That makes it easy to keep in contact with the client and assess his or her character.

"Microfinance organisations can be expected to experience hiccups," says Davel, "and should be helped to overcome the problems. They are operating in a new, untested field which often calls for considerable innovation." ■

(58)

WHERE THE VALUE LIES

FM 22/3/96

The closing of the century appears to be bringing out the philosopher in Liberty Life chairman Donald Gordon. He even refers to Heraclitus' observations on the permanence of change towards the end of his statement (which may well set a new record for length) and which spans, apart from group results, comments on the dangers of the dominance of the US on world affairs, a possible revival of gold as the anchor for currencies, the rand, the Smith and Katz commissions and the insurance industry in general.

What does emerge clearly though is that the Liberty Group is well placed to deal with change, be it in domestic or international markets. This is why, says Gordon, financial strength and reserves have conscientiously been built up over the past two decades to survive even the most serious scenarios he outlines. "With free reserves of over R23bn, I am convinced Liberty Life must be among the world's most responsible financial institutions in this regard."

Two important changes in the financial 1995 accounts could have long-term implications and should support Liberty's hallmark consistency of earnings and asset growth. The first is merely a change in accounting policy, but it reveals the "potential profits" many observers have long felt was not apparent in Liberty's conservative reporting

A lot of hidden value was not reflected before in EPS While EPS have grown by about a compound 23% over the past 10 years, compound net asset value growth over the period is around 33%.

An indication of this hidden value is now revealed in the 58% increase in attributable earnings, which reflects investment revaluation and other reserves. The net effect lifts shareholders' funds from R7,91bn to R12,57bn.

Gordon says this is a new base for future years and a similar percentage increase is not expected to recur. However, the new accounting standards are likely to result in greater volatility in earnings.

To offset this possible volatility, he says future dividend policy will be linked to medium-term trends rather than the surplus arising in a particular year.

The second change relates to the removal of UK insurer Sun Life from group balance sheets, particularly offshore company TransAtlantic (to be called Liberty International Holdings) and its 42% holder First International Trust (FIT).

TransAtlantic sold its 50% interest in Sun Life in August for £527m, realising a profit of about £260m. For FIT (EPS up 43%, dividends 23%), good results come directly from TransAtlantic's sound performance. It also receives R217m (after tax) as its proportion of the profit realised on the disposal of Sun Life.

In SA, Liberty Life maintains its consistent performance, though 1995 was not its best of years. Net premium income growth of 24% is okay, but the 10% gain in recurring premiums looks a little sluggish. Management expenses, up 16%, could be brought down.

There's no arguing, however, with the balance sheet — which reflects the real strength of the group and its vast capital base. Cash holdings alone increased from R2,53bn to more than R4bn. Total assets grew by 21,2% to top R69bn.

This financial strength, with a blue chip investment portfolio (income from which accounts for about a third of total income before unrealised surpluses), underpins Liberty's premium rating.

Share price appreciation over the past year of 56% is hard to fault. The real value is in Liberty's long, consistent track record. EPS growth is bound to be in the mid-20s this year off its new high base — and that's clearly what investors are prepared to pay for. *Shaun Harris*

ROLLING ALONG

Year to December 31	1994	1995
Net premium income (Rbn)	5,23	6,49
Investment income (Rbn)	3,64	3,94
Attributable (Rbn)	0,76	1,20
Earnings (c)	323	498
Dividends (c)	204	256

sion of infrastructure and services by the Government?

N168E

The MINISTER OF LAND AFFAIRS:

(a) The 11 communities that have benefited from the redistribution process in terms of Act 126 of 1993 are.

Tembitshe Buthelezi Development Trust, Nhlawana Buthelezi Development Trust, Khambi Development Trust, Amanthungwa Development Trust, Tembalihle Land Trust, Cornfields Land Trust, Gallawater Trust, Weenen community/Thuthutka Mngwenya Trust, Menba Property and Development Trust, Empangisweni Trust, and the Ngcongwana Trust.

(b) Most of the communities are either living on the farms or in the surrounding areas and are in the process of settling on the farms

(c) (i) The total area is 29 276 hectares.

(ii) None of this land belonged to the state and was acquired on the open market through negotiations by the communities.

(d) (i) Subsidies totalling R20 681 034 were paid out to enable communities to acquire land.

(ii) Some of the communities will as Presidential Lead Projects, receive a planning grant in terms of which the provision of services and infrastructure would be planned.

In terms of the Land Reform Programme, grants will be made available to the other communities for planning for the provision of services and infrastructure The Department supports communities to the maximum of R15 000 per household for settlement and development purposes.

New clinics built (28)

89. Mr M F CASSIM asked the Minister for Health:

(1) Whether any new clinics were built during the period 1 May 1994 up to 1 February 1996; if not, why not; if so, (a) how many clinics and (b) where;

(2) whether any of (a) these and/or (b) other clinics are currently not fully operational, if so, what are the reasons in each case?

N169E

The MINISTER FOR HEALTH:

(1) Yes; (a) the Clinic Upgrading and Building Programme (CUBP) is currently in the process of building and/or upgrading 401 clinics in total, distributed throughout the provinces as follows:

(b)

Province	*Completed*	*In process*
KwaZulu-Natal	2	109
Eastern Province	0	86
Northern Province	3	70
North West	1	40
Free State	2	15
Northern Cape	0	6
Mpumalanga	0	17
Gauteng	1	26
Western Cape	5	18
Total	14	387

(2) (a) No; (b) some of the clinics being built/upgraded in the Clinic Upgrading and Building Programme are due for completion between February and June 1996. As the clinics reach completion and are handed over, they are put into operation.

South Africa's rating

124. Mr J J NIEMANN asked the Minister of Trade and Industry:

(1) What is South Africa's rating in terms of (a) the remittance of dividends, (b) investment incentives, (c) tax holidays, (d) corporate tax, (e) lack of security and (f) labour disputes as incentive factors for foreign investment compared to (i) Singapore, (ii) Thailand, (iii) Indonesia, (iv) Australia, (v) the Middle East, (vi) the United States of America, (vii) Malaysia, (viii) Costa Rica and (ix) Panama;

(2) whether he envisages any changes in respect of the above categories as essential in order to make South Africa more competitive in attracting foreign investment; if not, why not; if so, what are the relevant details in each case,

(3) whether he will make a statement on the matter?

N234E

The MINISTER OF TRADE AND INDUSTRY.

Reply found in Annexures of House—see M/170. (58)

Restructuring of banking industry

126. Dr K RAJOO asked the Minister of Finance:

(1) Whether he will consider restructuring the banking industry so as to enable stokvels and small credit unions to be created to serve the lower income population, if not, why not; if so,

(2) whether he will consider creating an inspectorate to regulate and advise this sector of financial services; if not, why not; if so, what are the relevant details?

N236E

The MINISTER OF FINANCE·

(1) In recognition of the valuable role fulfilled by stokvels and credit unions in the informal banking sector in the Republic of South Africa, the Registrar of Banks legalised the activities of such schemes by way of an appropriate notice in the Government Gazette. The relevant notice numbered R2173 and published in Government Gazette No. 16167 dated 14 December 1994, was issued in terms of the provisions of the Banks Act, 1990 (Act No. 94 of 1990).

The legal effect of the aforementioned notice is that stokvels and credit unions are permitted legally to conduct "the business of a bank" in the Republic of South Africa, provided such activities are conducted strictly within the conditions and directives of the notice. South Africa is apparently the first country in Africa that has formally legalised the activities of such bodies.

(2) The establishment of a division within the Bank Supervision Department that will be tasked exclusively with inspections of illegal deposit taking in terms of the Banks Act, 1990, is currently being considered by the Governors' Committee of the South African Reserve Bank Should such a division be established, it will be responsible for the relevant regulatory measures with regard to illegal deposit taking as contained in the Banks Act, 1990

Eskom: outstanding service fees

130 Mr P J GROENEWALD asked the Minister for Public Enterprises:†

(a) What did the outstanding service fees owing by local authorities to Eskom amount to in (i) 1994 and (ii) 1995 and (b) what did the amount in respect of each specified local authority amount to in respect of each of these years?

N240E

The MINISTER OF PUBLIC ENTERPRISES·

(a) (ii) 1994: R351m (excluding interest) and R458m (including interest).

(ii) 1995. R494m (excluding interest) and R693 m (including interest)

(b)

Local authority	*Account*	*December 1994*		*December 1995*	
		Excluding interest Rm	*Including interest Rm*	*Excluding interest Rm*	*Including interest Rm*
Springs TLC	Kwa Thema	63,90	87,70	86,90	129,50
Heidelberg TLC	Ratanda	9,30	13,20	9,50	15,90
Sasolburg TLC	Zamdela	19,60	28,40	18,60	32,80
Randfontein TLC	Mohlakeng	14,90	19,90	14,80	23,60
Johannesburg TMC	Ennerdale	12,40	14,00	19,50	24,50

Stokvel's threat

MultiServe says it will blockade the Reserve Bank

(58) Sowetan 1/4/96

By Victor Mecoamere

THE EMBATTLED Sun MultiServe Mutual Assistance Society has threatened to unleash violent protests countrywide today to block the repayment of R50 million to disgruntled investors.

SMS national investors committee members Messrs Peet Baartman, George April, Nicholas Nienels and Brian Mthunzi told *Sowetan* at their Kempton Park offices yesterday that they would be unable control the anger of irate investors.

The organisation was reacting to the Reserve Bank's announcement that it would be paying out the impounded R50 million directly to investors. However, the SMS wants the money to be paid to its affiliates, which apparently would distribute the money to their members.

Several representatives appointed by the registrar of banks to coordinate the repayment process were assaulted at a number of SMS offices last week. According to newspaper reports, one man was assaulted during a nasty incident at an SMS office in Rustenburg in North West.

April said hundreds of SMS investors will stage sit-ins as a form of protest against the ongoing repayment system which has been ordered by registrar of banks Mr Kobus Wiese. The Reserve Bank froze about R50 million belonging to SMS investors after it was discovered that the amount exceeded R9 million, a contravention of the Banks Act.

The alternative was for SMS to be registered as a bank. SMS rejected this suggestion. *Sowetan* has learnt that SMS, established in late 1995, had paid out about R59 million before the Government intervened.

The four men also described the resignation of former finance minister Chris Liebenberg as a major victory for SMS. "We have been calling for his resignation all along," said April.

"We also laud new Finance Minister Mr Trevor Manuel because we believe that he, unlike Liebenberg, knows about the concept of *ubuntu* and will negotiate in good faith with us."

The sit-ins are expected to take place at the offices of the registrar of banks and at SMS offices in Rustenburg, Welkom, Kempton Park and Johannesburg.

Early this year SMS adviser Mr David Mogashoa said that members threatened to launch consumer boycotts where SMS has branches, following the occupation of banks in Welkom.

"Sun MultiServe should not be held responsible for various forms of disruption of the repayment process," said April. "We will try to be peaceful. But our people are angry and we cannot control their anger."

There seems to be an intensification of the threats that were sparked off by police raids at a number of SMS offices throughout the country.

April and Baartman said the documents confiscated by the police include "declaration forms" that have been signed by more than 80 percent of the 40 000 members at 28 branches throughout South Africa.

"They want the frozen R50 million to be returned to societies affiliated to Sun MultiServe," said April. April and his colleagues were expected to address about 300 "concerned" investors in Kempton Park yesterday.

Sun Multi Serve records slated

BD 2/4/96 (58)

Lukanyo Mnyanda

SUN Multi Serve directors had failed to keep proper investor records, making it impossible to establish how many people were owed money, despite seizure of documents by recent police raids on the pyramid scheme's offices.

Fund manager Tim Store, appointed by the registrar of banks to oversee the scheme's closure, said yesterday he doubted if the scheme's former directors knew who all the investors were.

He said documents seized by the Office for Serious Economic Offences did not shed new light on the scheme's administration.

The threatened mass action could be a desperate ploy to avoid a court hearing which could expose the scheme's inability to repay investors.

SMS yesterday threatened to blockade the Reserve Bank to stop the repayment of R46m to investors, but the process had been stopped already after violence at pay points last week.

Andre Bezuidenhout, deputy registrar of banks, said the Bank felt its security measures were adequate to deal with SMS's threats.

"We can't understand their motives (for the proposed blockade) as we are not in a position to grant their demands," he said.

SMS could not be reached for comment yesterday.

Community Bank may accept Sanco proposal

BD 2/4/96 (58)

Amanda Vermeulen

COMMUNITY Bank is considering a proposal from the SA National Civics Organisation under which Sanco's 1,2-million members would deposit their savings with the bank in return for preferential access to home loans.

The bank's executive trustee Cas Coovadia said yesterday Sanco Investment Holdings (SIH) had tabled the proposal. Community Bank was "keen" to do business with SIH, in which Liberty Life holds a 20% stake.

It was not clear yesterday whether such a plan would entice Community Bank's main shareholder, the Development Bank of SA, to release R50m committed to the bank. DBSA has frozen the payment of the cash until Community Bank secures other investors, leaving Community Bank facing a cash crunch and the possibility of having to find a merger partner.

Coovadia stressed that SIH would not be a merger partner. The bank was also pursuing other investors, though there had been no approach to Liberty Life.

The bank will have a further meeting with the World Bank's investment arm, the International Finance Corporation, next week. The IFC has offered to fund up to 40% of the bank's capital requirements of R200m needed this year.

SIH spokesman Michael Levinsohn said an alliance with Community Bank would give Sanco members access to skills sharing.

SIH last week bought a 20% stake in radio station Solid Gold, and is part of a consortium bidding for 20% of East Coast Radio and 10% of KFM in the Cape.

Stokvel investors protest

Sowetan 2/4/96 (58)

By Russel Molefe

A GROUP of Sun MultiServe Mutual Assistance Society investors from across the country descended on Johannesburg yesterday to protest against the intention of the Reserve Bank to repay R50 million direct to the investors.

The protesters called on the Reserve Bank and Minister of Finance Mr Trevor Manuel to pay the impounded money to SMS affiliates countrywide so that they could distribute the money to investors.

The R50 million was impounded by the Reserve Bank when it was discovered that SMS, established in 1995, had paid out about R59 million before the Government intervened and had contravened the Bank Act by having investments and assets totalling more than R9 million.

Rejected offer

SMS was given an option either to register as a bank or be closed. Its officials however rejected these options.

Yesterday's demonstrations followed a meeting in Kempton Park on the East Rand where SMS officials Mr George April and Mr Peet Baartman addressed a group of investors who needed to be updated on developments concerning their investments.

The investors later decided to stage demonstrations in Johannesburg yesterday.

Some of the demonstrators came from as far afield as Welkom in the Free State and Rustenburg in North West.

Police spokesman in Johannesburg Inspector Andy Pieke said the demonstrations, which took place in Commissioner Street near the offices of SMS, were incident free.

Farmers face rise in interest rates

BD 3/4/96 (58)

Louise Cook

NEARLY 7 000 commercial farmers, in arrears with debt repayments, faced sharp interest hikes on their Agricultural Credit Board (ACB) loans, threatening many with bankruptcy, sources said yesterday.

The defaulting farmers were given until April to catch up the outstanding debt of R527m following an agriculture department policy change in December. Farmers in arrears were to be penalised with a 6% increase in the interest rate on arrears to 14%.

Rates went up on arrears in medium- and long-term loans as well as on all new short-term loans.

Sources said the 8% rate would still apply on new medium- and long-term loans, a move which was believed would benefit mainly beginner black farmers, on condition they remained up to date with repayments.

Reacting to accusations in financial circles of the ACB's high default rate, the agriculture department said it had resulted from the "structures of the past that have failed to induce in farmers an attitude to consider the loans seriously."

Agriculture department chief director Masiphula Mbongwa said banks had the clout to ensure repayments which the department lacked.

He said government tended to be more sympathetic to farmers' plights, but in future it planned to move away from giving direct credit to farmers. Current thinking was the use of state funds to support banks.

"We are moving towards guarantees to banks and getting away from crowding them out and competing with them", he said.

Sources who did not want to be named said that the ACB had loaned to 8% of farmers, with the balance coming from banks and co-operatives.

SA Agricutural Union chief economist Koos du Toit said the board's decision to put up rates would cause "hundreds" of bankruptcies over the next few months.

"We can only hope that the bulk of farmers would be able to manage this radical hike," he said.

Hike in diesel price to affect agriculture

BD 3/4/96

Samantha Sharpe

CAPE TOWN — The latest 6c hike in the diesel price to 193c, which comes into effect today, would cost the agricultural sector R60m a year — an expense farmers could ill afford, the SA Agricultural Union warned yesterday.

Higher oil prices, the weaker rand and increased European demand for diesel over the past winter have put pressure on the diesel price, with the hike bringing the price rise to 16% in the past year.

The union's chief economist Koos du Toit said the higher cost of diesel — the diesel price is currently more expensive than petrol — would harm the agricultural sector, already struggling to raise its international competitiveness.

For every 1c increase in the diesel price the sector pays an annualised R10m, with the latest rise translating to a R60m surge in fuel costs over 12 months. Econometrix economist Tony Twine said: "This is a crucial period of demand for the sector and, even without an exceptionally large harvest, it spells a substantial increase in costs for farmers compared with a year ago."

Du Toit said that while the agricultural sector's fuel bill rose only 4,4% last year to R1,72bn, a much higher rate of increase was expected for this year. Fuel costs currently make up about 15% of the sector's total intermediary goods and services bill.

But nothing could be done to change the current situation, with diesel prices now market-regulated and the agricultural sector a victim of fluctuations in the oil price, changes in demand and the strength or weakness of the rand, he said.

Clean-up campaign launched

Sowetan 3/4/96

(~~123~~)(56)

By Sonti Maseko

THE Department of Public Works has allocated R10,8 million to start a clean up campaign of South Africa's townships and informal settlements in a project described as a new approach to the country's dirt problem.

The Clean and Green Campaign, launched in Johannesburg yesterday by Minister of Public Works Mr Jeff Radebe, is a joint project by the department, South African Breweries and an environmental organisation, Keep South Africa Beautiful. SAB has committed R2 million to the project, which will be managed by KSAB and local authorities in all nine provinces.

In the first year of the campaign KSAB will clean up 20 selected communities facing severe litter and unmanaged waste problems. The systems will then be integrated into each local authority's community service infrastructure

Farmers pay more interest

Star 3/4/96

The Department of Agriculture has increased the interest rates charged on short-term loans to 14% with effect from December 1 last year, department spokesman J B Venter said yesterday.

Interest on loans in arrears would also rise to 14% from April 1 this year, Venter said. The increases had been announced in November last year.

Farmers' debt to the Agricultural Credit Board amounted to 8% of the total agricultural debt, Venter said. – Sapa.

58

New 'bank' will boost low-cost housing plans

Star 4/4/96 (58)

By Bongiwe Mlangeni
Housing Reporter

A new financial institution, which will make more funds available for low cost housing and hopefully accelerate housing delivery, was launched yesterday by Housing Minister Sankie Mthembi-Nkondo.

The National Housing Finance Corporation (NHFC), a joint effort by the Government and the private sector, is expected to channel about R10-billion to housing over the next five years.

The NHFC would not, however, be lending money directly to individuals but would lend to smaller financial institutions, said director of housing Billy Cobbett.

Its introduction could enable low income earners, who have been redlined by big banks, to access mortgage finance through smaller banks such as the Community Bank.

National director of the Kagiso Trust, Eric Molobi will be chairman of the board and Johan de Ridder who has been a consultant and adviser to Mthembi-Nkondo, is now chief executive officer of the corporation.

NHFC forms an integral part of the housing policy and could benefit about 700 000 households, Mthembi-Nkondo said.

But the effects of NHFC would not be felt immediately as it would only start lending after a few months when a full office had been set up.

Mthembi-Nkondo described the NHFC as an intermediary wholesale funding agency.

The NHFC launch came after months of local and international investigations and consultation with banks, investors and other stakeholders.

She said the money would come partly from the housing budget and the corporation would also have to be able to raise money in the market.

Mthembi-Nkondo said the success of the NHFC would be based on the rate of housing delivery over the next few years and the ability of smaller banks to provide finance and recover outstanding debts.

She emphasised the importance of re-stabilising communities so programmes could function in all areas.

The NHFC will be registered as an unlisted public company. Richard Laubsher, Bobby Godsell, Michael Katz, Lechesa Tsenoli, Ian Goldin and Patricia Mabolengwe will be directors. Another three directors will be appointed.

STANDARD BANK INVESTMENT CORP

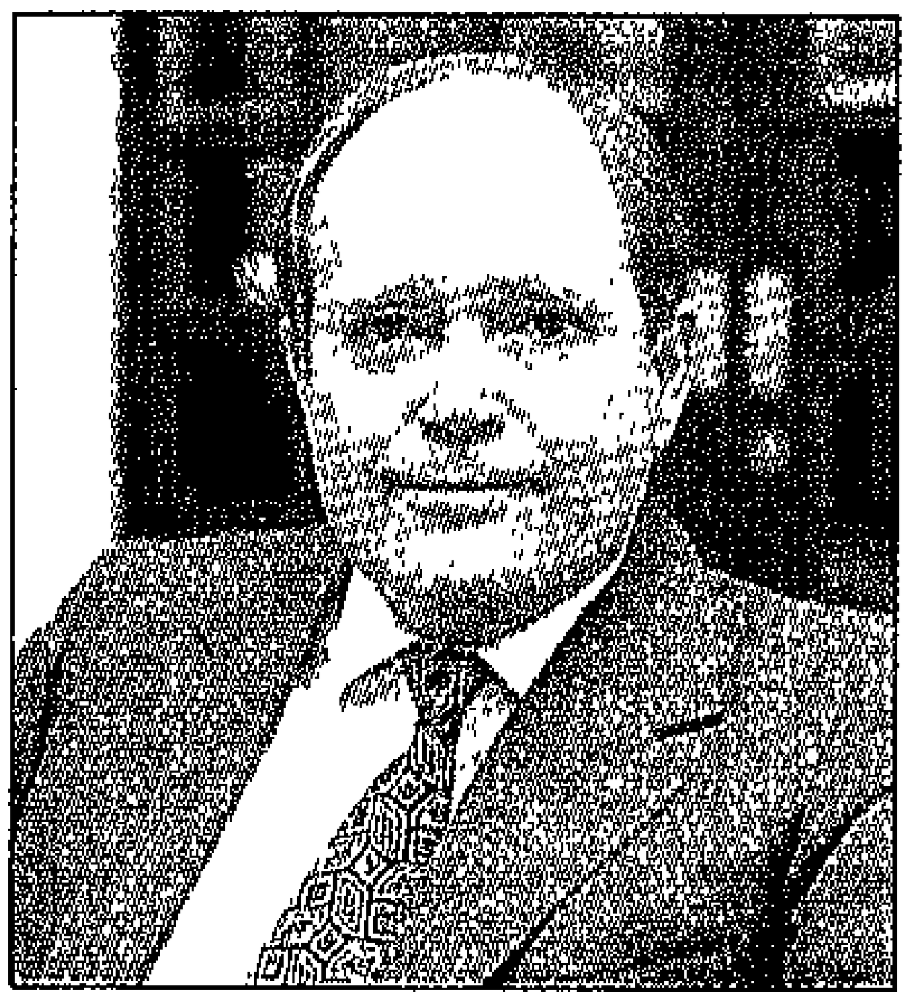
TACKLING THE COST SPIRAL

(58) FM 5/4/96

- **ACTIVITIES:** *Banking and financial services*
- **CONTROL:** *Liberty Life Group 38%*
- **CHAIRMAN:** *C B Strauss MD: M H Vosloo*
- **CAPITAL STRUCTURE:** *119,8m ords Market capitalisation: R21,6bn*
- **SHARE MARKET:** *Price R180 Yields 1,8% on dividend, 5,9% on earnings, p:e ratio, 17,1, cover, 3,2 12-month high, R182, low, R118. Trading volume last quarter, 753 000 shares*

Year to December 31	'92	'93	'94	'95
Total assets (Rbn)	64,5	69,4	88,1	101,1
Advances (Rbn)	49,2	54,2	66,4	76,3
Deposits (Rbn)	54,5	59,3	72,6	84,3
Return on equity (%)	14,1	16,6	18,0	19,2
Return on assets (%)	1,01	1,26	1,18	1,26
Capital adequacy (%)	10,3	12,8	12,3	13,0
Net taxed income (Rbn)	0,64	0,86	1,03	1,27
Earnings (c)	593	708	852	1 053
Dividends (c)	187	219	264	327
Tangible NAV (c)	3 672	4 515	4 909	5 494

Major changes in a large organisation like Standard Bank Investment Corp (SBIC) are usually uncomfortable Inevitably, there will be some unease among staff and performance must be affected as management shifts its focus.



Mike Vosloo interest margins will continue to narrow

That said, the bank produced creditable results under difficult circumstances during a restructure which chairman Conrad Strauss describes as "oneof the most significant events in the group's recent history."

Probably the most telling financial indication of the restructure was the slower growth in assets, up 14,7% compared with 21,6% in financial 1994. This was largely due to the subdued 15% increase in advances (23,8% in 1994).

Operating expenses, up 18% to R4,38bn, continued the uncomfortably high trend of recent years. But management is taking matters in hand In parallel with the reorganisation of the bank into four separate business units — retail banking, regional banking, commercial banking and Standard Corporate & Merchant Bank — a programme that CE Mike Vosloo calls "activity value analyses" has been launched to cut operating costs to "internationally comparable levels."

The focus is on trimming costs, including staff costs, with the offer of voluntary severance packages These will entail some one-off expenses, but probably not enough to dampen first-half results. Ultimately, savings will benefit earnings

The reorganisation was clearly necessary, both as the external environment changed and became more competitive and the internal structure proved inefficient. Vosloo says that in the past "large and powerful staff divisions directed operations and activities but had no responsibility for their outcome; their existence also militated against efficient cost management."

The four main business units are now separate profit and loss centres. In this regard, it's a pity that SBIC does not provide a divisional breakdown in what otherwise is a report which sets a high standard for disclosure.

A regional breakdown, however, shows SBIC sourcing about 15% of taxed income over the past two years in non-rand currencies (see table).

There was a hiccup in contributions from the important sub-Saharan operations last year, mainly from the largest bank in this sector — in Zimbabwe — showing reduced profits from underwriting a share issue which flopped.

Start-up and related costs from the new US operation — Standard New York — were expected, as the priority in its first year was to expand business

INTERNATIONAL FLAVOUR

Regional contributions

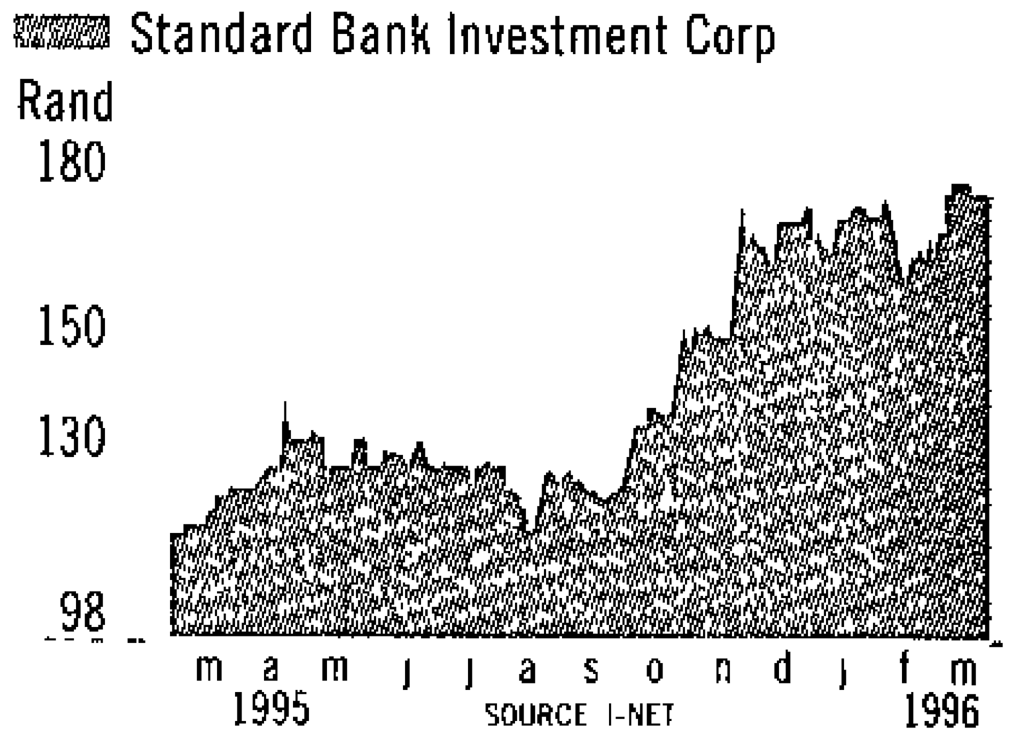
	1994	1995
South Africa (Rm)	883	1 083
Common Monetary Area (Rm)	27	49
Sub-Saharan Africa (Rm)	56	46
Europe and UK (Rm)	52	88
Asia	9	12
US	—	(10)
Net taxed income	1 027	1 268

As usual, SBIC offers little in the way of a forecast. Stronger volumes and the sound performance from noninterest income activities, which surged towards the end of 1995, should continue into the first-half But it will take time to get operating costs down to where it wants them — a cost-to-income ratio below 60%.

There will also be little help from interest margins Vosloo says the trend towards narrower interest margins is likely to continue until they reach international norms.

Bad debts, which increased 28% in financial 1995, mainly through a few large corporate exposures, should decline. That assumes no unforeseen events.

Latest results and a share price just off its high have again made SBIC the top-rated share among the large banks. One analyst sees value up to R200. That makes it worth looking at now Like most banks, SBIC tends to be conservative over the first-half, keeping the fireworks for the full-year result. The share price follows this trend. *Shaun Harris*



summer rains were late for the fertiliser, seed and explosives group to get the full benefit. Consequently, some debtors were pushed into the new year, reflected in a 42% increase in finance costs, to R29m, and current assets, which grew from R269m to R364m, to accommodate an R86m rise in accounts receivable

But continuing deregulation of the agricultural sector and increasing fertiliser input costs (ammonia is now about US$210/t fob after peaking at $240/t in 1995) presented challenges.

Except for Carnia Seed, all divisions did well, mainstay fertilisers increasing its contribution to pre-tax profits from 51% to 65% and Bulk Mining Explosives (BME) from 34% to 38%.

Carnia suffered as farmers switched from yellow to white maize to get a better price, resulting in the cancellation of a large portion of its order book But CE Neville Crosse says orders seem to indicate a resumption of the historical pattern. Carnia, which has about a quarter of the yellow maize market but only 8% of the white market, should restore volumes and, with overhead savings, stage a recovery, he says.

The outlook is promising. Good rain and bumper crops should boost fertiliser sales as farmers find themselves in an improved financial position. International fertiliser prices are buoyant, and Crosse says there have been signs of input costs flattening in the first quarter.

That should support further share price appreciation (the share gained 44% to R13 over the past year), but the real interest could come from the proposed merger of Omnia's and Sasol's fertiliser and explosives business.

Talks are protracted due to the complicated nature of the merger, which would form a local fertiliser group with about 55% of the market and possibly the fifth largest explosives group in the world

Crosse hopes a firm announcement will be made soon. *Shaun Harris*

KNJ HOLDINGS

Still many questions

The disintegration of KNJ continued unabated in the half-year to December and, unless there has since been a marked improvement in fortunes, is by now probably largely complete

After total attributable losses of R28,7m for the 1995 financial year, the capital base was eroded by a further R13,5m during the six months to R15,5m — a loss of 89% of the R135m net worth applicable after the failed rescue by Sukhulu Holdings in 1992.

The most positive aspect of the interim report — apart from its mention of the latest but not yet announced rescue — is the indication that normal trading losses in continuing operations appear to have been staunched The R1,8m losses on these were due largely to abnormal items, including a R1,2m stock write-off at Witbank Brick and an undisclosed forex loss at Suzuki, suggesting that at trading level there is break-even

If this has continued since the reporting date, losses have probably been confined to interest charges which, for the three months to end-March, would have amounted to R1,5m-R2m, reducing the remaining capital base to around R14m

In a worst-case scenario, this would still cover all remaining potential losses

STEEP DECLINE

Six months to	Dec 31 1994	Jun 30 1995	Dec 31 1995
Turnover (Rm)	144,6	155,1	60,5
Operating profit (Rm)	2,1	(15,4)	(2,6)
Attributable (Rm)	(4,5)	(24,2)	(13,3)
EPS (c)	(3,1)	(16,5)	(9,1)
NAV (c)	36,3	19,7	10,6

and contingent liabilities: R3,4m owed on loan account by former holding company Sukhulu, R8,3m guarantees for banking facilities granted to Sukhulu and R550 000 arrear lease payments owed to subsidiary Cameo, all of whose recoverability is in doubt — and leave a small cushion of R2m.

KNJ's dire financial position, coupled with the horrendous losses since the takeover by Sukhulu, raise a host of unanswered questions, not least being why Sukhulu was allowed to run up such a large loan account and why KNJ, which was hardly viable in its own right, stood surety for its holding company's debts

Others concern the miraculous recovery of the share price from a low 5c last November to an inter-day of high of 25c on March 16 and its subsequent plunge to 13c — all on exceptionally high volume which, last week alone, totalled 3,2m shares against an average 55 000 a week over the past 12 months

All in all, it seems there is still a lot of water left to flow under this particular bridge *Brian Thompson*

H J JOEL

Trackless travails

The R411m rights issue in JCI's Free State gold mine H J Joel is not remarkable because it follows the house's early warning delivered in January But it does raise another issue, which reaches into an area many mining house executives would prefer to pass without comment.

Part of the money raised is to be applied to repay loans Most of these loans are provided by JCI and they have been reduced substantially in recent years.

But should this be happening? Joel is a "captive" mine, managed by JCI through a series of management agreements. Since 1991, it has paid fees to JCI totalling R28,3m in addition to repaying a large portion of its long-term borrowings But over the same time frame, Joel hasn't made a profit after capex

Shareholders are now asked to contribute to a large equity issue which locks up their cash. This is all very well and good in the case of a mine in the throes of development. However, it can be argued that, at Joel, a fundamental flaw in the original plan set back significantly the mine's ability to achieve its potential.

There is common cause in the industry that the decision to use trackless mining at Joel was unsatisfactory. It works best with massive ore bodies but isn't suited to thin reefs well separated in the horizontal plane. Once the limitations became apparent, the decision — inevitably — was that trackless mining had to give way to conventional methods. It has proved a costly business

In the circumstances, wouldn't it be better for JCI to eschew repayment of its loans for now? A reasonable option would be to subordinate them or convert them into prefs, with redemption triggered when shareholders are receiving an adequate return.

This again raises the thorny issue of management fees and agreements. And it emphasises the need for mining houses to realise that the days of cosy arrangements of this kind are numbered.

Given the need to develop ore reserves satisfactorily and provide adequate face to ensure flexibility and uninterrupted operations, shareholders are not likely to get fat rewards for a long while. However, many investors will see Joel as a cheap hedge on the gold price. Whichever, a healthy dose of caution won't be misplaced. *David Gleason*

UNIVERSITY COUNCILS (54)

SLICING AUTONOMY

FM 5/4/96

Parliament is expecting a flurry of private legislation from universities as they seek to bring their constitutions in line with the transformation taking place in the higher education sector.

Proposals from the universities of Zululand and Bophuthatswana to amend their private university Acts to provide for students and workers on their councils are before parliament.

In what is considered a first, the University of Zululand also wants two people selected by the parents of students to sit on its council.

The University of Bophuthatswana wants to change its name to the University of the North-West and also wants its council to include donors.

Blade Nzimande

The universities of the Transkei, Cape Town and the Witwatersrand are next in line to require amendments aimed at broadening the representivity of their structures of governance.

The Universities Act sets out the general framework in which all SA universities operate, but each institution has an autonomous Act which gives effect to its own arrangements.

The UCT Transformation Forum is considering the inclusion of nonacademic staff on UCT's council which already includes students.

"We will definitely seek an amendment to the Act once consensus has been reached," says a UCT spokesman.

Wits University vice-chancellor Professor Robert Charlton says the first item on the agenda of the Wits Transformation Forum, set up last June, was the reconstitution of the council. Students have had seats on the council since 1991 but Charlton would not be drawn on which other sectors of the university are seeking representation.

"We have come a long way but have not yet reached consensus on the final details. I hope before too long we will be coming to parliament with proposals for an amendment to make the council more broadly representative."

Though most universities are adopting this approach, ANC MP and education portfolio committee chairman Blade Nzimande is not leaving anything to chance. "We are not going to pass any university Acts that don't allow student and worker representation on councils."

"We are going to take a hard line. We are not going to rubber-stamp Bills that don't have the support of the institutions. We would refer the Bills back."

By adopting this stance upfront, Nzimande is striking a blow against university autonomy. It shows that the ANC is prepared to use the committee system — designed to enhance democratic decision-making — to transform universities in the way it sees fit.

Last year the ANC used its majority on the committee to pass the National Education Policy Bill despite a walk-out by all the other parties over Nzimande's refusal to allow public hearings. NP MP and education spokesman Piet Marais says that while the NP is not against moves to make university councils more representative, "why send Bills to the portfolio committees if the ANC majority has already made its mind up?"

Nzimande says: "We are not positioning ourselves to fight the universities. We will approach the matter positively not punitively. We would like to engage the universities in a discussion with the various stakeholders and even facilitate a process of debate in the institution."

Why doesn't the committee just vote itself representation on university councils? It would amount to the same thing. ■

INFRASTRUCTURAL INVESTMENT

PULLING BUSINESS IN

Government and the private sector have agreed on an infrastructural investment framework designed to save the face of the RDP and boost job creation and economic growth to the year 2000 and beyond.

Consensus on the National Infrastructure Investment Framework was reached in Cape Town last week at an RDP conference attended by government, the investor community and civic movements.

The aim of the conference was to get business to take the RDP seriously but no private money has been put on the table to transform even government's more modest dreams into reality.

There is agreement on how private finance can be mobilised to tackle enormous infrastructural backlogs. It represents a fundamental shift in government's approach to delivering infrastructure, a fact that is underscored by the announcement that the RDP office is to close and that, from now on, projects will be implemented by the departments.

Life Offices Association chairman Desmond Smith says there is consensus that infrastructural development should be tackled by the private and public sectors in partnership on a project basis offering market-related returns. Government acknowledges that business requires a stable investment environment and says it does not want to prescribe investment.

There is also acceptance of the pace of development outlined in scenario 2 of the framework and that this will be governed by broader macro-economic considerations. Scenario 2 — the first detailed estimate of infrastructural needs undertaken by government — calculates that over the next five years SA requires a R173bn investment in infrastructure. This cannot be undertaken by government alone.

The largest share, about R81bn, will be financed by Eskom, Telkom, Transnet and the water boards. Central government will have to provide about R62bn, investing the bulk in economic infrastructure such as roads. Local authorities will have to raise about R23bn. Development financing institutions will have to attract the private sector by designing packages that deliver market-related returns in the long run.

Deputy Finance Minister Alec Erwin says various tailor-made institutional and regulatory measures are being developed to bring about public- and private-sector partnerships. The private sector will have to develop new expertise in operating in regulatory environments, working closely with government and taking on longer-term investments.

"The private sector cannot expect the State to assume all the risk while it's involved only in cherry-picking . . . short-run killings are incompatible with effective low-cost social and economic infrastructure," he says.

Smith is bullish about the prospects of business investing in the RDP. "I feel positive about the outcome of the conference and believe that in the next few months a number of projects could come to fruition." ■

New finance body set up to draw banks into low-cost housing projects

(58) Star 6/4/96

By WILLIAM-MERVIN GUMEDE

After numerous hiccups and more than 18 months of haggling between the private sector and the Government, the National Housing Finance Corporation (NHFC) was launched this week.

The joint venture between the two parties is intended to be one of the pillars on which the Government's housing policy will rest. Its brief is to raise R10-billion over the next five years to finance the building of 700 000 low-cost houses priced at R15 000 or less each.

The NHFC was created to finally pull commercial banks into backing the low-income housing sector. To get the corporation going, the Housing Ministry pumped in R390-million as start-up funds, and a further R100-million was pledged by the Investment Development Unit.

The NHFC will raise R5-billion over five years and hopes to receive a further R5-billion from the banking industry. Council of South African Banks general manager Lance Edmunds said the banks would scrutinise the housing minister's proposals to get funds for the low-cost housing sector from the banks.

Housing Minister Sankie Mthembi-Nkondo cautioned that the formation of the corporation was a long-term intervention which should not be expected to bring immediate results. No houses would be built by the corporation. Instead it would be giving funds to smaller lending institutions, such as Community Bank, which are active in the growing low-cost housing market. The big commercial banks so far have regarded the low-cost housing market as too risky.

Mthembi-Nkondo said the corporation had two basic aims. First, it would encourage and support increased and sustained involvement of conventional banks in "downmarket" credit provision. Secondly, it would support the growth of the emerging alternative lending sector, which provides housing credit in markets where the banking sector is reluctant to lend.

The corporation's ability to deliver would depend on the rate of housing delivery nationally and the ability of retail tenders to provide finance and recover outstanding debts carried over from township bond boycotts.

Mthembi-Nkondo urged civic organisations still participating in bond boycotts to resolve their differences with the banks and said programmes funded by the new corporation would not be able to function in areas affected by boycotts.

She stressed the importance of efforts made by the banks, low-cost housing facilitator Servcon and the SA Housing Trust to get bond payments back to normal. "Past problems on the books of these institutions will continue to hamper the provision of housing credit and houses in the affected areas."

The South African National Civic Organisation welcomed the formation of the corporation, calling it a "positive step towards the provision of affordable housing to the country's poor". It remained doubtful that the Government's attempts to lure the banks into the low-cost housing sector would succeed but conceded that "their efforts were better than doing nothing".

The corporation was launched as an unlisted public company, making it the first public company of the new Government. Its director is Johan de Ridder and the board of directors will be chaired by Kagiso Trust executive director Eric Molobi.

Land Bank faces overhaul

(58) ST(BT) 7/4/96

By THABO KOBOKOANE

A COMPLETE overhaul of the Land Bank is on the cards in line with the Government's efforts to make finance more available to rural people.

The transformation is recommended in the draft interim report of the Strauss Commission of Inquiry into rural finance.

The commission suggests that the Land Bank should get a new board of directors, a new name (the Rural Bank) and that the Land Bank Act be redrafted "as a matter of urgency" to allow the Rural Bank to assume wider responsibilities.

These would include offering "wholesale" development finance to retailers who serve the needs of people in the "deep" rural areas — including capacity-building support to retailers.

The commission, headed by Standard Bank chairman Conrad Strauss, further recommends the shutting down, "as soon as possible", of the credit provision functions of the national and provincial departments of agriculture and the Agricultural Credit Board, and that the loan books be transferred to the Rural Bank within 12 months of its establishment.

The Commission says this measure should apply to credit extended by other national, State-supported institutions, such as the Development Bank, to farmers, and further suggests this "could apply" to the Financial Aid Fund of the South African Sugar Association.

The commission was appointed last year by Minister of Land Affairs Derek Hanekom and given the task of investigating the provision of financial services in rural areas. It is due to present a final report by July. The commission was set up in response to assertions that existing credit and agricultural financial services in rural areas were inadequate to meet the needs of those sections of the community who had been denied access to these services in the past.

According to the report, the function of the Rural Bank would be to "nurture, support and co-ordinate" financial institutions at various levels.

It says the Rural Bank should be charged with the responsibility of monitoring the performance of institutions at retail level, and of evaluating the success of rural finance system in terms of contribution to the RDP.

The commission has recommended the setting up of a national-level co-ordinating body in view of the number of existing and proposed bodies that intend providing financial support.

It is further recommended that a Development Council be established by statute, deriving its members from the Development Bank of Southern Africa, the Industrial Development Corporation, the National Housing Finance Corporation, Khula Enterprise Finance, the Rural Bank and the provincial governments. The council would serve as a regulator of the wholesale institutions.

Sanlam delivers the goods

Business Reporter

(58) ARG 9/4/96

THE RETURNS on all Sanlam's portfolios for individual policies (300, 400 and 500 Plus) beat the All Share Index of the JSE and inflation, the company has announced.

In Sanlam's Stable Investment Series, where the aim is to maintain a stable performance over the term of the policy, a total bonus rate of 14,5 percent was declared, as against 15 percent the previous year, for tax-free policies, including retirement annuities and provident fund policies.

This beats the inflation rate of 6,4 percent over the same period by 8,1 percentage points.

The bonus rate for taxable policies in the same series is 12,5 percent as against 13 percent the previous year. This means a real return of 6,1 percent (after deductions for tax).

In spite of lower bonus rates the difference between them and the inflation rate was at the highest level of the past decade.

In addition to these investment bonuses, at maturity policies are entitled to claim bonuses, which are calculated from month to month on the underlying market value of policies. This ensures that policy owners receive the maximum benefit in times of good investment performance, said Rudi Stumpf, actuary.

A 10S-year policy with recurring premiums which matured in 1995, for example, could receive a claim bonus increasing the maturity value by up to 13, 4 percent.

All policy owners will receive letters to inform them how the new bonus rates will affect the value of their policies.

Major freight group deal

Business Reporter

THE post-sanctions trade boom is causing an unusual problem for the international clearing and forwarding industry in South Africa, says Chris Hart, MD of the newly-merged AEI-Profreight group.

"Because foreign trade is again truly global, South African freight management companies must have a fully-fledged international network," he said.

"If the forwarding industry is to be able to compete against the already-established might of multi-nationals, there is a critical need for it to find international partners which can supply a similar global web."

There was two-way value in the merger between Mr Hart's group and the existing local interests of the R5 billion a year US logistics company AEI.

"For the foreign partner the benefit is an own business in a South African industry sector which is showing an abnormally high growth rate."

Life insurers 'need not retest for AIDS'

BD 10/4/96 (58) (83)

Samantha Sharpe

CAPE TOWN — The life insurance industry would not retest policyholders for AIDS following the recall of a defective Abbott Laboratories AIDS test used for screening life insurance applicants, industry spokesmen said yesterday.

Abbott Laboratories recalled one of its several AIDS tests last month after scientists in Portsmouth and Sweden found it to be inaccurate. It was distributed in Europe, Australia, SA and some countries in Asia and Latin America.

Southern Life chief actuary Paul Truyens said although the Abbott test kit was one of the kits used by the insurer, the overall effect on the industry would be negligible.

"Any positive result would have been confirmed by different tests from different laboratories, thus eliminating the chance of an applicant being incorrectly deemed to be infected," he said.

Metropolitan Life product development actuary Spencer McNally also said that the Abbott test would have had a negligible effect on the industry and the incidence of false negative tests should be extremely low.

He said it was unlikely Metropolitan Life would retest its insurance client base. This would be logistically and financially unviable and practically unnecessary, with only 628 kits sold in SA.

Old Mutual chief medical officer Ivan Lockyer said the insurance group had not used the defective test "for screening or any other purposes".

Abbott Laboratories GM Urs Wiederkehr said the possibility of HIV-infected samples entering the SA insurance screening market could be excluded.

"The IMx HIV-1 HIV-23rd Generation Plus is the only Abbott test affected, and thus represents fewer than 2% of all Abbott HIV tests used in SA," he said.

Abbott had informed customers and health authorities that the test in question had reported inaccurate results on a very small number of patient samples tested in Europe. Only four samples had been confirmed worldwide.

Wiederkehr said that the company would suspend distribution of the test until the matter had been fully resolved.

rets expert predicts wth of 4% this year

omy should grow at in 1996 despite slow- in a number of the omic sectors, Syfrets omist Peter Hilsen- esterday.

utions from the agri- id mining sectors af- tic declines last year ure a growth rate of 3%. Corporate earn- h would remain rea- rm, while interest ld fall and inflation hin single digits.

; sentiment is cur- tious, especially fol- benberg's departure r of finance and the itility in the equity iarkets," he said.

factors will provide market with a meas- ort."

r, certain sectors of my were showing ver growth.

Manufacturing production had slowed down, he said, while fixed investment, which had driven the economic upswing over the past two years, was falling significantly.

Consumer spending had grown at a modest rate of only 4,5% last year.

The spending would slow further this year and next, as the high level of personal debt began to take its toll, Hilsenrath said.

"The situation is likely to be compounded by extremely high real interest rates and the fact that the RDP has yet to come through in full strength."

Inflation, although likely to be higher than originally forecast, would remain below 8% this year.

Regarding foreign exchange, the rand was expected to trade between R3,85 and R4,15 to the dollar this year. — Sapa.

Farmers' interest rate reprieve

Louise Cook (58) BD 10/4/96

PRETORIA — The agriculture department is offering a six-month stay of execution to farmers facing hefty interest rate hikes on cheap loans from the Agricultural Credit Board.

The department — which wants to lift interest rates from 8% to 14% on the R527m farmers owe — said yesterday that it would delay introducing the new rate from this month until September for "deserving" cases. It did not specify how many of the 7 000 farmers who faced the increases were judged to be deserving.

Financial assistance and land administration director Johan Venter dismissed farmers' claims that the higher rates could force many into bankruptcy.

He said that board loans made up only 8% of total farm debt — the remainder came mainly from banks and co-operatives.

The board has loaned money to about 12 000 farmers, but 60% of its clients have fallen behind in repayments, prompting the department to announce rate hikes last year.

While the SA Agricultural Union condemned the increase, commercial banks welcomed it, saying market-related interest rates had been "long overdue".

Green paper to be tabled on employment equity

Renee Grawitzky

A GREEN paper on employment equity, expected to be tabled in Parliament on April 25, could act as a mechanism to achieve organisational transformation to create a climate for employment equity.

This is opposed to legislation merely outlining quotas for affirmative action placements. A team appointed by the labour department to draft a green paper had presented its recommendations to the department and it was understood that its main thrust differed vastly from a fifth draft discussion paper leaked to the media earlier in the year.

Although the green paper, as with the fifth draft, would include various enforcement mechanism options such as fines, tax or other incentives to ensure compliance, it would attempt to act as an enabling document to guide organisations in human resource development strategies. This could impact on remuneration systems, grading and career path planning.

Meanwhile, negotiations on the employment standards green paper are scheduled to begin in the National Economic Development and Labour Council's labour market chamber tomorrow, although it is doubtful whether these would take place as not all the parties had submitted their positions to Nedlac.

The employment equity green paper, instead of focusing on affirmative action positions, would focus on processes that organisations engaged in, therefore, focus would be given to affirmative action organisations rather than positions.

Labour department equal opportunities director Mpho Makwana said in the latest edition of People Dynamics that "it is not the candidate who is need of affirmation, it's the organisation which is the candidate for affirmation". He said "affirmative action is a means to an end, whereas employment equity is about dealing with current discrimination and preventing future discrimination in the broader sense."

The green paper, after being tabled in Parliament, would be presented to the social partners within Nedlac for negotiations.

BD 10/4/96

Banks hold fire on new lending rules

Robyn Chalmers (58) (IIB) BD 11/4/96

BANKS have agreed to hold fire on tough new lending rules for low-cost housing pending negotiations with government and builders.

The Council of SA Banks (Cosab) said yesterday implementation of the rules, due on April 1, had been shelved for a month while talks with government and the building industry got under way. A meeting of all stakeholders had been scheduled for next week.

Government is thought to be disappointed with attempts to bring in the rules, which for public servants alone could reduce bond qualifications 40%.

The building industry has argued that the proposals would hamper delivery of low-cost housing by shutting out a major segment of the market the programme is supposed to target.

Observers said one of the key sticking points, but one of the easiest to discard, was the banks' plan for a 5% deposit for low-cost housing borrowers.

Other proposals include amending the home loans subsidy formula, which would reduce the mortgage finance some applicants qualify for.

Cosab housing spokesman Lance Edmunds said the building industry had not used the nine-month grace period agreed to last year to put forward more innovative financing deals.

National Association of Home Builders executive director Daan Roelvert welcomed the delay in the introduction of the criteria.

It is understood proposals by the building sector on reworking the criteria will be discussed next week.

See Page 12

Mediation on stokvel's fate

(58) Star 11/4/96

By Patrick Phosa

After several months of wrangling, informal savings scheme Sun Multi-Serve (SMS) and the Reserve Bank agreed yesterday to appoint a mediator from today to help decide the fate of the scheme's funds.

During the talks, between the SMS national investors' committee and representatives of the Reserve Bank outside the Woodmead headquarters of accounting firm Deloitte and Touche, about 60 investors in the scheme toyi-toyied outside.

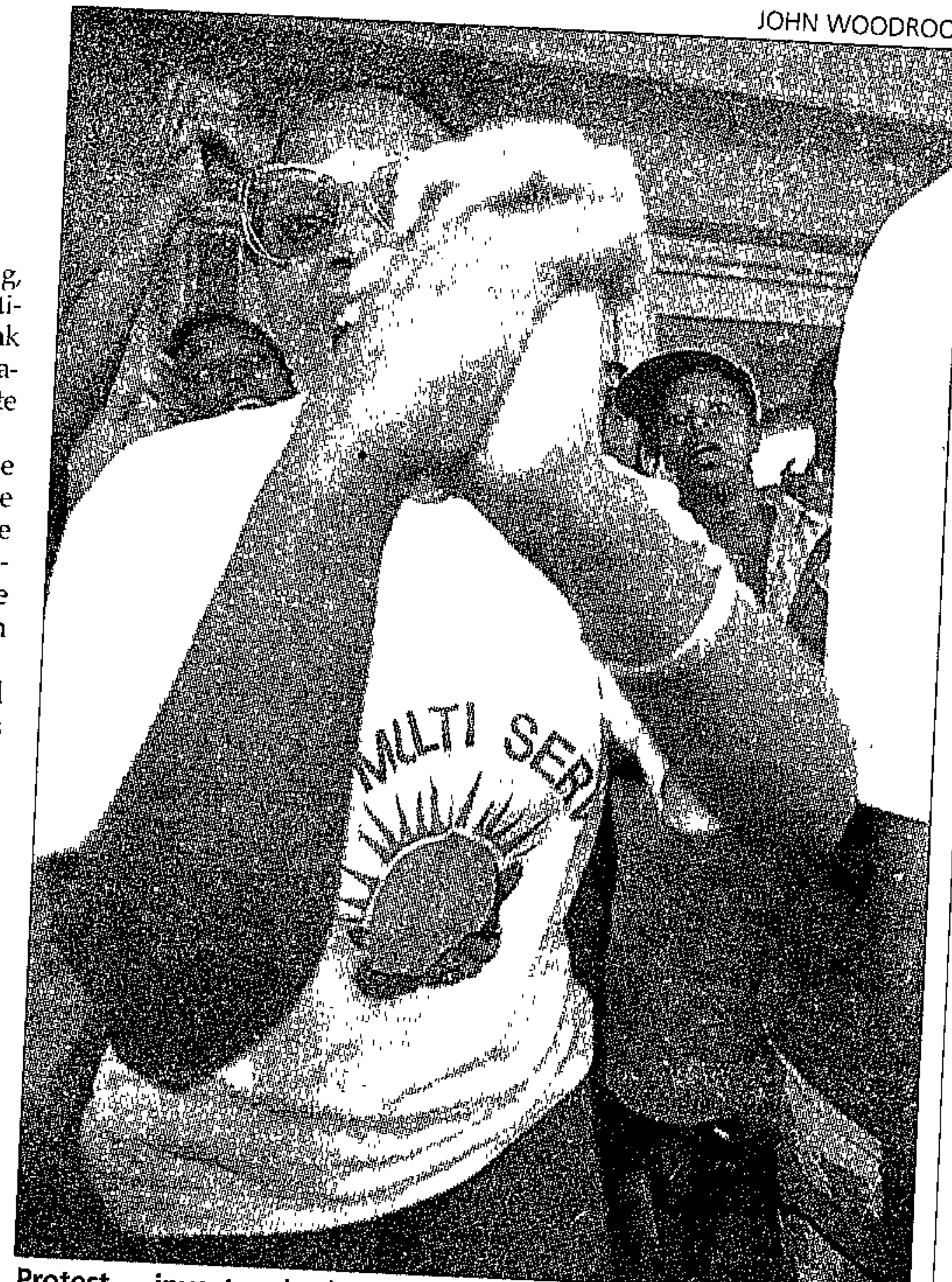
They banged the doors and tried to storm the offices where the talks were in progress.

Police kept a low profile and watched the proceedings from a Casspir parked at a distance.

Last November, Registrar of Banks Christo Wiese froze SMS' accounts for contravening the Banks Act, which stipulates that a stokvel should not be allowed to hold funds in excess of R9,9-million. SMS had R53-million.

Tim Store, an accountant from Deloitte and Touche – which was appointed by the Reserve Bank to manage SMS's frozen funds – said the firm's business had been affected by the protest because nobody was allowed to come in or go out of the main entrance for security reasons.

JOHN WOODROOF



Protest ... investors in the Sun MultiServe scheme toyi-toyi outside the offices where talks between the stokvel's representatives and the Reserve Bank were being held yesterday.

Foreign banks expected to grow

(58) BD 12/4/96

Adrienne Giliomee

FOREIGN banks in SA expected to more than double their nêt income by the turn of the century, but this would not see them entering the retail market, said a Price Waterhouse study released yesterday.

The study said the banks expressed concern over narrow margins and the number of new entrants. The big four domestic banks were expected to oppose the foreign entrants and in the medium term win back earnings lost through competitive pricing in the short term. The overall net income of foreign banks was expected to grow 132% to R733m by 2000.

GUARDIAN NATIONAL 58

PREMIUM PRESSURES EASING

FM 12/4/96

With a strong presence in the corporate insurance market, Guardian National has the base to provide consistent results for a company in the volatile short-term insurance industry.

- **ACTIVITIES:** *Short-term insurance.*
- **CONTROL:** *Guardian Royal Exchange Plc 50,5%; Liberty Holdings 45,4%.*
- **CHAIRMAN:** *D Gordon. MD. A W Jack*
- **CAPITAL STRUCTURE:** *10,2m ords Market capital R895m*
- **SHARE MARKET:** *Price· R88 Yields· 3,8% on dividend; 9,1% on earnings, p.e ratio, 11,0; cover, 2,4. 12-month high, R90. low, R55. Trading volume last quarter, 14 000 shares.*

Year to December 31	'92	'93	'94	'95
Gross premiums (Rbn)	079,	1,06	1,19	1,39
Net premiums (Rm)	525	720	887	1 041
Investment Income (Rm)	59,2	63,9	63,9	69,7
Pre-tax profit (Rm)	67,6	65,2	52,8	92,3
Solvency margin (%)	65,6	69,3	64,1	69,2
Earnings (c)†	537	616	522	800
Dividends (c)	187,5	224	268	334
Tangible NAV (c)	3 418	4 936	5 599	7 088

† Including realised investment gains

Like most, it suffered an underwriting knock in financial 1994; but it has come back strongly, turning the 1994 loss of R19,6m to a profit of R22,3m

The improved result, notes chairman Donald Gordon, was mainly from stricter underwriting (largely higher premiums) applied to a segment of the personal lines portfolio in 1994.

With losses removed and the portfolio in better shape, Gordon says he trusts "future rate increases will be modest and less frequent" after the relentless increase in premiums that personal lines clients were subjected to earlier

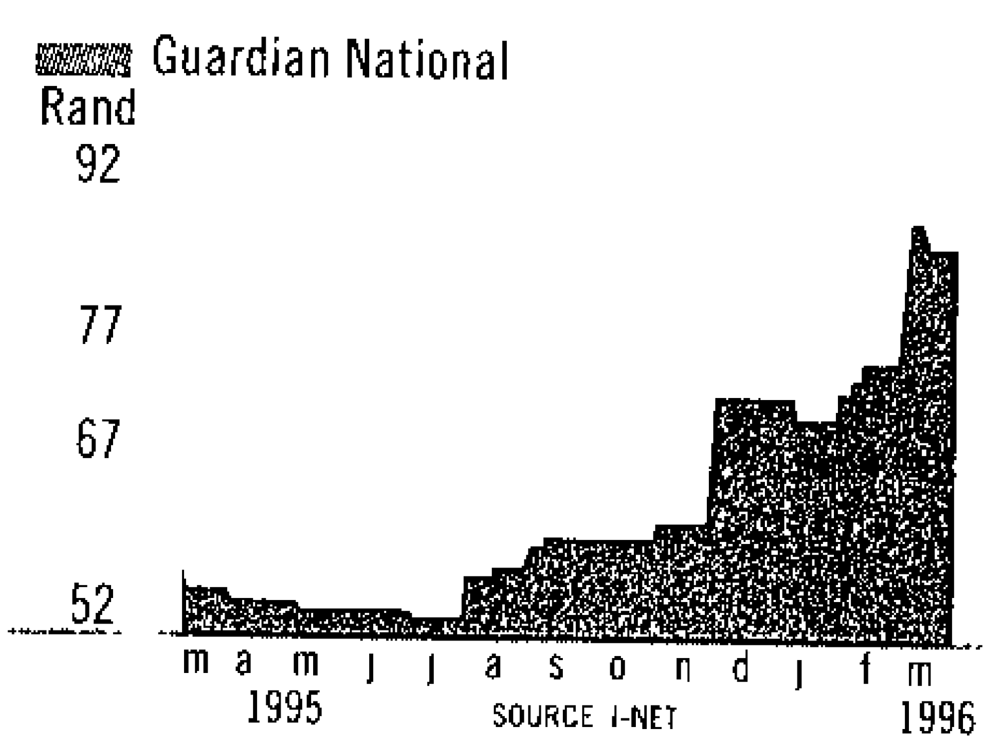
Less pressure on premiums is evident. MD Andy Jack says the strong growth in premium income came more from better business volumes than rate increases. In some instances, premiums were reduced for clients who adopted self-protection measures and discounts were increased for those with no claims.

The underwriting result could have been better were it not for flooding towards the end of the financial year and two major fires.

But with the stabilisation of rates comes a warning from Gordon. He says the general improvement in the industry can, on past experience, lead to an overall rise in insurance capacity and "a quest for growth at the expense of responsible underwriting."

"Competition is a potent factor in any industry but short-term insurance is particularly susceptible to excessively competitive pricing which, over time, inevitably leads to sharp increases in rates as underwriting losses again manifest themselves."

A rates undercutting war in 1989 resulted in most short-term players showing underwriting losses in 1990.



Share price appreciation has roughly tracked EPS growth of 52% (or 82% excluding realised investment gains) but one wonders how much better the share might perform if it were more tradeable.

An indication is that despite gaining 60% since its low in July, the share price, at R88, is not offering a huge premium to NAV of R70,88.

Major shareholders Guardian Royal Exchange Plc and Liberty Holdings clearly know they are on to a good thing and enjoy the generous and steady stream of dividends which Guardian National provides Perhaps Liberty will consider releasing some shares to the market when exchange controls are further relaxed and it can seek investment avenues offshore? *Shaun Harris*

NORWICH HOLDINGS (58)

YEAR OF MIXED FORTUNES

FM 12/4/96

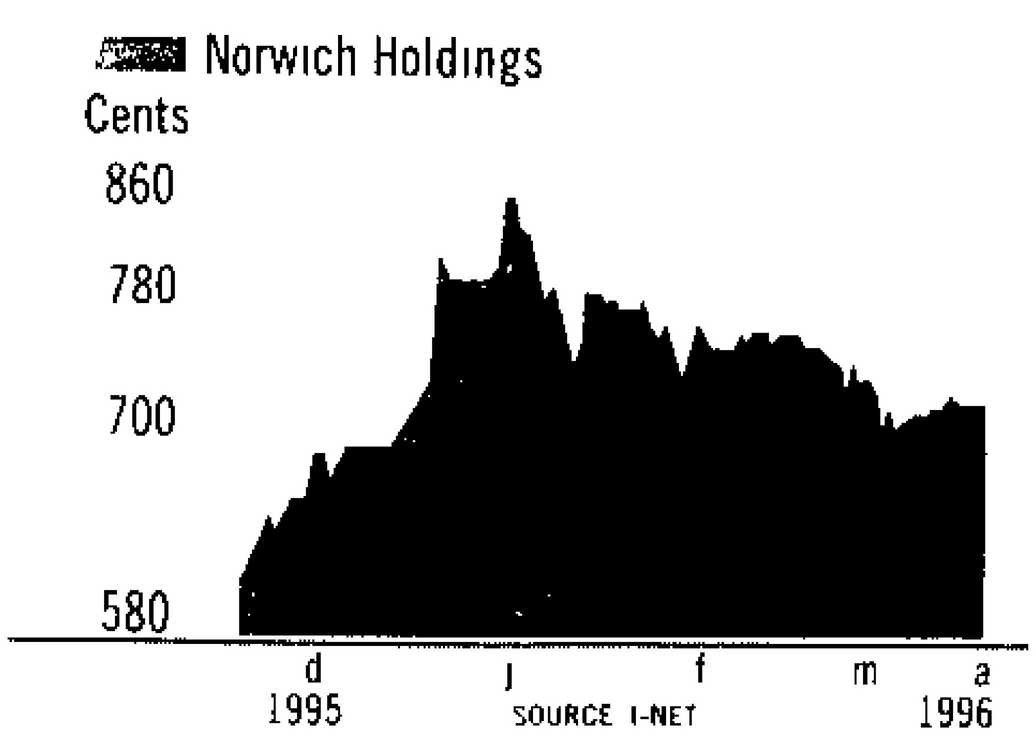
After what was a momentous year for the assurer, Norwich Holdings (Holdings) appears well positioned in the SA life assurance industry which is at a critical stage of its development

- **ACTIVITIES:** *Life assurance and ancillary services.*
- **CONTROL:** *No shareholder owns more than 25%.*
- **CHAIRMAN:** *R S Napier* *CE: C P Davies*
- **CAPITAL STRUCTURE:** *286.5m ords Market capitalisation R2bn*
- **SHARE MARKET:** *Price:720c. Yields: 2,0%* on dividend; 3,0%* on earnings; p e ratio, 33,2; cover,1,5; 12-month high, 850c, low, 565c. Trading volume last quarter, 10,3m shares.*

Year to December 31	94	*'95
Premium income (Rm)	1 726	1 682
Investment income (Rm)	302	400
Excess of income over outgo (Rm)	1 130	926
Transfer is policyholders' funds (Rm)	1 117	864
Shareholders' earnings (Rm)	45,4	62,2
Earnings (c)	15,9	21,7
Dividends (c)	10,6	14,4
Total assets administered (Rbn)†	6,4	9,2
Adjusted assets (Rbn)†	5,61	7,54
Actuarial liabilities (Rbn)†	4,85	6,39
Surplus (Rbn)†	0,76	1,15
Solvency rates %†	15,7	17,9

* Pro Forma. † Norwich Life only

The group management knows that future success will rest on the ability to provide the full range of financial services, not just life assurance products now available from other asset managers, and is working accordingly. CE Charles Davies has steered the group through substantial restructuring The most obvious evidence of this change was the company's listing on the JSE during last December




Charles Davies

Holdings was incorporated in September and at the end of October acquired 100% of Norwich Life and six of its other subsidiary operating companies These concentrate on asset management and risk underwriting in health care (morbidity), employee benefits, and life assurance (mortality)

The flotation provided capital to acquire the six companies from policyholders of Norwich Life, as well as additional capital for future investment and expansion. Norwich Life now has one of the highest solvency margins in the industry.

In terms of results, 1995 was a year of mixed fortunes for Norwich Though accurate, the annual report is confusing for the analyst looking for comparative performance Norwich Life's results cover a full 12 months, but include only results from operating subsidiaries for the first 10 months (the subsidiaries were thereafter sold to Holdings).

Holdings' figures are for two months only and include corresponding results from the subsidiaries and pro rata consolidated figures from Norwich Life No pro forma figures appear in the annual report but were published in the preliminary results.

Throughout SA, the growth rate in sales of life assurance products fell in the past year. Norwich Life's recurring premium income still rose a healthy 22,4% (one of the highest in the industry) to R976m However, the company's single premium sales fell 24,8% to R699m

The drop occurred in the employee benefit area where lump sum business tumbled two-thirds, from R543m to R179m.

This happened, first, because the departure of most of the Norwich investment team caused a knee-jerk confidence crisis. Davies says this problem has been overcome with the introduction of other skilled people

Second, having overshot its target in 1994, the company adopted a strategy of discouraging lump sum business, to avoid impairing the company's risk profile and its capacity, says chief actuary John Beak This worsened the decline

Management contends the fall-off of single premium income, though larger than expected, was not unwelcome

Investment income advanced by an impressive 26,6% in the life company and 32,6% in Holdings, on a pro forma basis

On the outflow side in Norwich Life, sales remuneration (commission payments to agents) rose a hefty 38%, policyholder payouts climbed 23,6% to R750m, and operating expenses jumped 21%. Sharply higher tax of R35,4m (R12,6m) helped push aggregate outflow up by 27,2% compared with the small 1,5% rise in aggregate income

As a result, the excess of income over outflow was 19% less than the previous year (it rose 130% in 1995). In an ordinary business this decline would trigger alarm bells and flash red lights But not so in the life assurance industry

Those who know the game say provided this sort of result does not occur frequently, it is of little consequence in the longer term. They point to the rate of growth of the surplus — the difference between the adjusted value of assets and total of actuarially valued liabilities — as being of greater significance In 1995 Norwich Life's surplus grew 50%, signalling that the company is indeed in good shape

Based on declared pro forma earnings of R62,2m, Holdings at 720c trades on an historical p·e of 33,2. Assuming the group will attain the 30% growth forecast in the prospectus for 1996, the prospective p·e becomes a more reasonable 25,5 and suggests the share should be held

Gerald Hirshon

SA EAGLE (58)

RIGHT DIRECTION

FM 12/4/96

Poor SA Eagle has possibly borne the brunt of crime-related claims, mainly on its motor account but also because of domestic and industrial burglaries and losses due to road cargo hijackings

- **ACTIVITIES:** *Short-term insurance*
- **CONTROL:** *Eagle Star Insurance 58%, ultimate control lies with BAT Industries Plc*
- **CHAIRMAN:** *C F Coates MD. P T Martin*
- **CAPITAL STRUCTURE:** *12,2m ords. Market capitalisation. R1,02bn.*
- **SHARE MARKET:** *Price. R84. Yields. 3,0% on dividend; 18,0% on earnings; p e ratio, 5,6, cover, 6,0. 12-month high, R100; low, R43 Trading volume last quarter, 62 000 shares.*

Year to December 31	'92	'93	'94	'95
Gross premiums (Rbn)	0,94	1,06	1,36	1,46
Investment income (Rm)	65,3	74,1	76,3	95,6
Pre-tax income (Rm)	90	77	8	213
Earnings (c)	514	490	309	1 511
Dividends (c)	195	200	200	250
Tangible NAV (c)	5 860	8 218	9 091	10 765

This is the main reason it is still showing an underwriting loss while most other short-term insurers have recovered The result, however, has improved immensely — the loss reduced from financial 1994's R135m to R16m.

More encouraging is that, while the full-year underwriting result is still in the red, a profit of R6m was realised over the second half. Barring major natural disasters, it's safe to assume that Eagle will show an increased underwriting profit over the current year's first half.

Peter Martin

MD Peter Martin says stringent underwriting requirements dramatically reduced the loss on the motor account. "Claims from theft and hijacking are levelling off, but the cost of replacing vehicles rose by 18%,"

MD Alan Wilson says new pre-finished products are being developed for export to Europe and the US He hopes higher margins on value-added products will increase profitability of exporting goods "Europe, our strongest overseas market, is in recession but we benefit from the established markets of our parent company, Masonite USA "

Wilson says the operations must be globally competitive. Suppliers from South America and southeast Asia are stepping up manufacture of wood-based products. Plant upgrades, which in financial 1995 cost about R13m, will continue at a slightly higher rate this year.

The company's stock level was high at year-end, off 1995's low base. Wilson says it is now running at a month's supply But sales of hardboard were slow in the first quarter. He says the pace of sales will result in a disappointing first half, compared to year-ago results

Construction of low-cost housing is speeding up and management is satisfied with sales of mineral fibre products, used in ceilings. Wilson hopes growth in financial 1996's turnover will be similar to that seen in 1995 Expansion of Masonite's value-added activities should improve margins.

The share is just off its annual high, having climbed steadily through the year. The market clearly has faith in Masonite's prospects. With no direct competitors in the building and construction sector, comparisons are difficult. But even if short-term growth isn't exceptional, there is medium-term value in the counter. *Michelle Joubert*

Pyramid schemes: ticket to wealth for a few, misery for most

(58) 12/4/96

(58) Star 12/4/96

Some might turn to crime, including prostitution, if income is stopped

By Patrick Phosa

Julia Mogapi (34), a married and unemployed mother of five, had been leading a hand-to-mouth lifestyle when a friend told her about an informal savings scheme that could take her out of her self-described "wretched and destitute life".

She said that as a woman who does not easily believe things without proof, she was sceptical when a friend, a sales representative for the scheme, first told her about it. Mogapi overcame her reservations and joined the scheme after most of her friends who had also joined, convinced her that "this is your only ticket to affluence and status". As proof, they showed her photocopies of the cheques they had received.

In May last year she invested R1 200 in Sun MultiServe, which had begun operating in February 1995. She received R4 000 in return. She then invested that R4 000 and received R12 000. And then invested R8 000 and made R24 000.

She is not sure about how much she has made ,but within six months she has bought a 1989 Mercedes-Benz worth R83 000, renovated her house in Tembisa on the East Rand and paid school fees for her children at a model C school.

Everything was fine with Mogapi until last November when banks registrar Christo Wiese froze Sun MultiServe's accounts because they contravened the Banks Act which stipulates that a stokvel should not have funds in excess of R9,9-million. SMS had R53-m in assets.

Mogapi said she could have ended up "selling her body" on the streets if not for the scheme. "If they ever dismantle SMS some of us will become witches, robbers or even prostitutes."

Those on bottom rung always lose

Mogapi says she is bitter with the Reserve Bank because "it wants to strip me of my source of income by closing down the savings scheme which has benefited me tremendously".

Investigations were launched to ascertain the scheme's true nature and the formula used to garner such a staggering amount of money within a short space of time.

Assistant Registrar of Banks Andre Bezuidenhout said the main problem that led to the freezing of SMS accounts was that the structure was a "pyramid scheme".

According to him, a pyramid scheme is a fly-by-night "harmfui business" relying on "new members to generate returns to members at the top of the structure".

"If only the problem was exceeding the R9,9-m we would have taken a different approach, asked them to break up into smaller groups with about R1- m each or R9-m, but would have been subject to an annual audit.

"We were concerned with a pyramid structure which hurts the overall economy in the long run. The experience in other countries confirms that if you allow pyramids to continue people are hurt, and that breaks up the savings culture. The Banks Act was the only means in our power to stop it," Bezuidenhout said.

He added that SMS was pressuring them to pay out to management and not directly to investors because they knew that "if we pay the investor directly, there will be a shortfall".

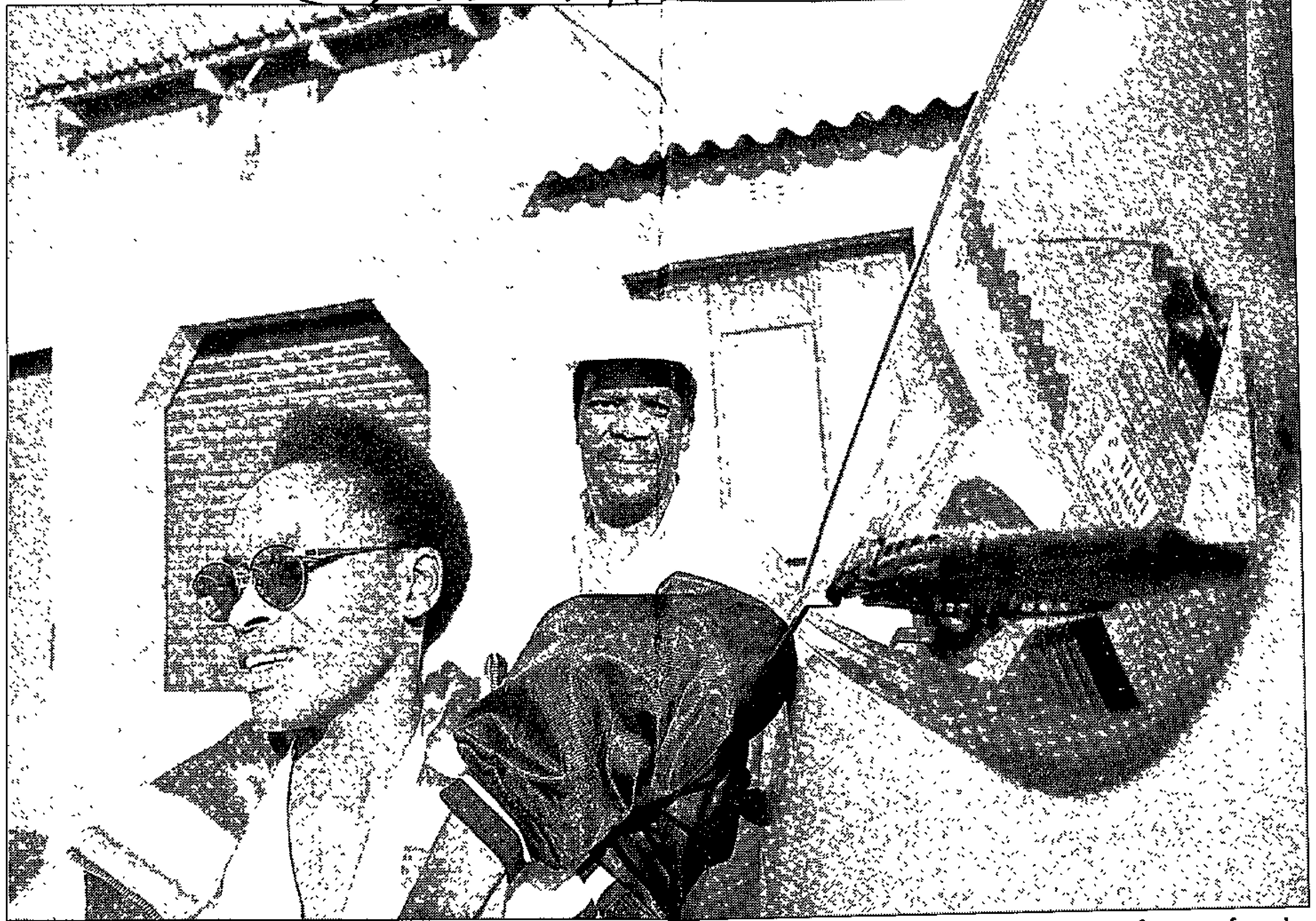
National Association of Stokvels of South Africa (Nasasa) has also repudiated SMS, agreeing that SMS is a pyramid scheme. Nasasa financial controller Andy Parsons echoed Bezuidenhout's words, saying that SMS depended on new membership for survival and was not a stokvel, which is characterised by mutual trust.

He said unlike a stokvel wherein members contribute a fixed amount of money to a common pool weekly, fortnightly or monthly with basically equal returns, SMS was a huge society offering unrealistic returns and only those several levels above the bottom rung of the structure benefited. "Those at the bottom rung always lose."

SMS spokesman Victor Monamodi denied charges that they were a pyramid scheme, insisting they were a stokvel. But he did not want to disclose the formula that saw them making R53-m within nine months of operations.

He said they were an umbrella body comprising different schemes and therefore they were like smaller stokvels. However, they would have to reveal the formula if the scheme is to survive when the fate of the funds is decided on April 23 in court.

ANDREAS VLACHAKIS



Radiant faces ... Julia Mogapi is proud of the beautiful house that she renovated after making large amounts of money from investing in an informal savings scheme, while Brian Mthunzi leans against his minibus, also bought from his substantial profits.

Land Bank haunts rural reform

(58) M+G 12-18/4/96

The future role of the Land Bank is fraught with conflict and vested interests, reports Aspasia Karras

AS South African institutions face transformation under the Government of National Unity, the Land and Agricultural Bank has been singled out for major reform.

Established in 1912 to ensure preferential loans and subsidised protection to white farmers, the bank has served to reinforce the rift between white farmers and black rural communities and perpetuated the skewed rural economy envisioned by the 1913 Land Act.

By 1957, the bank had gained enough impetus to finance itself. However, it remains a traditional parastatal — the Department of Finance appoints its chairman and board of directors, and expects a report each year.

The issues surrounding the reform process are fraught with conflict and vested interest. Key to the whole issue is the need for state protection of agriculture in its present form. Is development of the black rural population equivalent to agricultural finance, and is the current understanding of transforming the Land Bank into a Rural Bank going to address the larger issues of development finance?

The Rural Financial Commission could have played a critical role. Instead, in a furore of disagreement, it has withdrawn its final report, originally due in November 1995, and has published an Interim Report carrying the objections of two members who felt they could not be associated with the proposed final report.

The commission has called for public response and debate, so it appears the Land Bank's future will be battled out in public.

On the side of the institution, managing director Freddie van Staden says: "We have played a major role in getting agriculture in South Africa where it is today. What will happen if we ignore agriculture? We cannot import everything, we will be thrown to the wolves; overseas traders will dump their rubbish on us. South Africa is not at this stage an industrial country. We are an agricultural country, and we have to help the emerging black farmers to sustain themselves."

The commission has proposed that the bank continues to function as it has in the past, but with an additional function. "We will become involved in the financing of emerging black farmers on a wholesale basis through intermediaries, such as non-governmental organisations, co-operatives and even commercial banks, in the deep rural areas," says Van Staden.

In light of these changes the bank is seeking a director to fulfil this new function, and has created a directorate. It has also begun to restructure itself for the sake of efficiency.

The alternative voices, coming from the Land and Agricultural Policy Centre (LAPC) and the more radical National Land Committee, are questioning these assumptions.

David Cooper of LAPC argues that the commission, after a year of deliberation and little research, has endorsed the existence of the Land Bank. "It has made certain assumptions about the role of the state and the institutions it has created in order to carry out its programmes and the things it believes in, but it has not produced a report that can stand up to scrutiny."

He points out that while the proposal for the financing of rural farmers may in itself not be problematic, it is a question of definition. The report does not address the issue of development finance. While various institutions have been set up to finance development, such as the Development Bank of South Africa (DBSA), and the Industrial Development Corporation, the relationships between them are not clear.

The commission has renamed the bank, calling it a Rural Bank, which implies that it only deals with rural finance, and the rest of the institutions are urban. Cooper is adamant: "If it is an agricultural bank only, then it will not meet the needs of the rural people, who need other services as urgently. Transmission services are crucial, as is the extension of loans for purposes other than farming."

The argument follows two options: either privatise the bank and allow it to continue financing agriculture, and designate the DBSA or the other institutions to deal with rural development finance.

Alternatively, the bank should be substantially transformed so that it deals with all aspects of rural development. "Nobody is saying one is right and one is wrong, but the fact that the commission did not examine all the options is a problem. The recommendations are strong, but you cannot trace the arguments," argues Cooper.

Critics of the commission argue it has confused its terms of reference. Its initial goal was to investigate what rural people's needs were and how development finance could assist. Instead the commission looked at the development finance institutions themselves, and even then did not come up with clear recommendations.

The Land Bank has R21-million worth of farm land in its possession, although the value has reached R120-million. Under the new act, it is required to sell it immediately.

Brendan Pearce of the National Land Committee argues "We consider that land to be state land and therefore it must be redistributed, but government is afraid and has not wanted to take a firm position."

Cooper is less militant. "As they exist now they cannot finance land reform, which is probably a good thing as one does not want the state to own land. The question is how then do you ensure it gets into the hands of the Land Reform participants. It is not a straight choice. If you argue that Land Reform should operate through market mechanisms, you create a universal good, which is understandably a problem."

Freddie van Staden: 'We are an agricultural country'

"The debt on the land is still outstanding, but we are prepared to bargain with the Department of Land for a nominal amount," says Van Staden.

The issue is heating up, both for land reform, and for rural development. The proposed Rural Bank is a key player, but the Land and Agricultural Bank, like most inherited institutions, still haunts the playing field.

Van Staden argues. "I do not know how the farmers would survive, the subsidy is necessary." The strong agricultural co-operatives will back him.

Cooper counters: "New entrants need some support — not necessarily through subsidised interest. We are faced with the terrible scenario of creating another rent-seeking sector. We are already in a self-perpetuating cycle of large-scale, unviable farming. We have created an abnormal situation, and we respond abnormally to prop the thing up. We do not want enclave economies *ad infinitum*."

Agriculture in need: Who will finance the emerging black rural farmers?
PHOTOGRAPH HENNER FRANKENFELD

Bid to tighten up home-loan rules seen as unfair to the underpriviliged

By WILLIAM-MERVIN GUMEDE

Attempts by banks to tighten up criteria for granting home loans would delay the delivery of houses to low-income groups, the South African National Civic Organisation (Sanco) has claimed.

Sandi Mgidlana, Sanco's national housing chief, said it was clear the banks had no sympathy for the underprivileged.

"The banks in South Africa just refuse to adjust their programmes to aid the historically disadvantaged of this country," he said.

In terms of the controversial criteria, drawn up a year ago by government and the banks, loan applicants must provide a 5% deposit. It is also proposed that bond financing for public servants should be reduced by 40%.

Mgidlana called for the deposit to be scrapped and for a more generous subsidy formula.

This week, the banks bowed to pressure and agreed to delay the new requirements by a month. These were to have been implemented on April 1.

The Council of South African Banks (Cosab) said implementation had been shelved so that possible amendments could be discussed with government and the building industry.

Smaller financial institutions servicing the low-cost housing market and community organisations warned that the new criteria would "cause chaos".

Daan Roelvert, executive director of the National Association of Home Builders, said implementation would retard development at a time when little low-cost housing was being delivered.

"We are deeply concerned and hope government will encourage banks to rethink the scheme," Roelvert said.

James Byrne, director of Condev, which is involved in mass housing in KwaZulu Natal, warned that the criteria could cause a collapse in the low-cost sector.

However, earlier this year, Lance Edmunds, Cosab general manager, said the new criteria were necessary in this sector considering that 50 000 loans totalling about R3-billion were not being serviced satisfactorily. It was envisaged that in future only those who could afford repayments would be granted loans.

(58) (~~123~~)

Star 13/4/96

Vehicle insurance fund under attack

BD 18/4/96 (58)

Linda Ensor

CAPE TOWN — Organisations representing the disabled, lawyers, taxi associations, assessors and actuaries attacked the management of the Multilateral Motor Vehicles Insurance Fund (MMF) yesterday and called for the replacement of its "discredited" governing board, at a session of the parliamentary standing committee on transport.

The fund has an actuarial deficit of R4,2bn.

Invited by the transport committee to submit their views on the Road Accident Fund Bill, they agreed on the need to fundamentally redraft provisions relating to the appointment of its board to make it representative, accountable and transparent.

There were objections to the Bill's limitation of the damages claimable by passengers to R25 000, a sum last fixed in 1986. It was suggested that this be increased to R75 000.

The Bill is an interim measure dealing with the board and incorporation of the former TBVC states.

Adv George Bizos, representing disabled people, argued that they and other special interest groups such as commuters, taxi associations and motorists should be represented on the board, as well as the insurance, investment, medicine, legal, accounting and actuarial professions.

"It is unacceptable that the minister alone, after consultation with the present board, should be responsible for the appointment of the new board. This will have the effect of perpetuating the unsatisfactory manner in which the board has run it's affairs," Bizos said.

It would mean the present board would continue operating for another three years.

Adv David Soggot, also representing the disabled, noted that the fund had been marked by irregularity and mismanagement under the existing board, which had "systematically sought to devise ways of cutting compensation payable to victims".

Sun Multi Serve agreement to be signed today

Stokvel to change its spots

CT(BR) 18/4/96 (58)

BY THABO LESHILO

Rustenburg — Sun Multi Serve, the controversial investment scheme shut down by the Reserve Bank, may soon be back in business after a landmark agreement due to be signed with the Bank today.

The deal hammered out by lawyers provides that Sun Multi Serve ceases to operate in its current form and ensures that its activities are consistent with the provisions of the Banks Act.

Thereafter, the Bank will withdraw its two Supreme Court applications ordering the closure of the scheme and the freezing of its funds, amounting to R46 million.

Peter Tau, the chairman of Sun Multi Serve, showed Business Report a copy of the agreement yesterday.

Tau said the deal was to be signed before being made public at a press conference today.

The Bank declined to comment. It closed down the self-styled stokvel in December, saying it was an illegal pyramid scheme.

The proposed agreement provides that Sun Multi Serve cease operating as a stokvel. In turn, its 28 branches will be constituted into independent stokvels in terms of the law. The stokvels will then have separate bank accounts and share Sun Multi Serve's assets among themselves. Sun Multi Serve may provide its affiliated stokvels with administrative and managerial support.

Members of Sun Multi Serve who wish to continue their membership of the scheme may do so, while those who prefer to leave should be allowed to do so and be paid back their investments. Sun Multi Serve and its national investors' committee will compile lists of investors who wish to have their monies paid to the appointed stokvels and those who do not.

All lists will be provided to Sun Multi Serve's lawyers, Moseneke and Partners, within seven days.

The lists will be published in two newspapers and at magistrates' courts in 28 areas to enable people to claim their money.

BREAKTHROUGH *Peter Tau, the investment scheme's chairman, says the sun will soon shine again on the embattled Sun Multi Serve*

Blacks quitting Reserve Bank blame 'racism'

(58) ~~[illegible]~~ CT 18/4/96

JOHANNESBURG: Black professionals are leaving the Reserve Bank, claiming they are victims of racial discrimination.

There is also tension between the bank's management and black staff over the changing of the Banks Act to pave the way for the appointment of the first black deputy governor.

Ten black employees who had quit in the past six months cited frustration and an inadequate affirmative action programme as reasons for leaving.

Banker Mr Andrew Sekhu said the affirmative action programme had no concrete objective and no targets.

Reserve Bank governor Dr Chris Stals said it was difficult to draw up concrete targets for employees who left so quickly.

Also at issue was the appointment of a Lesotho citizen. Stals said the man had been appointed by the government and the act had been changed to make this possible.

Banker Mr Venluxivan Sibanda said black Reserve Bank employees were angry because they were not consulted about the man's employment.

A spokesman for Finance Minister Trevor Manuel said the minister was legally allowed to appoint anyone to the bank's staff. — Sapa

Govt scraps its limit on home loans

(58) Star 18/4/96

The R65 000 price ceiling imposed by the government housing subsidy scheme has been abolished.

The restriction was introduced some years ago and the figure has never been adjusted.

Announcing its immediate abolition yesterday, Minister of Housing Sankie Mthembi-Nkondo said: "This is the sort of bureaucratic restriction that serves very little purpose.

"My department is having discussions with banks on ways in which they can also make credit more freely accessible, and it is hoped that revised bank lending rules will facilitate better credit access.." – Staff Reporter.

Stokvel claims settlement reached

(58) BD 19/4/96

Adrienne Giliomee

THE Reserve Bank refused to comment yesterday on claims by "stokvel" Sun Multi Serve that they had reached an out of court settlement, effectively legitimising the scheme.

Multi Serve spokesman David Mogashoa said yesterday the settlement would result in the pyramid scheme being broken down into 28 independent stokvels, with funds worth R50m divided between the branches. Each stokvel would have a separate bank account, but assets would be shared among branches. Sun Multi Serve would provide "management services" for the stokvels.

The restructuring would have to be approved by the courts, but Mogashoa was confident the application would be successful. The Bank, which halted the scheme, said mediation was continuing.

Metropolitan Life targets white companies

CT(BR) 19/4/96 (58)

By Françoise Botha

Cape Town — Metropolitan Life launched an extensive advertising campaign this week aimed at the white corporate market to boost the company's share of the insurance market.

The campaign establishes a market identity for the company. It was designed by the Cape branch of Saatchi & Saatchi, Klerck and Barrett and took 6 months to complete.

It will be premiered on national and subscription television channels this week.

René Horwitz, the advertising manager for Metropolitan Life, said yesterday that the company would spend about R7 million over the next year on the campaign that would run for about 18 months.

This is about a third of what its major rival, Old Mutual, spends in a year.

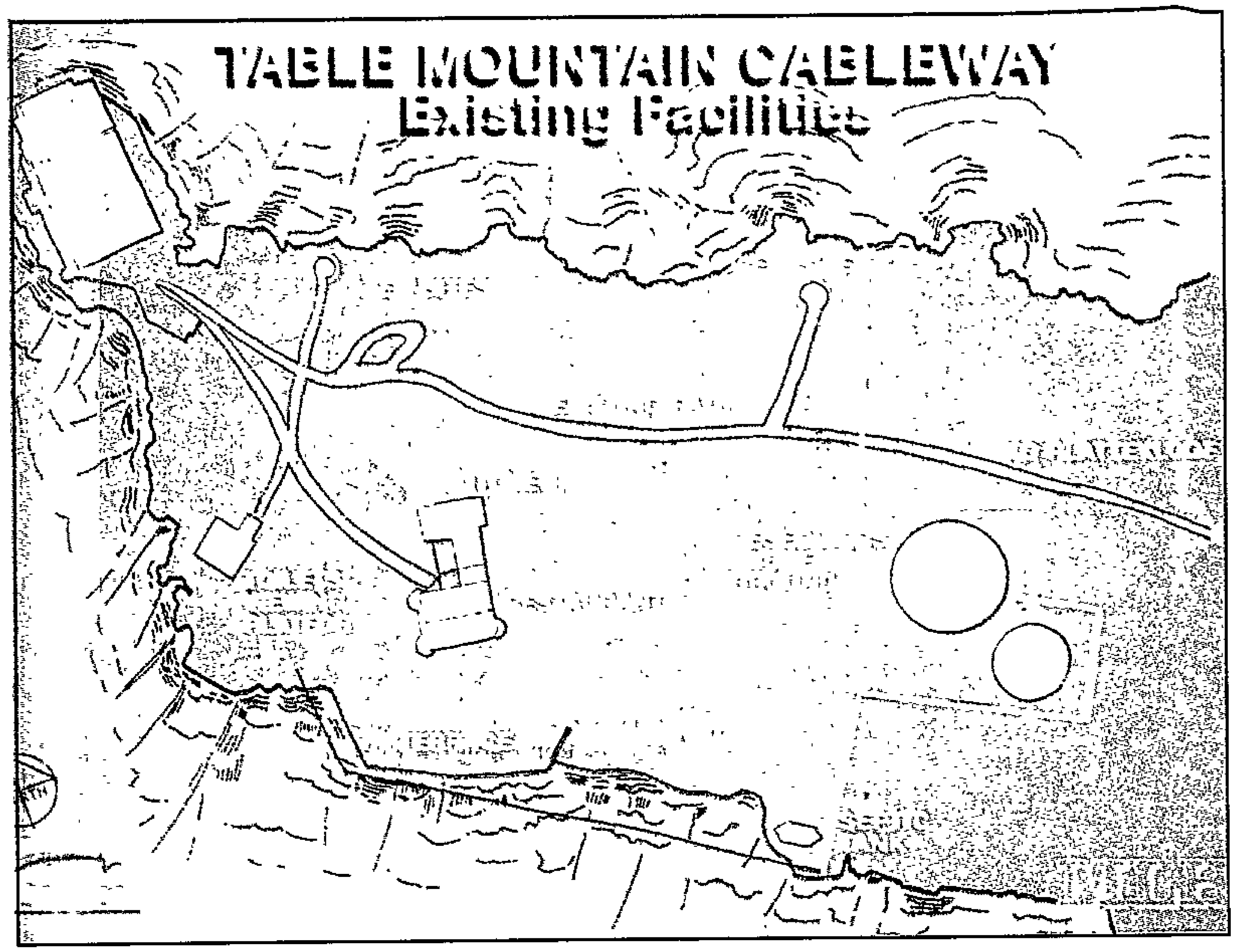
The insurance company, which has focussed on the black market in the past, is expecting to increase its share significantly in the white corporate market, but Horwitz said this was a long-term project.

Neil Gurney, the managing director of Saatchi, said that he was expecting Metropolitan Life's share of the white corporate market to double as a result of the campaign.

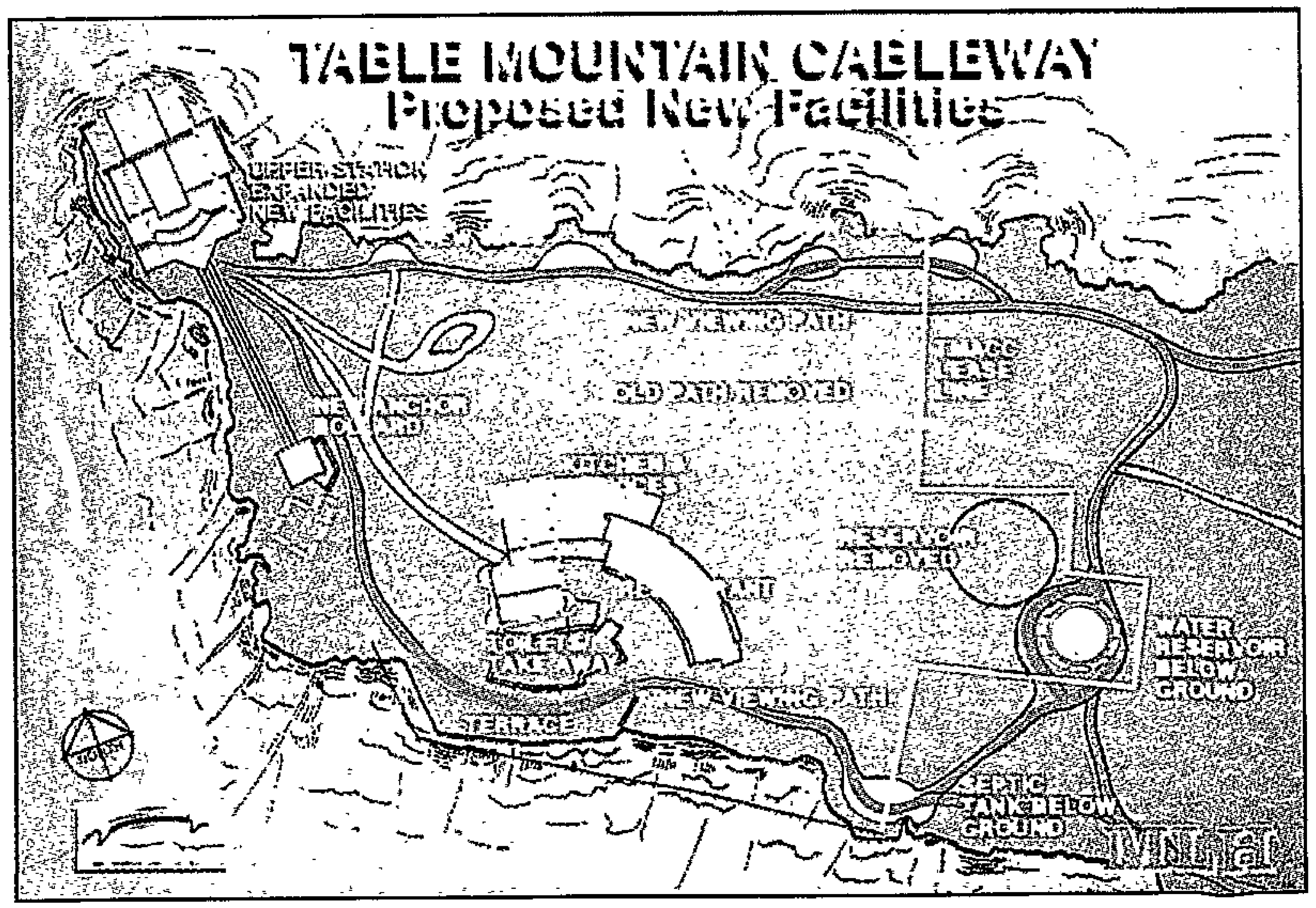
Further tactical adverts and a number of the company's products will be introduced in separate radio and print media campaigns later this year.

Tourism fear as cableway faces December closure

(56) ARG 20/4/96



"If we cannot even get a project such as the upgrading of the cableway under way after years of negotiations, numerous environmental studies and other assessments, how will we convince the international business and sport communities that we are ready and able to host a world event such as the 2004 Olympic Games?"



■ Time is running out fast for the proposed R61 million upgrading of the 67-year-old Table Mountain Cableway and a ministerial committee has now been appointed to investigate and resolve the controversial issue. WILLEM STEENKAMP reports.

TABLE Mountain's cableway will be closed this December if its controversial R61 million upgrading is not approved within 10 days

The closure, at the peak of the holiday season, would be a severe blow to tourism and would raise question marks over the city's ability to host the 2004 Olympic Games.

"If we do not get the go-ahead for this project within 10 days, the cableway will be closed in December to allow us to finish upgrading the cableway," said John Harrison, managing director of Table Mountain Aerial Cableway Company (TMACC).

The company is already six weeks behind schedule on its construction programme.

It would be the cableway's first closure for reasons other than bad weather or maintenance.

"If we cannot even get a project such as the upgrading of the cableway under way after years of negotiations, numerous environmental studies and other assessments, how will we convince the international business and sport communities that we are ready and able to host a world event such as the 2004 Olympic Games?" said Mr Harrison.

Arts and Science Minister Ben Ngubane last week announced a special ministers' committee to resolve the cableway issue.

This step followed an appeal by TMACC to Dr Ngubane after the National Monuments Council (NMC) refused to give the go-ahead for the project until an integrated environmental impact study had been completed.

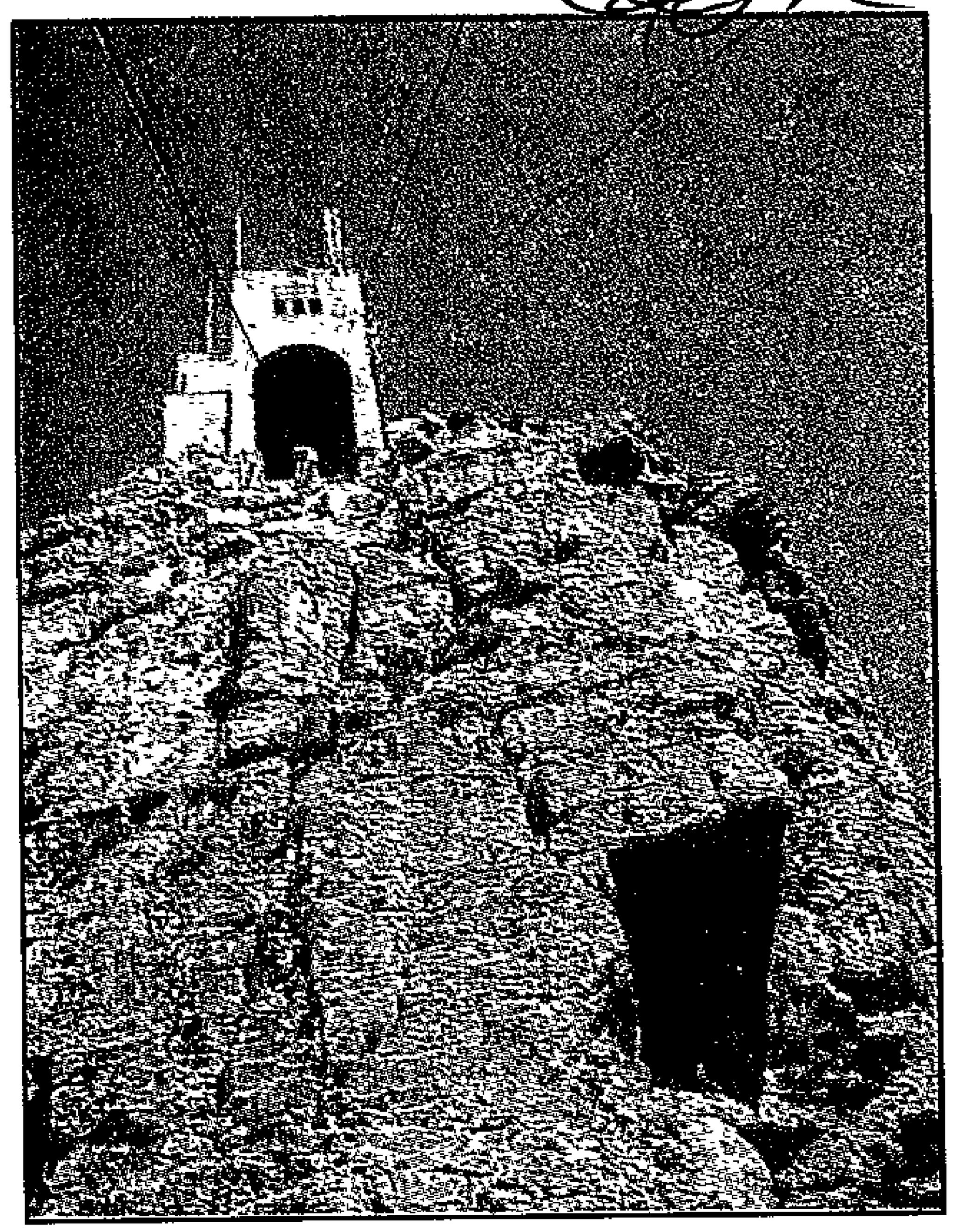
The ministerial committee consists of Land Affairs Minister Derek Hanekom, Mineral and Energy Affairs Minister Pik Botha, Environment Affairs Minister Dawie de Villiers and Water Affairs Minister Kader Asmal.

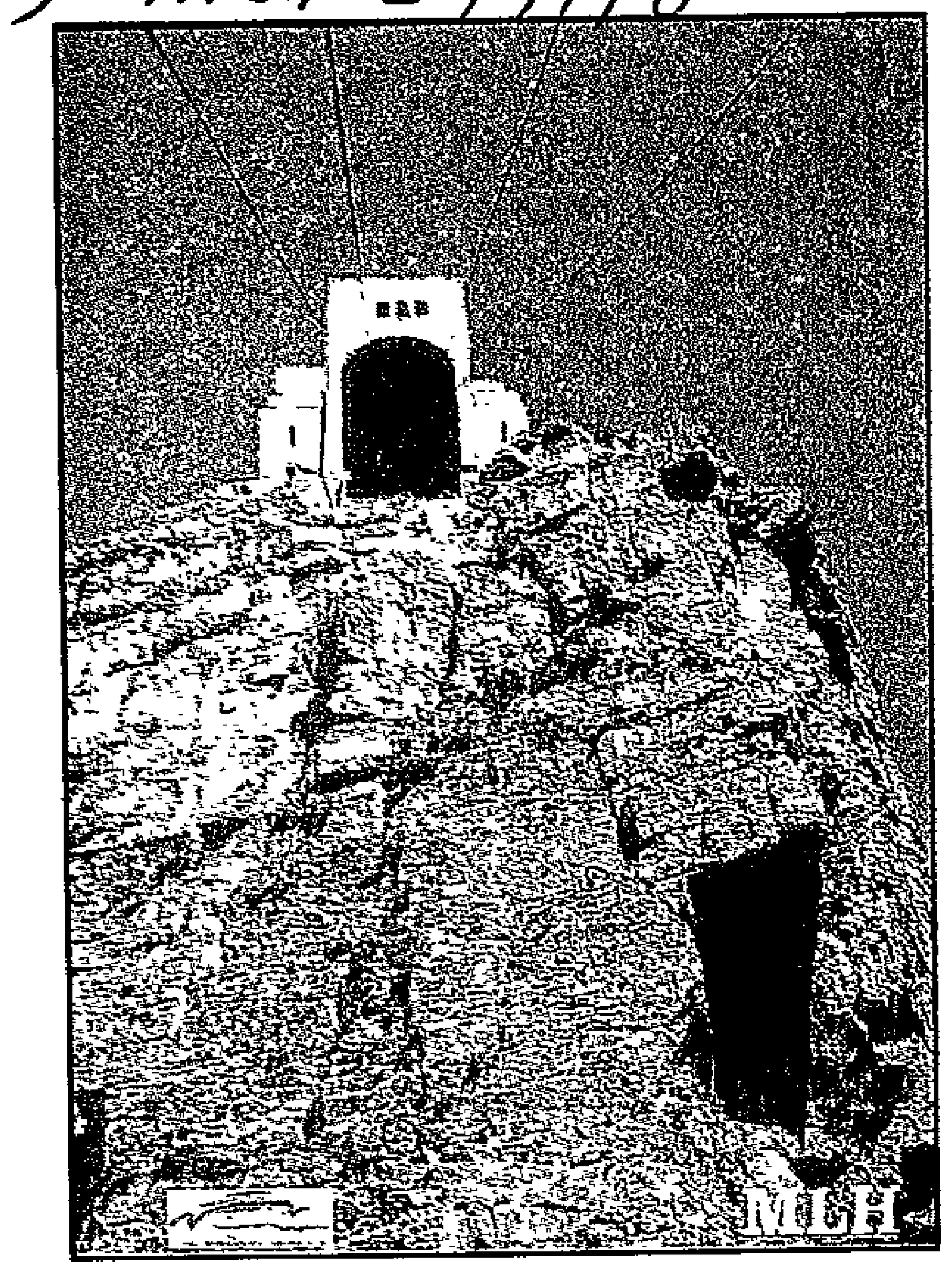
The committee is expected to sit for the first time next week.

Mr Harrison said he was baffled by the NMC's decision.

"Countless studies have been done and all along we have been working closely with the NMC," said Mr Harrison.

"There are only three environmental assessment studies which have not yet been completed. These include impact studies on waste removal, fresh water and electricity."





❑ **CABLEWAY REVAMP**: These before and after graphics of the upper cableway station on Table Mountain show that the station itself will undergo very little change to accommodate the new 65-seater circular cable cars.

Mr Harrison said financial guarantees had been given by TMACC that these studies would be completed and that any required changes would be made to the upgrading programme if and when necessary.

"The fact is the construction programme can continue and will have no impact on these assessments.

"We need an urgent decision so that we can either go ahead with the programme or scrap it."

Mr Harrison said if the go-ahead was not given for the project, the cableway could still be safely operated for the next 10 years.

"We have an excellent safety record, but the equipment is getting older and it is more difficult to get parts for the machinery.

"Also people are frustrated with the long queues and limited capacity of the cars and facilities," Mr Harrison said.

The R61 million upgrading programme includes two new circular cars with a capacity of 65 passengers each, new improved parking facilities at the bottom station, a new restaurant behind the existing one at the top station, to be sunk into the rock to lessen the visual impact, and the removal of the unsightly water reservoirs on the top of the mountain, which are to be replaced by sunken reservoirs.

The existing path in the centre of the mountain will be closed and a new circular path will be laid which will prevent people walking through the fynbos as they seek a better view from the edge of the mountain.

Meanwhile SATURDAY Argus has learnt from a reliable source that some of the people who advised the NMC on the cableway issue were also involved in an effort to expropriate the cableway from TMACC in 1993.

Some of the role players bluntly told SATURDAY Argus that there was a hidden agenda behind the NMC's decision.

Mr Harrison refused to comment on these allegations, saying he felt confident that the ministerial committee would make the right decision.

BIG NEW BANK SCANDAL LOOMS

Commission of inquiry uncovers 'numerous discrepancies and irregularities'

58 ARG 20/4/

■ The former Transkeian government drew millions of rands every day from an overdrawn salary account guaranteed by the South African government.

JEAN LE MAY
Staff Reporter

ANOTHER financial scandal involving the former homelands could erupt in a formal hearing next month by the Heath commission of inquiry in the Eastern Cape.

It has been claimed that the former Transkeian government was at one stage drawing millions of rands a day on its Paymaster-General's salary account (PMG2) with the Bank of Transkei.

Bantu Holomisa, now Deputy Minister of Environmental Affairs and Tourism, who was until May 1994 head of the former Transkei's military government, told SATURDAY Argus he was unable to comment yesterday because he had no records with him. He referred SATURDAY Argus to the present Eastern Cape government, under which the former Transkei now falls.

However, Eastern Cape Premier Raymond Mhlaba has referred all dealings between the Bank of Transkei to the Heath commission, with a brief to extend its investigation back to 1976, when the Transkei was given nominal independence.

Monde Limakaya, a Finance Ministry official in the Eastern Cape government, has alleged that the Bank of Transkei was charging 33 percent on capitalised interest on a South African government-guaranteed overdraft of R700 million in 1993.

This was more than double the prime rate at the time and four percent above the maximum allowed by the Usury Act.

The commission, headed by Justice Willem Heath, has already heard evidence from Alpha Financial Services, a company which investigates bank charges.

Alpha was commissioned last year by the Eastern Cape Ministry of Finance and Provincial Expenditure to investigate its accounts with the Bank of Transkei.

The commercial branch of the Police Services started investigating possible breaches of the Usury Act last year. The commission said last week that it had uncovered numerous discrepancies and irregularities in the course of its investigation into the Bank of Transkei.

Steve Barkhuizen of the police commercial crime unit, who has been seconded to the commission, said that the bank had been given notice to appear before the commission in Umtata on May 23.

The commission had had problems in the past getting all the documents it needed and it was hoped that the public hearing would produce evidence to complete the investigation, said Captain Barkhuizen.

The bank is at present 50 percent owned by Absa Bank subsidiary Volkskas, while 24 percent is held by Transkeian authorities and 26 percent by other shareholders.

Three Transkeians, S H L Matebese, J Maqubela and D B Ntsebeza, were members of the bank's board in 1995, according to the annual report.

Mr Ntsebeza replaced Mr I M Mdlulwa as Transkeian government representative in 1993.

The bank's assets were shown on March 31 1995 at R789 million, up from R385 million the previous year.

There was a move last year by Msele Bank Holdings, controlled by the Thebe Investment Corporation, to acquire the Bank of Transkei for R52 million.

Litha Nyhonya, executive director of Thebe Financial Holdings, told SATURDAY Argus that new reviews were requested following the allegations of overcharging.

They would be considered by the Thebe board this week, he said.

Marlene de Wit of Alpha Financial Services told SATURDAY Argus its investigations had found that during 10 months of 1994 the PMG2 account had been overcharged R4,9 million by the Bank of Transkei.

Alex Hogg, director of corporate relations for Absa Bank, told SATURDAY Argus that "they received prime interest rate for the whole period, except for when they went over the agreed overdraft."

He pointed out that the then Transkeian government had its own representatives on the board of the Bank of Transkei.

Mr Hogg said he was "delighted"to hear that the Heath commission was holding public hearings.

The Reserve Bank has said that the Bank of Transkei does not fall under its jurisdiction because it is not registered under South African banking laws.

The former Transkei, like the other formerly "independent" homelands, also had its own Usury Act based on earlier South African Acts, but seldom

■ To page 3

'Bank battle looming'

ARG 20/4/96

58

■ From page one

gazetted charges in permissible rates.

Since 1990 the maximum Transkei rate was 32 percent for amounts up to R6 000 and 29 percent for higher amounts, according to Usury Act registrar Walton Mzalizi.

Ms De Wit told SATURDAY Argus that during its investigations the company had found that the then Transkei government had an exchequer account into which all funds received from the South African government were paid.

It was always kept in credit, but all the other accounts were run on overdrafts, she said.

At the end of every day the people running the accounts would telephone the Finance Department and say they needed an order to transfer money to the other account.

An order number would be given and the transfer would then be made from the exchequer account.

It has been estimated that the transfers amounted to millions of rand every day.

This led to a comment from the then auditor-general Peter Wronsley that the former homelands were using overdraft facilities to supplement deficits on their budgets.

But the trouble started when the South African government refused in 1991 to guarantee any further overdraft facilities.

After talks between Pik Botha, then S A foreign minister, finance minister Barend du Plessis and Transkei minister of finance Rodney Keswa, a plan was worked out to stop consistent overspending by Transkei.

South Africa agreed to guarantee overdraft facilities to the tune of R55 million to bail out the cash-strapped Transkei.

But the problems did not end there. In 1993 the total short-term debt of the four independent homelands amounted to R3-billion and the Public Investment Commissioners arranged for them to place their total debt in the financial markets.

By 1994, when South Africa held its first general election and the former Transkei was amalgamated in the Eastern Cape, there was a R300 million overdraft in former Transkei government accounts.

Mr Holomisa claimed in January last year that this had been reduced to R68 million. He blamed the South African government, saying officials had decided to tamper with Transkei's cashflow.

Sun Multi-Serve cash freed

CP 21/4/96

(58)

By SIFELANI MLAMBO

FORTY-SIX million rand frozen by the Reserve Bank four months ago when thousands of South Africans invested in the controversial Sun Multi-Serve scheme has been unblocked – with an additional R2 million interest.

The Reserve Bank had frozen the funds because the bank claimed that most investors would lose their money.

An agreement between the Bank and Sun Multi-Serve was signed on Friday allowing the company to operate in a new structure – as 28 stokvels.

The funds will be distributed to the 28 separate stokvels in various parts of the country, and will operate independently.

The stokvels will also be independent of Sun Multi-Serve but SMS will be allowed to "provide the stokvels with such administrative and management support as the stokvels may require in terms of a written management agreement."

The disbursement of the frozen funds will be administered by chartered accountancy firm Deloitte and Touche.

No money will be directly given to the current directors of Sun Multi-Serve.

People who invested in the scheme will be given the opportunity to either have their money invested in a stokvel or to have their contribution paid back with interest.

Lists will be prepared of those who want their money back and those who want their money invested in a stokvel. The lists will be published in local newspapers in the 28 stokvel areas.

At a press conference held last Friday Sun Multi-Serve's chairman Peter Tau said he expected the scheme would spread and he expected there would be as many as 300 affiliated stokvels by the end of the year.

Tau denied his organisation had been defeated by the Reserve Bank, and said SMS had merely compromised in the interest of its investors.

One of compromises was allowing an independent administrator to have a say in the running of his organisation, he claimed.

A spokesman for the Reserve Bank said the Bank was satisfied with the agreement and trusted Sun Multi-Serve would adhere to it.

He warned that the Bank would take severe action if Sun Multi-Serve breached the agreement.

After the Bank froze Sun Multi-Serve funds there were demonstrations by Sun Multi-Serve investors who accused the Reserve Bank of protecting commercial banks.

Sun Multi-Serve promised to pay investors three times their investments in a short time from money received from later investors.

The Reserve Bank said the scheme depended on increasing numbers joining, failing which the funds dried up.

SA's big four banks feel the heat (58)

BD 22/4/96

SA's big four commercial banks are starting to feel the heat as an increasing number of foreign banks set up shop, banking analysts say.

International banks have made inroads into the areas of offshore lending and treasury activities for corporate clients and government, chipping away at the client base of local banks.

In its annual report released this week, the SA Reserve Bank's banking supervision department said the entry of foreign banking operations had led to "more expertise chasing the same business and more employers tapping the same labour market". That, it said, meant new and diverse challenges and risks for banks.

Dave Southey, banking analyst at Edey Rogers, said: "Foreign banks had had a significant impact at the corporate and wholesale level, especially in the big foreign loans area… They are able to raise funds with their parents at better rates (than local banks)."

A study by consultancy Price Waterhouse estimates there are about 60 foreign banks operating in SA. Most have opted for representative offices, although others have opened branches, subsidiaries or entered into joint ventures with local companies.

Analysts said foreign lending was not a lucrative area as margins were thin. Local banks were not overly keen on it. Offshore operations were able to survive the squeeze as they had minimal overhead costs and were able to undercut big local banks which had hefty infrastructures, they said.

"SA banks may have to let some of the big lending stuff slip through their fingers and concentrate instead on guarding the retail side, where they are in control," said an analyst who asked not to be identified.

Analysts said foreign banks had had no effect at the retail level where SA's Big Four — Standard Bank Investment Corporation, Nedcor, First National Bank Holdings and Amalgamated Banks of SA — made most of their money. And foreign banks were not keen to enter the retail market, the Price Waterhouse study found.

Another area of foreign success, analysts said, was in the use of innovative derivative products in raising funds and credit finance. — Reuter.

Sun Multi Serve probe to proceed

(58) BD 22/4/96

John Dludlu

THE Reserve Bank's truce with Sun Multi Serve did not mean investors' funds in the pyramid scheme were now known to be safe, nor that the police investigation into the fund's management would halt.

Registrar of banks Christo Wiese, who has kept silent throughout mediation surrounding the scheme, said yesterday he would know only in a week whether there were sufficient funds in SMS's account to repay all its investors. The police inquiry into alleged breaches of the Banks Act by SMS management was continuing, he said.

Wiese, who has seen his authority constantly ignored since he shut SMS in December, said he did not expect the fund's management to run the organisation, if it was reconstituted under a mediation agreement.

It was too early to say how much the episode in banking regulation, now into its fourth month, would cost the taxpayer.

Around R50m in SMS investors' funds has been frozen under a court order Wiese secured in December. But attempts to trace investors to begin repayments have been thwarted.

Legal representatives for the Bank and SMS agreed on Friday that SMS would be reconstituted into independent stokvels with separate accounts.

Provided investor consent was gained, the fund's 28 branches would set up as independent stokvels, operating within the law. Wiese said that stokvels did not have management.

He said SMS management would have to present a list of investors and the extent of claims to him within seven days. The Pretoria Supreme Court would then instruct Wiese on his next move.

Wiese shut the scheme down after deciding it had breached legislation on the R9,9m ceiling placed on informal savings schemes. He claimed the fund had operated as a pyramid, and that in paying its promised returns the fund could never have enough cash to pay out its estimated 50 000 investors in full.

Deloitte & Touche was called in to run down the SMS operations. But the claims operation was halted after two days, after incidents of violence and intimidation.

SMS, which has been portraying the mediation as a victory and plans a celebratory feast, was unavailable yesterday.

But Wiese denied the mediation represented a climbdown. "We've always tried to get SMS to operate within a legal framework," he said.

Home loan guidelines revised

(58)

By Marc Hasenfuss

CT (BR) 22/4/96

Cape Town — In a move that should lead to better housing delivery, the Association of Mortgage Lenders revised credit-granting guidelines at the weekend.

The revised guidelines come into effect on May 1 and focus on households for whom a government subsidy is available. They enable banks to lend up to 100 percent of the property value compared with the 95 percent limit in the original guidelines.

The association said the revised criteria opened the door to about 30 percent of South Africans who needed housing finance.

Banks would assume 80 percent of the risk and 20 percent would be covered by the government capital subsidy, capital guarantees from applicants' employers or their pension funds, cash or acceptable security.

Moreover, the new guidelines extend the repayment term past the 20-year limit in the original criteria.

Duncan Reekie, the chairman of the association, said the new requirements would "significantly improve access to credit....

"Likewise, borrowers at the lower end of the income scale will benefit greatly from being able to use their subsidy, to the extent that it exceeds 20 percent of the purchase price, to cover costs."

The revised guidelines would foster confidence among developers, who needed certainty to plan.

Rescue plan for Community Bank

(58) BD 23/4/96

Amanda Vermeulen

CASH-strapped Community Bank is poised to link up with an undisclosed partner in a rescue deal which could be finalised this week.

Sources said yesterday the bank — which had been in negotiations with its original funders, the Development Bank of SA, the Industrial Development Corporation and the Independent Development Trust since the start of March — could finalise a partnership agreement this week.

Community Bank executive trustee Cas Coovadia said there could be a "dramatic" development by the end of the month, but declined to give details.

The bank, suffering a cash crunch since the start of the year, discussed a cash injection with the World Bank's investment arm, International Finance Corporation (IFC), last week.

In February, when the bank disclosed its liquidity problems, the IFC said it could help fund up to 40% of the R200m the bank needed to operate in

Continued on Page 2

Rescue plan (58)

Continued from Page 1 BD 23/4/96

the next year on condition Community Bank found a consortium of investors.

The bank's problems emerged after its original funders declined to commit promised financing. The funding agencies originally planned to pump R200m into the bank, which operated primarily in the low-cost housing market, but the development bank and the development corporation froze R70m as they were allegedly unhappy with Community Bank's performance.

Community Bank CE Archie Hurst said at the time the bank had overspent on marketing, increasing its forecast loss to R30m from R25m in the 1996 financial year. The bank's problems stemmed from the slow start in the housing delivery process and the delay in creating the National Housing Finance Corporation, he said.

The development bank refused to unlock funding, presenting the bank with an ultimatum which included finding a partner to ease it out of its cash crunch.

Sources said yesterday Community Bank had approached Mercantile Bank, but had been turned down. Industry sources said the new partner would not be the recently formed National Housing Finance Trust, despite speculation it would step in.

Transformation of bank stymied

(58) (297) BD 23/4/96

Robyn Chalmers

THE transformation of the Development Bank of Southern Africa, which will see it streamlined to focus on the financing of infrastructure, has been stymied by slow restructuring at provincial and local government level.

The finance ministry had broadly accepted the transformation team's report on the bank last year, and proposals for the overall restructuring of development finance institutions were being considered.

But Sapa reports that Development Bank chairman Wiseman Nkuhlu told an open sitting of the task group on government communications yesterday that unfinished policy formation by the finance ministry had retarded the transformation.

He warned that if transformation did not take place rapidly, staff and other stakeholders would lose confidence in the process. This could lead to disillusionment, discontent and low morale.

Bank operations GM Div Botha said yesterday that the lack of provincial borrowing powers and inadequate financial and managerial capacity at local government level had caused problems for the bank.

"The provincial and local governments are among our major clients, and we have noticed a reduction in applications (for financing), largely as a result of the restructuring taking place at these levels.

The finance ministry was aware of the situation, "but we cannot expect the overhaul at provincial and local government level overnight".

Botha said the transformation within the bank was moving ahead well.

An affirmative action programme had been undertaken to ensure equality regarding gender and race within its ranks.However, bank sources said there had been rumblings within the bank for some time about management was steamrollering the transformation process.

The sources said that more than 10% of the bank's staff had resigned over the past year. The majority had been professional staff. Most, it was believed, had gone to the private sector.

Recently appointed bank CE Ian Goldin could not be contacted for comment. He takes up his post on Monday. Goldin has made it clear, however, that the issue of transformation will be high on the agenda.

Community Bank quagmire alleviated

Amanda Vermeulen BD 24/4/96

(58)

THE Reserve Bank has thrown cash-strapped Community Bank a lifeline, relaxing liquidity requirements to allow the bank to continue operating this month while it finalises a rescue.

Banks registrar Christo Wiese said yesterday the assistance was short term, monitored on a weekly basis, and that Community Bank had to demonstrate it could restore its liquidity.

It also emerged yesterday that main shareholder Development Bank of SA had advanced R11,2m to the bank as an emergency package, with R10m to be repaid as soon as the bank tied up its imminent merger. The Reserve Bank's assistance was worth another R1,35m.

However, the development bank

Continued on Page 2

Bank

(58)

Continued from Page 1

BD 24/4/96

and other major shareholders — the Industrial Development Corporation, the Independent Development Trust and several major banks — effectively rejected the bank's proposal that they inject another R108m into it through subordinated loan stock.

The proposal was tabled at a shareholders' meeting last Wednesday. Sources said there was little enthusiasm and that a merger remained the bank's preferred escape route.

Development trust official Len Konar said his organisation was unlikely to agree to the plan. Development corporation official Karel Botes rejected it outright, saying the corporation was not prepared to pump in new money, even if Community Bank found a partner, because its money could be used better elsewhere.

Shareholders also decided to put the bank on general notice that it was defaulting on interest payments to lenders. The bank said earlier this week an announcement on its future would be made later this month. The bank, which operates mainly in the low-cost housing market, has struggled this year after a lenders' decision to hold back R70m in funding.

Calls for better financial services in rural areas

CT(BR) 24/4/96 (58)

FROM SAPA

Cape Town — The Strauss commission of inquiry into the provision of rural financial services has called for the appointment of a parastatal to supervise the provision of a range of financial services to rural people.

In its report released yesterday, the commission said special attention should be paid to the legal disadvantages that women suffered.

It recommended that rural people be provided with access to savings instruments, housing and trade finance, and consumer credit.

"The centrepiece of the rural financial services system should be the provision of money transmission services and the infrastructure required to support such services."

It said this should form part of an integrated rural development strategy, with the land reform programme and the upgrading of infrastructure. The commission recommended that the state be prepared to provide financial support to the rural poor to increase their access to credit, but this should not be in the form of artificial interest rates.

"Flexible providers of rural financial services will react to the shift in irrigation, horticulture, intensive livestock production, non-farm rural production and trading enterprises, and to eco-tourism activities in rural areas.

"These changing needs should be accommodated by state supported rural finance institutions, resource permitting."

3 student bodies slam policy paper

(54)

sowetan 25/4/96

Organisations claims that document ignores the outstanding debts issue

By Themba Sepotokele and Wilson Ramothata

THREE MAJOR STUDENT organisations have slammed the education policy document of the National Commission on Higher Education for failing to address the issue of outstanding student debts

The Azanian Student Congress, Pan African Students Organisation and the South African Students Congress all said the document failed to address or ignored the issue of outstanding debts.

The commission, appointed last year by President Nelson Mandela, had proposed, among other things, the improvement of the education system in tertiary institutions

It also proposed the establishment of a new funding framework and the introduction of a single qualifications framework

Azasco welcomed the commission's attempt to introduce a policy aimed at restructuring tertiary institutions.

Meanwhile, Sasco has called for the rejection of the document and has reiterated its threat to call for a national day of protest action against the report.

On the other hand, Paso said it would go ahead with its national strike today to demand an end to court interdicts served on students owing universities, colleges and technikons fees.

Azasco president Console Tleane said the commission's proposed moves to curb excess expenditure at tertiary institutions was a bitter pill to swallow for students

Sasco has called on everyone interested in the democratic transformation of institutions of higher learning to reject the document

Given mobility ... Mr Vusi Mashele, 2-year-old B Com student at the University of the Witswatersrand, received a wheelchair from the Southrican Forestry Company at a ceremony held at the university on Tuesday. His mother, Mrs Sarah Bula, Mr Musa Maplsa, senior manager at Safcol, and his stepfather, Mr Petros Duba, are also in the pict

PIC CLEMENT LEKANYANE

'Crime major problem for the short-term insurance industry'

(58) ARG 25/4/96

The Argus Correspondent

PRETORIA. – The short-term insurance industry in South Africa has been hard hit by the high crime rate and particular crimes such as vehicle hijackings, the Security 96 conference was told.

Mr A L Tainton, vice-chairman of the South African Insurance Association, said crime, or at least that which affected the insurance industry, had slowed down in South Africa in the last six months of last year.

However, the crime level remained inordinately high by the standards of the international industry against which the South African industry had to measure itself.

Mr Tainton said crime remained a major problem for the economic viability of the industry in South Africa.

While vehicle hijackings hit the short-term insurance industry particularly badly, an added dimension of confusion came into the picture by evidence that a substantial and increasing number of hijacking claims were fraudulent, Mr Tainton said.

Thus, as if street crime were not bad enough, it was being compounded by paper crime.

He said certain types of insurance in South Africa had been growing less and less worthwhile. This affected not only the insurer but the community served by the insurer.

As crime made insurance less financially worthwhile for the insurer, so it became necessary for the insurer to increase his rates, and this then impacted on his customer, the insured, Mr Tainton said.

Credit plan to speed up housing delivery

BD 26/4/96 (58)(423)

Lukanyo Mnyanda

THE department of public works has cut a deal with building materials supplier Cashbuild to provide emerging contractors involved in RDP projects with credit in an attempt to speed up low-cost housing delivery.

Cashbuild MD Gerald Haumant said yesterday the company would provide contractors involved in government work with materials on 30 day terms while the department would guarantee payment on receiving invoices for goods supplied.

"Materials will be supplied on presentation of a letter from Public Works authorising the supply of materials for specific projects and contractors."

Cashbuild, which posted a 95% slump in attributable income to R552 000 in the year to February after lacklustre activity in the low cost housing market last year, said the deal would ensure RDP projects went ahead quickly.

Small and emerging contractors' inability to access credit had been cited as one of the major causes of slow delivery, leaving them unable to carry the financial requirements of projects up to completion before credit was available.

"Now he (the contractor) only has to worry about financing labour and this will help stop the bottlenecks in RDP projects," Haumant said.

Building Industries Federation of SA executive director Ian Robinson welcomed the move as positive news.

Robinson said access to credit had been the biggest problem facing emerging contractors, adding that the department's move would also assist them improve their cash flow management skills.

With RDP delivery expected to surge this year, the industry was heading for resource shortages and it was crucial for emerging contractors to be operating as quickly as possible.

"They have set a new example that will hopefully lead to an acceleration in delivery," Robinson said.

Bankers want to get into no-go areas

(58)

Robyn Chalmers

BD 26/4/96

THE Mortgage Indemnity Fund and mortgage lenders are to ask provincial MECs and civic organisations to negotiate entrance into about 17 regions around SA which have been declared no-go areas.

Fund CEO Nkululeko Sowazi said yesterday that the extent of the bond and services boycott could not be determined until banking and Servcon officials could get into the areas, which include Tembisa, Khayalitsha, Crossroads and Palm Springs.

Sowazi said it had been agreed at a meeting this week with banking officials that the support of local civic organisations, councillors and provincial ministers would have to be elicited to move into these areas.

Mortgage lenders, together with the SA Housing Trust, have an estimated 50 000 nonperforming loans and repossessed properties on their books which they are attempting to rehabilitate.

A cabinet-endorsed decision was taken earlier this year to issue 5 700 letters of demand to defaulting home owners who refused all options to rehabilitate their loans. No clear picture has yet emerged on the response of home owners to the letters of demand, although there were early indications that it had been positive.

Banking sources said significant — albeit slow — progress had been made on rehabilitating a portion of the 50 000 loans, largely via Servcon which was set up last year by banks and government to deal with defaulting home owners.

One source said it was difficult to get a clear idea of the extent of the problem without having access to the 17 no-go areas, and this had to be dealt with swiftly.

Few of the inaccessible areas have been granted cover by the mortgage indemnity fund, which banks seem to consider essential before they extend credit into areas they believe are high risk.

Sowazi said that areas such as Orlando West and Dube had taken action when cover was deferred last July as there was a high rate of defaults on mortgages and the normal process of law was under threat.

"The communities and local authorities ... took action to reduce the default rate and improve attitudes to officials attempting to carry out eviction orders".

Investors still to be refunded

(58) Sowetan 26/4/96

By Lulama Luti

THOUSANDS of investors in Mogwase, near Rustenburg, who were supposed to have been refunded by directors of Combination Masakhane Society on Wednesday are still waiting to be repaid their money – but the directors of the scheme are nowhere to be found.

Angry investors, some of whom had queued outside the get-rich-quick scheme's offices at the Mogwase shopping centre as early as 4am on Wednesday, went home empty-handed when it became apparent that the directors were not coming.

The scheme's offices were said to have been empty and the directors seem to have disappeared since early March when they reported that the scheme had collapsed.

Combination Masakhane is one of several get-rich-quick schemes in the North West province that have collapsed, resulting in the loss of millions of rands by investors.

An investor, Mrs Joyce Matjila, who together with her husband invested more than R11 000 said some investors, in a fit of anger, grabbed one of the scheme's spokesmen known only as Jerry and threatened to kill him.

Matjila said the investors accused Jerry of being a sell-out. He was accused of having gone behind other investors' backs and spoke to a lawyer who demanded exorbitant fees before he could take up the investors' case.

Early in March, Masakhane directors Mr Vincent Mbusi, Mr Andile Madyaka and another known only as Lucas claimed that they had been held hostage by investors at one of their meetings, and subsequently promised that they would pay back all those who sought refunds.

The agreement was reached following the meeting in which Mbusi told [illegible] that they had lost R1 million which disappeared from a dustbin at the scheme's offices where it was kept.

"I think Combination Masakhane Society people should be solved in a way that they [illegible] again in life. They [illegible] and we are getting [illegible]," said Matjila.

SMALL BANKS

SHIELDED BY BIG BROTHERS FROM FOREIGN COMPETITORS

FM 26/4/96 (58)

Fast growth in EPS anticipated

There's a better chance, says a top banking analyst, of finding a bargain at Sandton City than in the banking sector. On fundamentals, it's hard to disagree. Share prices are expensive. Ratings look unjustifiably high.

But that can also be said of the market as a whole. A litany of woes — the rand's recent sharp depreciation, uncertainty about commodity cycles and the effects of falling tariff protection and the disappearance of export incentives — have combined to change the market's temperament from placidity to nervousness.

In this uncertain investment climate, the defensive quality of bank shares starts to look attractive. The large banks offer this comfort.

But while the big four currently offer a safe haven for investors and the prospect of steady growth (EPS increases in the low 20% are expected), most of the smaller banks will put in a better performance.

Stephen Koseff

Generally, EPS growth will probably be above 30%. Investors have to pay a premium. But in a changing operating environment, where the big banks will probably field most damage from foreign banking competition for corporate business and where domestic interest margins show little sign of widening, it may be justified. Despite the demanding ratings, the benefits of niche markets, flexibility and strong asset growth add shine to a subsector in a market where value is currently hard to find.

Part of the reason for the perception of an overpriced banking sector relative to the industrial market is the former's strong performance during 1995

Overall, the sector showed the third largest gain on the JSE, appreciation of 40,6% against the strongest performing index — Financial (32,8%) — and comfortably outpacing the Insurance index (27,9%). This performance was driven, though, by the large banks. Absa appreciated most strongly (77%), while SBIC (47%) and Nedcor (44%) beat the Banking index. Only one of the smaller banks, NBS, finished above the index with a share price gain of 71%.

The effect of this remarkable growth was to eliminate the trend of recent years, where banks have traded at a discount to the rest of the market Perhaps not surprisingly, some analysts took this as a clear sign that the sector was overpriced.

History suggests this is not necessarily so. In fact, it has only been since 1985, following a sharp depreciation of the sector, that banks have traded at a discount to the market. In the 10 years prior to 1985 the banking sector was, on average, rated at a premium.

With as many as 50 foreign banks now operating in SA, increasing globalisation of the local economy and the inevitable removal of exchange controls — which effectively corralled the economy and protected domestic banks from international pressures — derating of the banking sector seems likely

But it's also possible that the large banks will bear the brunt of this At home, interest margins are being squeezed. Compared with foreign banks, SA's large banks are running cost-to-income ratios above international standards. Steps are being taken to get expenses down but, until they subside, profitability will be affected and, ultimately, share ratings.

The large banks face other problems the smaller players can probably avoid. Foreign banks are mainly targeting corporate business in SA, which could eat away at the all-important "other income" the big four need to grow to offset tight interest margins.

Broker Ivor Jones, Roy banking analyst Steven Nathan thinks most smaller banks will not be as affected by this foreign competition. "They will probably not be hurt as much. There seems to be space for the niche banks "

Nathan says he sees a lot more upside in the smaller banks. For example, because they focus on niche targets the profitability of some of their products is easy to quantify. Generally, the quality of earnings is good.

But he also warns there's more risk. "The smaller banks have potential, but they are now in the higher risk side of their rerating."

The image of the smaller banks has improved, too, since the turn of the decade, partly through better disclosure (some forced on the banks through legislation) and improved management.

It's probably no coincidence that two of the highest rated banks in the sector — Investec and NBS — are known for their sharp, generally young management teams.

There have been more fundamental improvements to the smaller banks in recent years. One of the restraining factors — even dangers — for smaller banks has been the push to achieve the critical mass. Over recent years, a spate of mergers, share-swap alliances and creative capital-raising exercises have vastly strengthened capital bases.

For example, until 1994 Eastern Cape-based Fidelity Bank was a strong but lightweight performer, confined to a relatively small market. The merger with the former EP Building Society grew assets by 170% to R1,9bn (now R2,1bn), followed by a R51m share placement which took capital above R200m and gave the bank a new prominence.

More recently, the link-up between the Board of Executors (BOE), NatWest Markets (which bought half of BOE Merchant Bank) and stockbroker Ed Hern (bought outright by the merchant bank) has produced a formidable financial services grouping, adding impetus to the BOE share price.

Benefits here, though, have more to do with strategy than size. That's also apparent in the earlier share-swap between Investec and assurance group Fedsure, as well as NBS, RMB Holdings and Norwich Life.

Niche markets and selected products offer smaller banks an advantage over bigger competitors.

Retail bank Saambou, after a near crunch in 1991, has staged a strong recovery under MD Johan Myburgh by largely getting out of underperforming property interests and focusing on middle-class salary earners and pensioners.

One clear benefit it gets from this niche market is the flexibility to structure its balance sheet against unfavourable interest margins.

With more than half of the bank's total funding coming from more stable individual deposits, it has some protection against the interest-margin squeeze.

Similarly, Fidelity — with no fixed-rate assets — can structure its book to get stable margin income if interests rates go up or down.

One of the advantages for a medium-sized bank like NBS, says new CE Tony Norton, is that it can be strongly focused and not try to do all things for all people. Off its smaller base, chequeing and credit cards are not profitable, so it does not offer these services. Nor does it accept fixed deposits below R5 000

That ensures the banking side of the business contributes high quality earnings, boosted by NBS's own short-term and life insurance interests and the cross-holding with RMBH and Norwich.

It's probably not surprising, then, that the smaller banks have stronger earnings forecasts.

BOE expects growth in line with its 30% annual compound advance in EPS this year, lowering the forward p:e to a less demanding multiple of around 17.

Boland Bank is looking for an increase of "at least" 25%, says MD Michiel le Roux. Fidelity is forecast to grow EPS by 50%, Investec by at least 32%, NBS at least 30% and Saambou more than 30%.

Of all the above banks, Investec will probably be most affected by foreign competition, as it derives about 30% of operating profit from corporate business. But a high premium must be placed on management and the strong rand hedge element in earnings, about 25% of attributable income.

MD Stephen Koseff would like to grow nonrand income back to the 40% level achieved by Investec before it absorbed Sechold.

Strong earnings forecasts for most of the banks will lower forward p:es to more attractive levels.

The task for investors is to identify value now.

Return on equity (ROE) is a standard measure of profitability for smaller banks, but a high return is often reflected in the price of the share. One way to gauge potential value, says Nathan, is finding banks with high ROE and a high NAV-to-price percentage.

On paper, newly listed Citizen Bank offers the most potential (see table). It's the only small bank with its share trading at a discount to NAV, possibly a reaction by the market to the risk of deriving all its income from mortgage lending.

Chairman Vusi Khanyile (also head of unlisted majority shareholder Thebe Investment Corp) says the bank is being strategically repositioned.

Until there's evidence of diversification, however, the low rating will probably prevail.

Small banks shares have generally consolidated so far this year — not a bad development for investors interested in the sector. An uptick in share prices over the second half of the year seems likely as strong results start to come through.

Given the present demanding ratings, investors will admittedly have to swallow hard before committing themselves Still, today's expensive purchase could be tomorrow's bargain — even at Sandton City. *Shaun Harris*

HOW THE BANKS MEASURE UP

Banks	Year end	ROE (%)	ROA (%)	Capital adequacy(%)	NAV/ Share price(%)
Absa+	Mar 95	13,3	0,7	8,5	94,9
BOE Private Bank & Trust	Sep 95	n/a	n/a	246,8	n/a
Boland+	Mar 95	15,1	1,0	8,4	90,6
Cape of Good Hope	Sep 95	22,8	1,6	8,8	n/a
Citizen Bank+	Mar 95	32,1	4,3	31,6	110,2
Fidelity+	Sep 95	24,0	1,5	12,5	35,4
First National+	Sep 95	20,8	1,0	7,7	53,7
French	Dec 94	9,8	0,4	not disclosed	n/a
Investec+*	Mar 95	10,7	1,3	21,2	40,9
Mercantile	Dec 95	9,1	0,8	11,4	n/a
MLS	Mar 95	23,6	1,5	8,9	n/a
NBS+	Mar 95	20,6	0,7	10,2	57,9
Nedcor+	Sep 95	22,6	1,2	8,3	50,1
NRB+	Mar 95	13,7	1,1	11,6	82,2
RMB+	Jun 95	24,6	1,5	n/a	n/a
Saambou+	Mar 95	14,8	0,6	8,3	58,6
Standard+	Dec 95	22,9	1,1	10,7	52,3
Syfrets	Sep 95	28,3	2,0	8,5	n/a
UAL	Sep 95	28,7	1,8	17,0	n/a
Unibank	Sep 94	18,1	1,6	12,7	n/a

+ Listed
* Including equity earnings of subsidiaries. Profit ratios therefore stated on group basis

SOURCE: IBCA SOUTH AFRICA
FM'S CALCULATIONS OF NAV/SHARE PRICES %

LIBERTY LIFE

BIG CHANGES ABROAD

(68) FM 26/4/96

LIBERTY LIFE
- **ACTIVITIES:** *Insurance, financial services and property interests in SA and abroad.*
- **CONTROL:** *Liberty Holdings 52,5% Ultimate control rests jointly with Liberty Investors and SBIC.*
- **CHAIRMAN:** *D Gordon. MD: A Romanis.*
- **CAPITAL STRUCTURE:** *244m ords Market capitalisation: R31,2bn.*
- **SHARE MARKET:** *Price: R128. Yields· 2,0% on dividend; 3,9% on earnings; p:e ratio, 25,7; cover, 1,9 12-month high, R136, low, R91,50. Trading volume last quarter, 3,5m shares.*

Year to December 31	'92	'93	'94	'95
Total assets (Rbn)	35,7	47,8	57,6	69,8
Net prem income (Rbn)	2,98	4,03	5,23	6,49
Investment income (Rbn)	2,42	2,66	3,64	3,94
Attributable (Rm)	539	639	762	1 204
Investments (Rbn)	33,6	45,4	53,2	63,5
Life funds (Rbn)	23,0	30,8	36,0	41,6
Earnings (c)	236	278	323	498
Dividends (c)	†132	164	204	256

† Excludes special anniversary dividend of 100c per share

Share price appreciation gathered momentum last year, to 41% (after touching an eight-year high of R135 soon after year-end) compared with 18% in 1994.

As usual, performance was underpinned by life assurance, which had a solid, if not spectacular, year. Strong influence also came from Standard Bank Investment Corp (SBIC), in which 80% subsidiary Liblife Strategic Investments holds a direct 24%. SBIC's share gained 47% in 1995 and has since put on 4,3%.

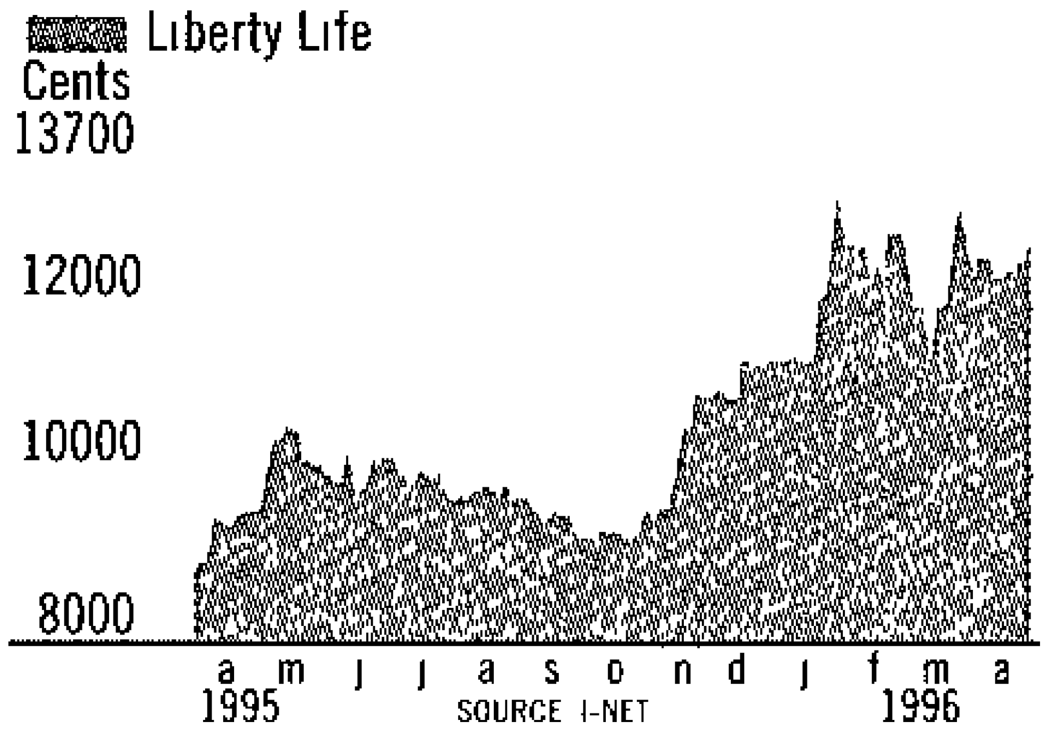

Donny Gordon

The major changes, though, were overseas. Joint control of UK assurer Sun Life, which boosted Liberty's balance sheet dramatically when first consolidated in financial 1993, was sold to French partner UAP, with a handy £110m profit (before tax) for international subsidiary TransAtlantic Holdings.

One effect, amid a number of changes to accounting policy which thwart comparison, was to reduce total assets from R101bn at end-1994 to R70bn, despite 21,2% asset growth over the year.

All this points to a change of focus and renewed thrust into international financial services markets by Liberty, using TransAtlantic (to be renamed Liberty International Holdings) as the vehicle.

Chairman Donald Gordon says TransAtlantic continues to review all options for re-entry into the UK life and pensions industry (it still holds investment properties worth about £1,84bn) but is also looking at the US.



"The euphoria created by buoyant stock markets militates against an imminent acquisition but we maintain contact with all the possibilities we have identified and are exercising great patience and diplomacy in anticipation of the time when attitudes to pricing will be more realistic."

TransAtlantic is well placed to make a significant acquisition. Cash holdings exceed £500m and Gordon says further substantial resources are available This adds the potential of sourcing a new earnings component offshore

Sun Life was a significant part of the Liberty equation but no great performer Gordon says that with the difficult environment and prospects in UK life assurance "it had become clear to TransAtlantic and UAP that Sun Life needed the structure and clear focus which only single ownership could provide "

Perhaps more important, he says that with TransAtlantic's growth and independent financial strength, the time was right for it to control and direct its own operations.

The sale of Sun Life and international refocus also underscore a point made by the *FM* a year ago when the 1994 report was reviewed *(Companies* April 21 1995). Proportionately consolidating the former 50% interest in the UK assurer could damage Liberty's SA results.

For instance, in 1994 Liberty Life's 30% gain in premium income was muted to an overall 7,7% as the contribution from Sun Life, worth just over half of net premium income, fell by 5,7%. So Liberty has taken the short-term sacrifice of cutting its asset base to seek a new source of earnings — of better quality

For SA investors, direct access to offshore developments is through First International Trust, 49% held by Liberty Life, which holds 42% of TransAtlantic (Liberty Life directly owns a further 30,5%)

An investment at operating level, though, looks more attractive — and is more stable as it includes the consistent performance of Liberty Life. But the best way in could be immediate holding company Liberty Holdings, which in addition to controlling Liberty Life also owns 42,5% of Guardian National, 50% of Guardbank Management and 100% of Liberty Life Properties (Pty) and Liberty Asset Management. *Shaun Harris*

LIBERTY INVESTORS

TOP OF THE HEAP

Liberty Investors (Libvest) is at the top of the control structure of the Liberty Life Group, representing the Gordon family's interests It and Standard Bank Investment Corp (SBIC) each has 50% of unlisted Liblife Controlling Corp, which in turn holds 55,2% of Liberty Holdings, it-

LIBERTY INVESTORS

- **ACTIVITIES:** *Investment holding company with 50% of Liblife Controlling Corp, the ultimate holding company of the Liberty Life Group.*
- **CONTROL:** *Gordon family 61%.*
- **CHAIRMAN:** *D Gordon.*
- **CAPITAL STRUCTURE:** *222,5m ords Market capitalisation. R4,89bn*
- **SHARE MARKET:** *Price· R22. Yields. 1,9% on dividend, 4,0% on earnings; p:e ratio, 24,9: cover, 2,1 . 12-month high, R23,50; low, R16. Trading volume last quarter, 689 000 shares.*

Year to February 29	'93	'94	'95	'96
Investments (Rbn)	1,94	2,44	2,81	4,22
Pre-tax profit (Rm)	88,6	103,1	121,0	189,4
Taxed profit (Rm)	87,8	102,9	120,6	189,3
Earnings (c)	43	50	58	88
Dividends (c)	†20,9	26,0	32,4	41,0
Tangible NAV (c)	947	1 181	1 333	1 872

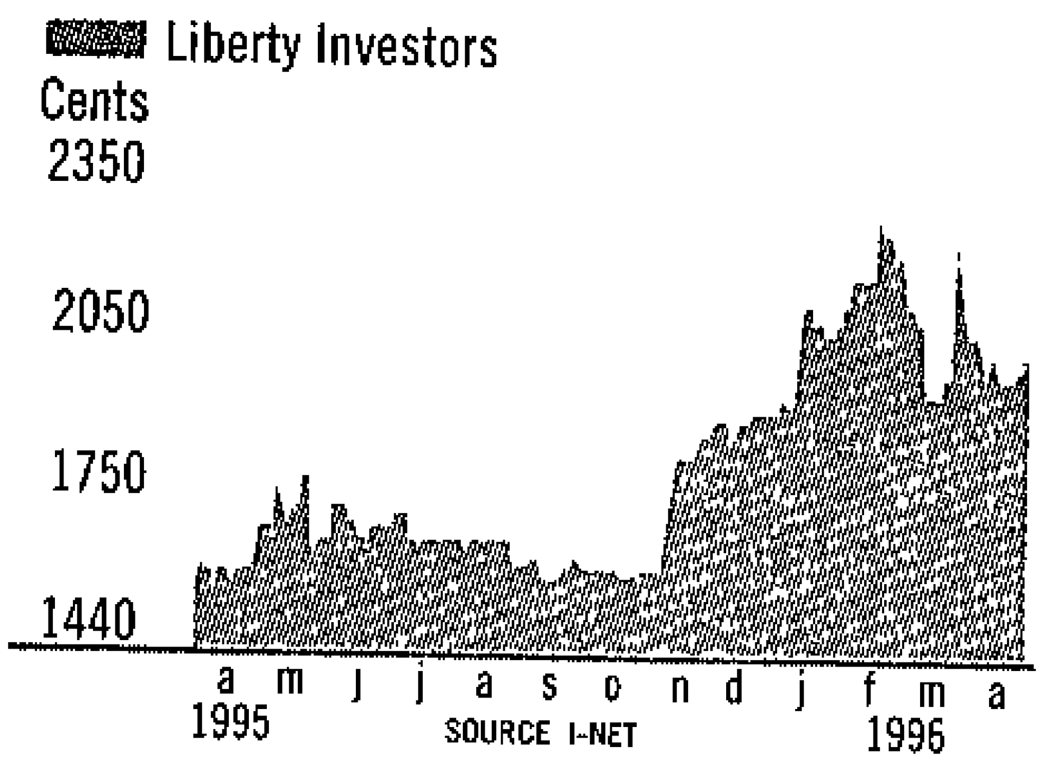
† Excludes special dividend of 17,5c per share and non-recurring dividend of 30c per share.

self holding 52,5% of Liberty Life, the assurance heart of the group.

At year-end, the value of that 50% was R4,22bn, based on the underlying market value of shares in Liberty Holdings.

Results are thus a reflection of the performance of firstly, Liberty Life, and of Liberty Holdings (see separate report).

Changes to accounting policies helped release a 58% increase in attributable earnings at Liberty Life, a gain which chairman Donald Gordon says sets a new base for future earnings and is not expected to recur.



This fed up the chain to a 52% increase in EPS for Libvest and a 26,5% larger dividend payout, the latter marginally more generous than Liberty Holdings (25%) and Liberty Life (25,5%).

Is there any incentive for investors to seek entry at this level? One reason is to get as close as possible to the source of control. If nothing else, it's comforting to have your money alongside Gordon's family and trust interests, which account for 61% of Libvest

The second is far more practical In terms of ratings, there is little difference between Liberty Life, Liberty Holdings and Libvest. But at R22, after rising 31% over the year, a parcel of shares is still affordable for the man in the street, compared with Liberty Life's R128 and Liberty Holdings' R330. *Shaun Harris*

CHARTER

STILL NOT CYCLE-PROOF

Little has been written about this London-based company in the past year. That's surprising because it now provides SA investors with the largest non-mining rand hedge which is reasonably tradeable.

- **ACTIVITIES:** *Makes welding products, rail tracks and supplies building materials.*
- **CONTROL:** *Independent.*
- **CHAIRMAN:** ***Sir Michael Edwardes. MD· J Herbert.*
- **CAPITAL STRUCTURE:** *86,9m ords Market capitalisation· R5,2bn.*
- **SHARE MARKET:** *Price 6 000c. Yields. 2,7% on dividend, 4,8% on earnings, p.e ratio, 20,7; cover, 1,8. 12-month high, 6 000c; low, 4 450c. Trading volume last quarter, 1,5m shares.*

Year to December 31§	'92	'93	'94	'95
ST debt (£m)	24,9	83,8	230,2	116,2
LT debt (£m)	65,1	30,7	103,4	82,2
Debt.equity ratio	n/a	n/a	0,9	0,16
Shareholders' interest	70,2	69,3	26,0	36,1
Int & leasing cover	4,4	n/a	33,2	16,7
Return on cap (%)	9,6	34,4	6,9	14,8
Turnover (£m)	1 055	1 205	†669	1 128
Pre-int profit (£m)	73,8	300,8	55,7	103,7
Pre-int margin (%)	7,0	24,9	8,3	9,2
Earnings (p)	42,5	242,9	39,4	67,5
Dividends (p)	21,5	22,0	18,0	27,5
Tangible NAV (p)	519	558	191	230

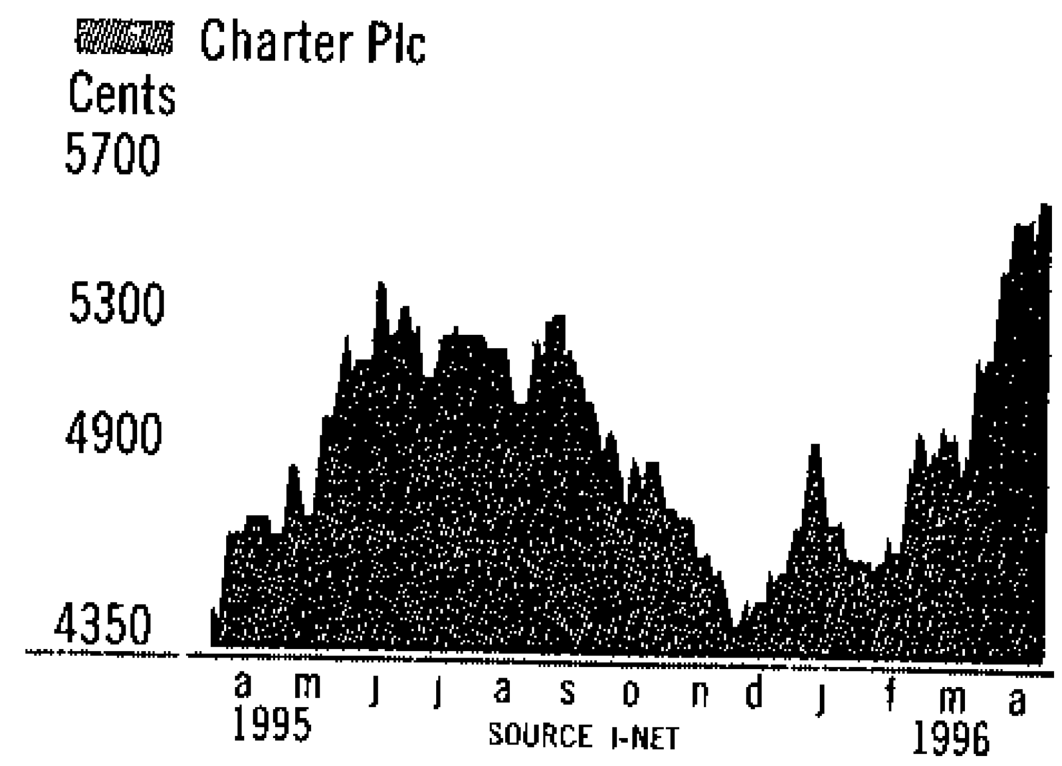
** Until end April 1996. § March year ends for '92 and '93
† Nine months only.

In an investment climate in which fund managers increasingly seek adequate exit strategies, this is a big consideration. In fact, the importance of the SA register in Charter's life should not be underestimated; it must help sustain the counter when things get tough.

Charter, of course, has changed shape and form considerably in recent years. It is barely recognisable even from the engineering business it became two years ago and carries no resemblance to its origins as the old BSA Co.

CE Jeffrey Herbert, who becomes chairman at month-end, has turned Charter into a company whose interests are locked into engineering — and low-tech engineering at that. This isn't meant to sound condescending When everyone else has deserted for the (dubious) attractions of higher science, it leaves a clearly discernible gap Where there's muck, there's money is a truism. Herbert's vision has been to latch on to it.

But the catch is that he has merged a lot of little eggs. He now has a big egg in a single basket The egg is Esab, an important welding products manufacturer, whose control Herbert bought from Sweden's famous Wallenberg family. The basket, of course, is the world economy.



Esab was a splendid contributor last year— and it is precisely this which encapsulates Charter's problem Operating profit was £104m, a majestic 86% better than 1994's £56m. Unfortunately, welding products (read Esab) contributed £75m or 72%. Charter's strength — and weakness — is obvious, therefore. Almost everything else pales into watery insignificance: building materials 12%, rail track equipment 14%.

Thankfully, the balance sheet has improved. Short- and long-term borrowings have declined and the cash hoard has been increased a little. In 1994, for example, gearing stood in at 90%. This has been restored to 17%, with which everyone can feel more comfortable.

However, there will be no rest for Herbert until he can secure another asset countercyclical to Esab — a tall order. He picked up a good asset from owners who no longer believed it fitted in their portfolio Lightning of that kind is not likely to strike twice.

This leaves a conundrum. If Herbert finds assets to counter Esab's dominance, he is likely to have to borrow again, extending the balance sheet soon after restoring the ratios No-one can say it hasn't been an exciting and profitable

Afbank – back and ready to expand

Sowetan 29/4/96 (58)

A launch pad for more forays into previously white-dominated areas

AFTER GOING through a difficult period, including being placed under curatorship, the African Bank is back on its own feet again, ready to play an important role in the process of black economic empowerment.

Currently the retail banking arm of New Africa Investments Limited, which is the major shareholder, Afbank, together with the African Merchant Bank, represents the launch pad of the group's foray into a previously white-dominated banking and financial industry.

Afbank managing director Colin Franks told Mike Siluma that the bank, having come out of curatorship, is now running normally, offering a basket of products with the emphasis on savings and loans, with the aim being to capture five percent of the housing market over the next five years.

The bank currently has 32 branches spread across Mpumalanga, Northern Province, Eastern Cape, Gauteng and the Free State, with plans to expand further. "Our expansion will be launched in order to provide our basic banking services in the largely rural communities, including rural KwaZulu-Natal and the Western Cape," says Franks.

The bank will also be looking at consolidating its role in selected urban areas, such as Diepkloof in Soweto and Mamelodi and GaRankuwa in Pretoria, where branches already exist.

Franks explains the challenges facing Afbank this way: "We need to encourage the black middle-income individual that we are the custodians of his or her savings. As savings are a cornerstone of the economy, this will also help in the process of economic empowerment.

Designing products

"We feel strongly that the collective savings schemes, such as stokvels, must be encouraged to use our services and we are in the process of designing products that will make us attractive to this market."

He believes that one of Afbank's strengths is the fact that it is probably the only bank that has its finger on the pulse of the black banking clientele. "We are able to communicate with clients in all 11 official languages, which makes us unique."

Strategically, the focus on the lending side of Afbank operations will be on the housing market. "We will assess the individual on his or her credit-worthiness and will attempt to avoid using 'red-lining' criteria," says Franks.

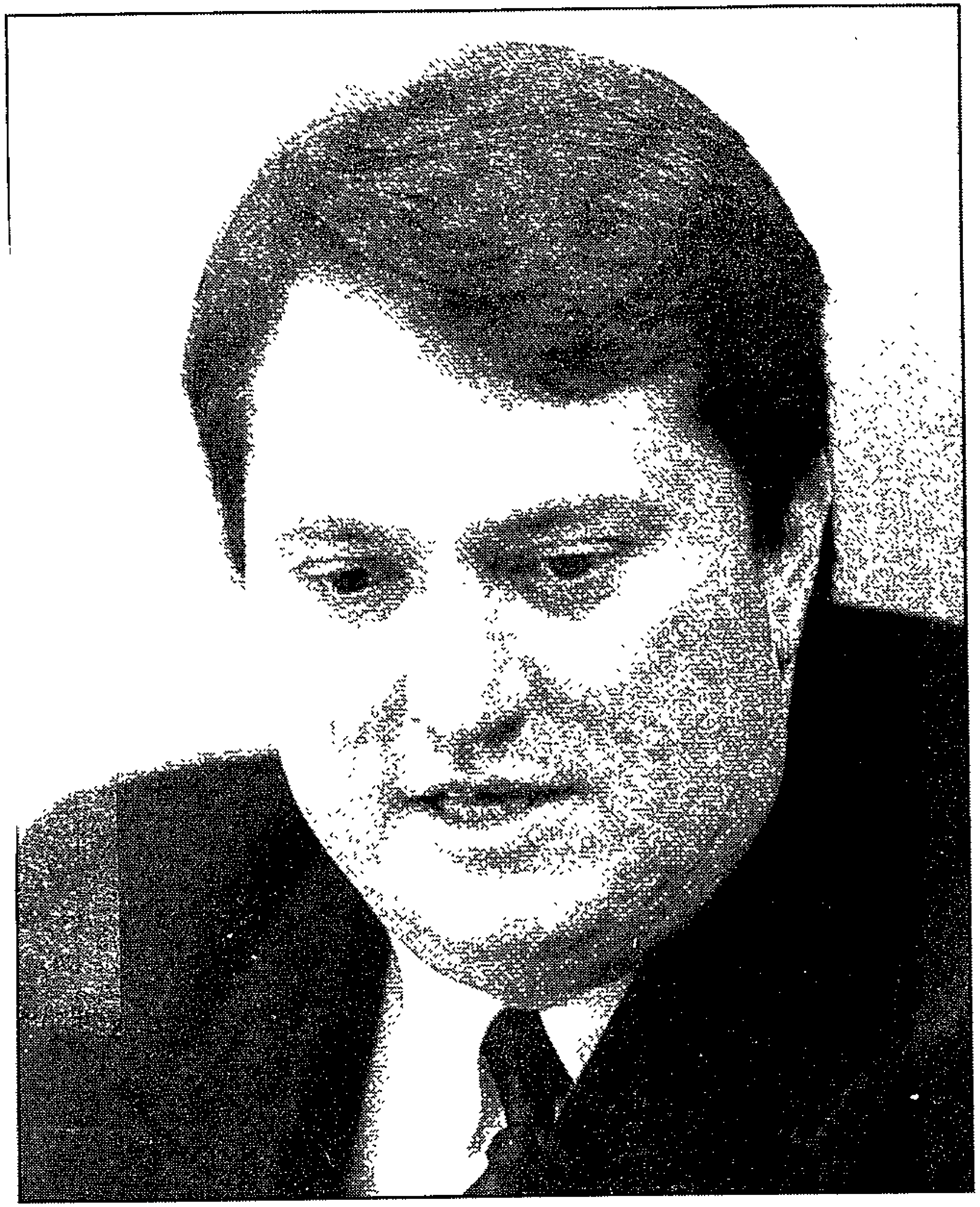
Currently, the core of performing loans – those that are up to date in repayments – are centred on the housing market. The bank, he adds, intends to grow from this base.

Afbank, which was founded by Dr Sam Motsuenyane nearly 21 years ago, at present employs about 450 people. Dr Motsuenyane continues to serve on the Afbank board, including Nail chairman Dr Nthato Motlana and deputy chairman Mr Dikgang Moseneke. With Cyril Ramaphosa joining the group, the management of Afbank has expressed a desire that he should serve on their board – should he find time to do so.

Franks says the bank is immensely proud of the loyalty and support it received from its employees and clients during the difficult times of curatorship and when its future was not clear.

"The saving public who remained loyal to us has been rewarded in that its bank is now properly capitalised and secure. The bank has capital of about R120 million, which is seven times more than before and has now been given an informal rating by rating agency IBCA, meaning it has been classified as 'adequate for normal banking'," explains Franks.

A Sowetan Business Souvenir Edition



Mr Colin Franks, managing director of Afbank says emphasis is on savings and loans.

Dr Sam Motsuenyane who founded the bank nearly 21 years ago

'4/96 01-14 Page 1 (Black plate)

Merger banks set to slug it out

(58)

ARG 27/4/96

■ There was "a big fight" over the planned merger of Thebe's Citizen Bank and the Bank of Transkei at a meeting this week.

JEAN LE MAY
Staff Reporter

VUSI Khanyile, one-time political activist and now head of the giant Thebe Investment Corporation, could be regretting that he ever thought of getting involved with the Bank of Transkei.

SATURDAY Argus reported last week that the bank's accounts with the Eastern Cape and former Transkei governments were being investigated by a judicial commission appointed by Eastern Cape Premier Raymond Mhlaba and headed by Mr Justice Willem Heath.

The bank has been ordered to appear before the commission in Umtata on May 23.

Although plans were announced almost a year ago, Thebe Financial Holdings has not yet taken control of the controversial bank, executive director Litha Nyhonya has disclosed.

The takeover was to have been channelled through the Citizen Bank, an Eastern Cape mortgage bank.

Sources said there was "a big fight" at a Citizen Bank meeting last week, but nothing was resolved and another meeting would take place next week.

The situation was "too delicate for comment", they said.

The Bank of Transkei was formed from the Umtata and Butterworth branches of Volkskas Bank, which is now part of Amalgamated Banks of South Africa (Absa).

Volkskas/Absa still has a 50 percent shareholding in the Bank of Transkei.

It has been alleged that the Bank of Transkei charged more than double the prime rate at the time, which was four percent above the maximum allowed by the Usury Act.

Mr Nyhonya said that a due diligence review, which is normally required in takeovers, was called for after the group announced the merger of the Bank of Transkei with Citizen Bank, in which it acquired a substantial holding in 1994.

"The interest situation subsequently became part of the review," he said.

"There will be further developments as a result of the Heath Commission and our own investigations," he added.

Thebe Financial Holdings reported last year that Citizen Bank Holdings (now renamed Msele Bank Holdings – MBH) gave it immediate access to a banking licence and it was decided to use MBH as the holding vehicle for all banking operations.

Its operations were to have included Citizen Bank and the Bank of Transkei.

Bank of Transkei's principal customers were the former Transkei government, the Eastern Cape government which has inherited the troubled Transkei, parastatal bodies and municipalities.

The Eastern Cape government has since closed its accounts with the Bank of Transkei, said Eastern Cape Minister of Finance Shepherd Mayatula.

MAIL & GUARDIAN
March 29 to April 3 1996

Community Bank faces 'credibility' crisis

M+G(Bm) 29/3-3/4/96 (58)

It's business as usual at the Community Bank, despite reports of a solvency crisis. But potential investors may take more convincing, reports **Madeleine Wackernagel**

REASSURANCES have been flowing thick and fast that all is well at the Community Bank (CB). Drawing on the lessons of the African Bank debacle, the government took rapid action.

The Deputy Minister of Finance, Alec Erwin, issued a statement two weeks ago, underlining the ministry's support for the bank and denying reports of a solvency problem.

But that still leaves the bank with a liquidity problem that is proving more difficult to staunch than the rumours.

Part of the confusion is that the CB is the first of its kind. With no historical precedent or comparable operation it is difficult to judge whether the current cash crisis is a hiccup or presages the bank's demise.

The CB has not had an easy ride; even the best laid plans can go awry. From planning to implementation took two years; the first branch opened in August 1994, with 17 in place today. But lending didn't begin as hoped because the government's housing programme was delayed; deposits didn't roll in as anticipated, and initial start-up costs mushroomed.

Provision had been made for losses in the first two years of operation — but in reality they have almost doubled. For the 15 months to end-March 1995, the bank declared a loss of R21-million, against a predicted R12-million; estimates for this year are up from R15-million to R25-million. Out of the total R46-million loss, R18-million is down to interest costs and R9-million went on setting up the branches.

Deposits of R51-million were projected for 1995/96 — R20-million was collected. Deals with unions and stokvels suddenly dissipated when the African Bank saga unfolded.

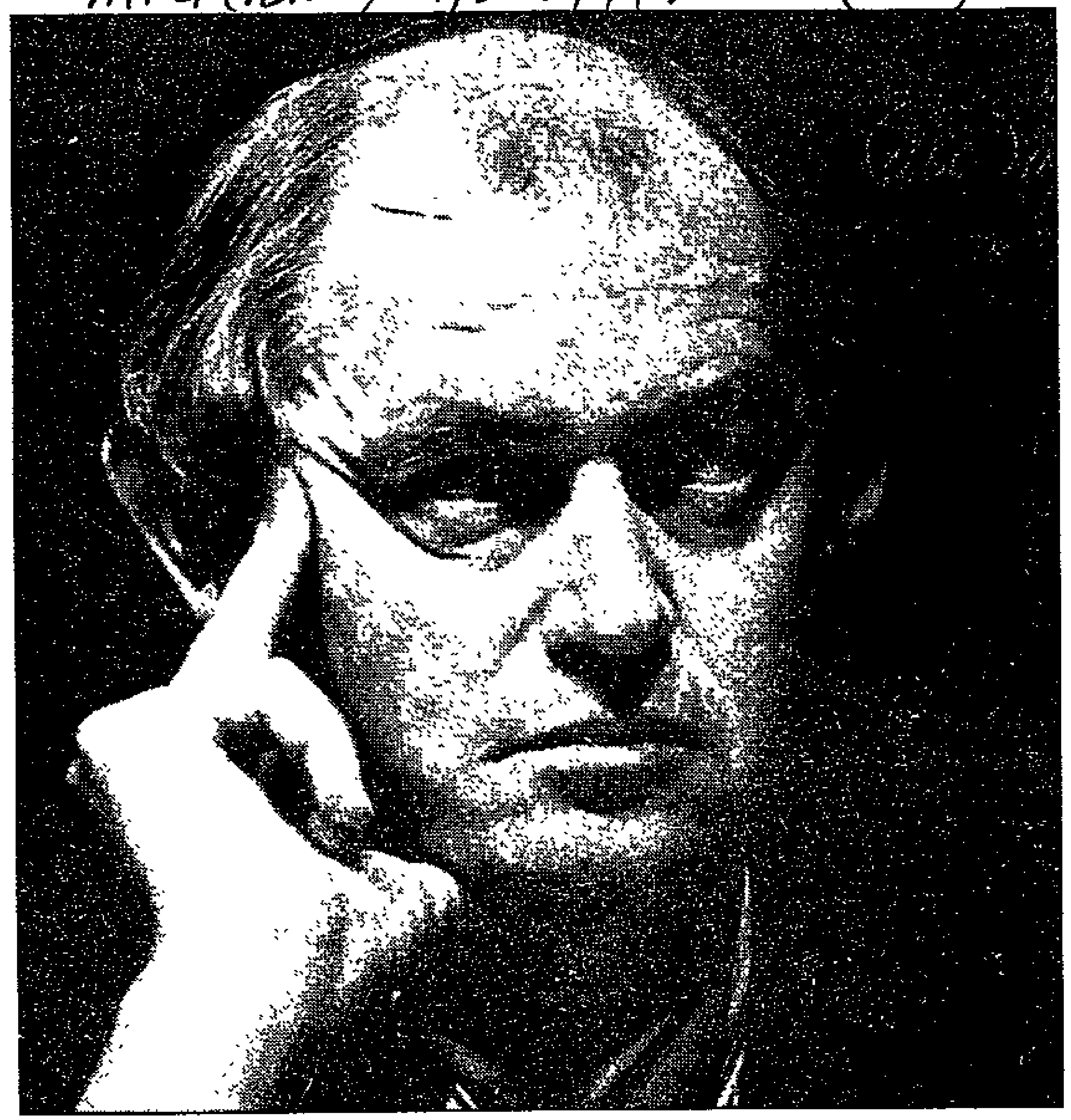
Cas Coovadia, executive trustee, says the South African Clothing and Textile Workers' Union, for one, is still interested, but needs to win approval from the Industrial Council.

Coovadia insists the problems are better described as a challenge. Indeed, Christo Wiese, the Reserve Bank's registrar of banks, says the CB doesn't have a liquidity problem, only a credibility problem.

"The concept is a good one," says Wiese, "but the bank lacks support. It needs strong backing, then it stands a good chance of success."

In the past two weeks, Coovadia has been looking at options. He faces a Catch 22 situation: the Development Bank of South Africa (DBSA) will not lend any more money (it pledged R110-million, of which R60-million has been drawn down) until other investors step in, while the Industrial Development Corporation (IDC), with R40-million, is now concentrating on industry only.

But potential new investors require assurances of DBSA support and the DBSA's brief, too, has changed. It recommends that the CB find other backers.



Alec Erwin: The Finance Ministry has come out in support of the bank
PHOTOGRAPH: RUTH MOTAU

Government should step in, says Coovadia, with an unequivocal statement of support. Only then would the private sector get the message. The African Bank debacle has made many investors wary.

Pressure is growing on the bank to seek a tie-up, with the South African Housing Trust most frequently mentioned. But Coovadia insists their *modus operandi* are very different and, besides, the bank has many options; a merger is not the only solution.

One argument against a link-up with the Housing Trust is the need to have different institutions performing different functions. The Housing Trust is very specialised, while the bank provides a wide range of financial services to the low-income market. But other sources say a merger could only benefit both parties.

Another route is for the CB to change its status from a mutual bank to one that is equity-based. It had been mooted once before, says Coovadia, but because the DBSA and IDC were the biggest investors, it would in effect then have become government-owned. The Reserve Bank panned the idea.

"Now, however, it would be possible to get the unions and other interested parties on board, so the potential is greater," adds Coovadia.

But it is early days yet. Changes are in the offing, not least with the establishment of the National Housing Finance Corporation. (See PAGE B3)

Coovadia is optimistic; accusations that the bank's problems go deeper than a temporary cash crisis are unfounded, he says. And while he considers the options, the bank will get on with the job of lending money. "It's business as usual," he says.

FINANCE — GENERAL

1996

MAY — JULY

Community Bank boss denies curatorship

Star 1/5/96 (58)

By WILLIAM-MERVIN GUMEDE

Cas Cavoodia, chief executive of the troubled Community Bank, last night dismissed, as untrue, reports that the bank had been put under curatorship by the Reserve Bank.

Bank sources said yesterday that Registrar of Banks Christo Wiese, at a meeting between the central bank and Community Bank management, had appointed Price Waterhouse as the bank's curator.

"It is not true that the Community Bank is under curatorship.

"The bank's main shareholders had a meeting, but curatorship has not been considered.

"I have been in constant contact with the finance minister, and will meet him on Monday to discuss a way forward," Cavoodia told the *Saturday Star*.

SA banks 'have good disclosure records'

BD 6/5/96 (58)

Adrienne Giliomee

SA's four major banking groups have good public disclosure but still lag behind international standards, a Republic Ratings survey showed.

Republic Ratings MD Dave King said the survey was undertaken to compare and rate the quality of each bank's public disclosure.

The banks were rated in eight categories — accounting policies, capital adequacy ratios, risk management policies and procedures, funding profiles and sources, off balance sheet and derivative transactions, bad and doubtful debts provision, sources of earnings as well as asset profiles and diversification.

Absa and First National Bank scored the highest of all the banks, with FNB commended for the high standard of its risk management commentary. However, the group was penalised for the shortcomings in its published financial statistics of its operating bank.

Absa readily published separate financials on the main operating bank, while Standard Bank and Nedcor would distribute such information on request. Of the non-listed banks, only Unibank's disclosure was considered "above average". King said the standard of disclosure of SA banks had improved over the past five years.

Finance old guard makes way for new

BD 8/5/96 (58)

Greta Steyn

FINANCE director-general Estian Calitz has quit in a move which will complete the changing of the guard at the finance department.

Expectations are that he will be succeeded by his young deputy, Maria Ramos, a former banker who successfully handled SA's return to the sterling bond market last year.

A finance department spokesman said last night the position would be advertised this weekend. The skills required would be financial, economic and management expertise.

Ramos said she heard about Calitz's departure only yesterday and had not yet thought about applying for the position. However, speculation is rife that she is the frontrunner for the post. She is an old colleague of Finance Minister Trevor Manuel from her days in the ANC's economic policy unit, and he thinks highly of her.

Manuel said yesterday Calitz would retire on June 30. Calitz, 47, who had spent 19 years in public service, had asked Manuel's predecessor, Chris Liebenberg, to shorten his five-year contract. Calitz planned to pursue a career in teaching and advising on economic matters, Manuel said.

No reason was given for his departure, but a spokesman said he had decided to "pursue other interests" after discussing his career with Liebenberg.

Last night Calitz said there was nothing sinister about his departure.

"I weighed all the factors and decided my interests lay with teaching and advising on economics. I leave behind a good team."

However, Calitz's decision to quit follows the resignation of deputy director Murto Wickens, who led the Budget

Continued on Page 2

Calitz

(58) BD 8/5/96

Continued from Page 1

technical team Other more junior officials have also left the department.

The DP described Calitz's resignation as "very bad news .. coming at a time of great uncertainty and volatility in the financial markets. Calitz's resignation will aggravate an already unsatisfactory state of affairs." However, the markets shrugged off the news, preferring to focus instead on the clinching of a deal on the constitution.

Manuel said Calitz had been instrumental in laying the groundwork in a number of important areas, including setting up the SA revenue service, medium-term fiscal planning, the management of foreign development assistance and preparing the finance department's restructuring.

FNB's performance fails to meet expectations

58

BD 9/5/96

Adrienne Giliomee

FIRST National Bank (FNB) lifted earnings 17,5% to 103,5c a share for the six months to March after a sharp rise in costs, squeezed interest margins and a higher bad debts charge.

The interim dividend was increased 33,3% to 20c a share to restore the balance between the interim and final dividends.

MD Barry Swart said the results represented "pleasing" growth and that growth would continue, but the second-half performance was likely to be affected by higher interest rates.

The performance, below market expectations, contrasted sharply with Nedcor's results, which were also published yesterday.

Swart said he was concerned about the bad-debt situation — bad and doubtful debts rose 42,1% to R180m — which he did not see improving in the next six months. The incorporation of FirstPref Finance — the group bought McCarthy Retail's 25% stake last year — had contributed R35m of the total provision, along with increased bad debts from the group's consumer vehicle finance division, Wesbank, and FNB's exposure to private-label cards.

"The bad-debt situation shows the man in the street has been feeling the pinch. It does not look as if this trend will abate before the year end," he said.

Interest income rose 38,1% to R5,9bn but interest expenditure jumped 44,6% to R4,1bn, increasing net interest income 24,8% to R1,7bn.

FNB GM Alec Grant said the margin squeeze was attributable to the group's balance sheet structure, which made it vulnerable to short-term money market deposit rates.

Non-interest income grew 20,9% to R1,4bn, while operating expenditure jumped 24,5% to R2,1bn. New businesses — FirstPref Finance, FNB Swaziland, First National Insurance

Continued on Page 2

FNB

58

BD 9/5/96

Continued from Page 1

and Cash Paymaster Services — contributed 9,4% of this figure.

Grant said the new businesses were "people-intensive" operations but said the group would aim to cut its cost ratio in line with industry norms. However, staff cuts were not planned.

The tax charge rose 6,9% to R246,6m, giving income after tax of R434,7m (R372,2m). Earnings, predominantly from associates Southern Life and GuardBank, saw equity accounted earnings rise 37,1% to R20,7m, resulting in net income of R455,4m (R387,3m).

Advances grew 20% to R64,2bn but the group expected credit extension to slow due to an expected downturn in the economic cycle.

The group showed volume growth of between 16% and 18% but this could slow, Grant said.

The capital adequacy ratio was 10% (10,3%), including a 50% revaluation of associate Southern Life. Grant said new capital adequacy requirements for securities trading had necessitated the revaluation. Recapitalisation was not on the cards.

Containment of costs helps Nedcor's results

BD 9/5/96 (58)

Adrienne Giliomee

NEDCOR lifted share earnings by 24% to 210c for the six months to March, helped by a good all-round performance from its divisions and the containment of operating costs in a difficult trading environment.

A dividend of 45c was declared against 36c in the comparable period last year.

CE Richard Laubscher said the group had benefited from sound volume growth in all areas of its business, despite stiffer competition and higher money market rates.

Interest income rose 29% to R5,4bn, while interest expenses grew 32% to R3,97bn, giving a 21% increase in net interest income to R1,4bn.

Non-interest revenue grew 22% to R938m, comprising 40,3% of total income of R2,3bn. Laubscher said the international tendency to improve the percentage of non-interest revenue as part of total income applied also to Nedcor. "It is less capital intensive and is a hedge against inflation."

The banking group's general and specific provision for bad debts rose 30% to R149m, which was a result of it moving into instalment credit and cards in a high interest rate environment, he said. The increase was a "cautionary pre-emptive stance", with the group having provided for three times its normal level.

Net income amounted to R2,2bn (R1,8bn), while growth in operating expenses was restricted to 16% to R1,5bn. Laubscher said the ratio of expenses to total income had now been lowered to 62,8% from 65,5%, but Nedcor aimed to reduce it to 60% over the next three years.

He described the smaller growth in expenses as "a turnaround", saying it was the result of vigorous cost control measures and value-added policies.

Net income before tax of R718m (R546m) was offset by a 27% increase in the tax charge to R268m, giving bottom-line earnings of R450m (R335m).

Laubscher said advances had grown 22% to R61bn but the group expected a slowdown in asset growth in line with tougher economic conditions.

Although attributable earnings had increased by 34%, Laubscher said, the difference between that figure and the 24% growth in earnings was the result of last year's global depository receipt issue, which enhanced share earnings by 1c rather than diluting earnings.

Divisional profits showed that earnings from Nedcor Bank increased 33% to R299,5m, while Syfrets upped earnings 27% to R38m. UAL showed subdued earnings growth of 11% to R42m, while Cape of Good Hope contributed R16m (R13m) to group profits.

Laubscher said UAL adopted a "cautious approach" to market conditions, but said losses in the derivatives market due to the rand's depreciation in February had been offset by good performances in the spot market.

Nedcor expected to show earnings growth of at least 24% for the year to September.

Calitz's departure 'not over policy'

CT (BR) 9/5/96 (58)

By Christo Volschenk
ECONOMICS EDITOR

Cape Town — Estian Calitz, the retiring director-general of the finance department, said yesterday that his unexpected departure from the department was not motivated by personality clashes or policy differences, despite market speculation to that effect.

He resigned two days ago and will leave the department at the end of next month.

"My departure is being handled in a way which will ensure continuity and the minimum of disruption in the department," he said.

"Although the skills base has to be expanded, there are many capable people in the department. The direction of fiscal policy was spelt out in the Budget and has since been re-confirmed by Trevor Manuel, the minister of finance. Thus there is nothing to be worried about.

"Also, nothing negative should be read in my decision to leave the department."


Estian Calitz

Calitz became deputy director-general of finance in December 1989 and director-general in October 1993. His term would have expired in September 1998, but he asked Chris Liebenberg, the previous finance minister, to be relieved from his contract to pursue a career in teaching and consulting.

His post will be advertised soon. Yesterday, he said: "I have been considering the move for some time and have discussed the timing with the previous minister of finance.

"I initiated the step after I had considered it for some time. I have helped with the introduction of several new initiatives in the department and my successor will be able to start from a solid base."

He said the departure of Murto Wickens, a key member of the team of budget drafters, was a loss to the department, but it was "normal, though unfortunate" for any department to lose some of its expertise from time to time. Wickens was appointed by the IMF.

"As a matter of fact, I have been heartened by the dynamics in the department of late. We have decentralised responsibilities and decision-making.

"Continuity will thus be maintained," he said.

He did not want to speculate on his successor but said "there are many capable people who could take over the reins".

Cape bank raises net income by 25%

(58) CT (BR) 9/5/96

By Marc Hasenfuss

CAPE EDITOR

Cape Town — Cape of Good Hope Bank, South Africa's oldest bank, raised net income 25 percent to R16,1 million in the six months to March because of continued growth in lending volumes and steady margins.

The unlisted Nedcor subsidiary, which operates mainly in the Western Cape, increased its total assets to R2,2 billion.

Mike Thompson, the managing director of the bank, said he was satisfied with the controlled growth in its core business, which came through focusing strongly on quality in all lending operations.

"We lowered initial budgeted lending volumes at the commencement of financial 1996 to deliberately slow growth in a drive for quality," he said.

The interim report showed a 46 percent hike in interest received to R191 million and interest paid increased 60 percent to R139 million, leaving the gross interest margin up 18 percent at R52 million.

Fees and sundry income rose 51 percent to R7,2 million.

Thompson praised the bank's staff for nurturing an exceptional client relationship. "The bank, in fact, is able to fund itself from a local and long-established client base, having served many generations dating back to the 1830s," he said.

The bank's commercial and industrial property and installment finance books showed growth of 27 percent and 31 percent. The long-term book for commercial and industrial property finance increased 19 percent; short-term development loans rose 48 percent. Home loans increased 19 percent.

Intimacy

Thompson said the restructuring of lending operations in the past financial year and the new client-support division had led to better administrative systems and a tighter focus on client intimacy.

Shareholders' funds were up 27 percent to R148 million. Return on shareholders' equity was 23 percent and return on total assets 1,5 percent.

"This is again well above the norm for the banking industry, a particularly noteworthy and consistent achievement for a medium-sized lending and investment niche bank," Thompson said.

The bank's specific and general provision was cut by 8 percent to R4,3 million, representing 0,98 percent and 0,75 percent of the gross lending book.

Expenses rose 25 percent to R25 million because of heavy expenditure on information technology and the introduction of cheque and credit-card facilities. The ratio of total expenses to total income was an acceptable 43 percent, however, compared with the industry average of 60 percent.

The bank would concentrate on improving non-interest income by expanding products and services related to traditional lending operations.

"Margins will be under some pressure in the second half ... and we expect an initial slowdown in lending volumes due to the increase in prime," Thompson said

The bank still expected to post a satisfactory year-on-year performance at the end of September.

Community Bank 'not under curatorship' (58)

ARG 11/5/96

WILLIAM-MERVIN GUMEDE
Own Correspondent

JOHANNESBURG. – Cas Cavoodia, chief executive of the troubled Community Bank, has dismissed as "untrue" reports that the bank had been put under curatorship by the Reserve Bank.

Bank sources said yesterday that Registrar of Banks Christo Wiese appointed Price Waterhouse as the bank's curator at a meeting between the central bank and Community Bank's management.

"It is not true that the Community Bank is under curatorship. The bank's main shareholders had a meeting, but curatorship has not been considered.

"I have been in constant contact with the finance minister, and will meet him on Monday to discuss a way forward," Mr Cavoodia said.

Two weeks ago, the Reserve Bank threw a lifeline to the cash-stripped strapped Community Bank to ease its liquidity requirements and to allow the bank to continue operating while it put together a rescue package.

The assistance was short-term, monitored on a weekly basis and granted under the condition that the Community Bank restore its liquidity.

The Reserve Bank's assistance was worth R1,35 million.

Community Bank's main shareholder, the Development Bank of SA, had advanced R11,2 million as an emergency package with R10 million to be repaid as soon as the bank managed to tie up a rescue merger.

The Community Bank suffered a cash crunch at the start of the year after posting a loss of more than R20 million during the 1995 financial year. The bank, which operates mainly in the low-cost housing market, said it needed more than R200 million in additional capital to sustain its operations for the next two years.

The bank has been discussing a cash injection with the World Bank's investment arm, the International Finance Corporation (IFC).

In February, when the bank disclosed its liquidity problems, the IFC said it could help fund up to 40 percent of the R200 million, on condition the bank found a consortium of investors.

The bank's problems began after its original backers – the Development Bank, the Industrial Development Corporation, Independent Development Trust and South Africa's five largest banks - refused to commit promised funding.

., 1996

Investors still have to wait for R46-m

CP 12/5/96

(58)

Sun Multi Serve deal drags on and on and on . . .

By SIFELANI MLAMBO

THE RESERVE Bank is still waiting for Sun Multi Serve directors to submit a list of people who had invested with them before the bank froze R46 million collected in the controversial pyramid scheme.

The list has to be submitted before the unblocked funds can be distributed to 28 independent stokvels.

Sun Multi Serve was supposed to hand over the list to the administrator of the unblocked funds, Delloitte and Touche, last week – but have not done so.

A spokesman for Delloitte and Touche told City Press that an agreement which had led to the frozen funds being unblocked required that the directors submit a list of all investors.

The agreement, signed last month, also allowed Sun Multi Serve to operate in a new structure as 28 stokvels. The funds were to be distributed to the 28 stokvels in various parts of the country which would operate independently.

No money was to be given directly to the current directors of Sun Multi Serve.

People who had invested with the scheme were to be given the opportunity to either have their money invested in a stokvel or to have their contributions paid back with interest.

Lists will be prepared of those who want their money back and those who want their money invested in a stokvel.

The lists will be published in local newspapers in the 28 stokvel areas.

☐ City Press received reports that some people had already been repaid their contributions – and some investors feared they would lose out.

They claimed the directors of Sun Multi Serve were driving around in brand new cars, which they suspected had been bought using investors money.

☐ A spokesman for Sun Multi Serve said his company was still compiling the list of investors.

He said noboby had been paid yet because the unblocked funds were still being held by the Reserve Bank.

His company was almost bankrupt and could not afford to pay anybody, he said.

Community Bank to meet Manuel today

(58) BD 13/6/96

Amanda Vermeulen

COMMUNITY Bank is expected to meet Finance Minister Trevor Manuel today to discuss whether it should be placed under curatorship this week.

Bank executive trustee Cas Coovadia said that although it had been reported that the bank had been placed under curatorship, the order had not been signed by Manuel. He had indicated he wanted to meet bank trustees before taking the final step.

One reason for the possible curatorship was that the bank had failed to find a suitable merger disposal, despite the past month of negotiations, Coovadia said.

The original funders of the bank, the Development Bank of SA (DBSA), the Industrial Development Corporation and the Independent Development Trust, suggested in March that the ailing institution, which had effectively run dry on operating funds, secure a financial relationship with an institution in the same field.

Registrar of Banks Christo Wiese would not comment at the weekend, but sources said funders, including the major banks, had backed away, leaving little choice but for the bank to be placed under curatorship.

Community Bank CE Archie Hurst said discussions were still taking place and the bank was continuing with its operations. He declined to comment further.

Last month it emerged that major shareholder DBSA had advanced R11,2m to the bank as an emergency rescue package, of which R10m had to be repaid once a merger partner was found.

The Reserve Bank also extended a helping hand by relaxing capital adequacy requirements, adding R1,35m to the lifeline.

Illiquid Community Bank placed under curatorship

(58) CT (BR) 14/5/96

By Sean Feely

Johannesburg — Trevor Manuel, the finance minister, placed Community Bank under curatorship yesterday because the low-cost home loan lender was illiquid, the finance ministry said.

"Information provided to the ministry of finance by Community Bank indicates that the bank is not insolvent but that it does have a liquidity problem," the ministry said.

Stewart Patterson, a chartered accountant at Price Waterhouse, has been appointed as curator.

In a meeting with Manuel yesterday morning, the board and management of the bank agreed to the curatorship, which will allow the bank to continue operating.

The Development Bank of Southern Africa, the Industrial Development Corporation and the Independent Development Trust originally pledged R197 million to the bank, which started operating in early 1994.

The funders gave R130 million in October 1994 but refused to lend the rest because they were reportedly unhappy with the bank's performance.

In the nine months to the end of last December the bank incurred a R23,3 million loss after a loss of R21 million in the 15 months to the end of March.

The funders wanted the bank to attract additional clients. It had forecast deposits of R51 million for the past fiscal year but collected only R20 million.

As an interim measure, the Development Bank lent it R11,2 million as an emergency package and the Reserve Bank provided relief of R1,35 million by relaxing the bank's capital-adequacy ratio.

The bank has sought other backers to help it this year, including the International Finance Corporation, the World Bank's investment unit. These efforts have failed to yield a rescue package, however.

Patterson will manage the bank under the supervision of Christo Wiese, the registrar of banks, in the best interests of depositors, shareholders, creditors and others with an interest. His chief task will be to find investors to provide funding.

Community Bank to 'rise from ashes'

CJ(BA)15|5|96(58)

By Thabo Leshilo

Johannesburg — The problems at the Community Bank, under curatorship from yesterday, did not spell the end of community banking in South Africa, Cas Coovadia, the bank's executive trustee, said yesterday.

He said the bank would rise from the ashes of curatorship stronger than before and become a key player in the empowerment of the country's poor.

"Community banking as a concept seeking to enable poor people to take charge of their lives from an economic point of view is working. It is still valid," Coovadia said.

"The political changes in our country need to be followed by improvement in the socio-economic conditions of the majority of our people."

Trevor Manuel, the finance minister, placed the Community Bank under curatorship on Monday after it had experienced liquidity problems for months.

Stewart Patterson, the curator, said the bank had grown too fast in the two years since it was founded.

He said it had been overwhelmed by home buyers attracted by its 18,5 percent interest rate.

Cas Coovadia, the executive trustee of the Community Bank

PHOTO JOHN WOODROOF

The bank also funded cheap loans to small and micro-businesses.

However, depositors did not rush to the bank's six branches and 11 community outlets, preferring to keep their money in the larger banks.

The Development Bank of South Africa and the Industrial Development Corporation would not meet their financial commitments any longer. They were frightened off by the bank's projected losses of R45 million from January 1994 to March this year.

Together with the Independent Development Trust, the two gave the Community Bank R130 million when it was established in 1994.

Coovadia has tried unsuccessfully since last year to find alternative funders.

Patterson is also trying to find funders to get the bank out of curatorship "as soon as possible".

Operations at the bank will continue as before, but withdrawals have been limited to R500 and lending has been suspended.

Coovadia said the bank had succeeded in its mission of delivering houses to poor people, unlike the major banks with their huge financial support.

Figures from the Gauteng housing department showed the bank had financed 811 recipients of the government's low-cost housing subsidies since last June, far ahead of its closest competitor, a leading bank which had financed about 320.

Coovadia said the bank's success stemmed from the fact that its clients were its shareholders because of their permanent interest-bearing shares.

The bank delivered products that were relevant to its largely unsophisticated, low-income clients, enabling them to interact confidently with the financial sector.

"I am confident we will come out of this on a more formidable footing to do what we were established to do: utilising the savings of poor people in a way that optimises those earnings and channels them towards meeting their socio-economic needs and starting small businesses."

Coovadia continues the struggle

By Thabo Leshilo

Johannesburg — Cas Coovadia is hurting inside. It shows no matter how hard he tries to hide it.

This is hardly surprising, given that things are not going well at the Community Bank, an institution which he helped establish, nurtured and had come to love as his own child.

To Coovadia, 40, being the executive trustee of the Community Bank is more than just a job, it is a passion.

It is a logical continuation of the struggle for freedom and justice he has become synonymous with since the early 1980s.

Coovadia chose to continue the struggle in the economic arena since the country's transition started in 1990.

He was known for his high profile role as the chairman and publicity secretary of Acstop, which fought against the exploitation of Johannesburg flat dwellers by unscrupulous landlords in the city

"I was of the view that political activists needed a paradigm shift from political activism to developmental activism and develop people," says Coovadia.

The change in his outlook did not occur as a bolt from the blue. "I always felt that one needs to move away from the perception that people cannot actually deliver for themselves and want the government to provide for them. It is not the role of the government to deliver socio-economic products to people," says Coovadia.

This thinking led him to ask the ANC to drop his nomination to the Gauteng parliament in 1992 so that he could help start a bank for poor people.

Colossal's Zambian project rescued

LUSAKA — Colossal Resources said yesterday it had reached an out-of-court settlement with Comecim SA to save its Zambian cobalt project, delayed by a three-month legal battle.

Colossal vice-president David Balchin and Comecim SA's Zambian representative Oliver Makungo said differences between the two firms had been resolved and the project to exploit the Zambia Consolidated Copper Mines Nkana slag dump had started.

Makungu confirmed this. "The agreement reached is one which is accommodating for everybody." Both declined to say what the terms of the settlement were.

Colossal's cobalt project was derailed when Comecim obtained an injunction from the Lusaka High Court restraining Quasim Mining Enterprises, the company undertaking the project on behalf of Colossal, from starting the operation in February. — Reuter.

Banking brought to rural areas

(58) BD 15/5/96

IN SA's former black homeland of KwaNdebele hundreds of elderly people sit waiting patiently for the mobile bank to pay them their pensions.

But local bankers have started bringing mobile facilities to people in rural areas throughout the country.

One of SA's largest banking groups, First National Bank (FNB), has been using high technology mobile banks which can identify pensioners' fingerprints, for the past three years.

These satellite pay points pay out pensions to about 500 000 elderly who would otherwise struggle to travel to towns from their homes in remote KwaNdebele, Mpumalanga and even violent KwaZulu-Natal.

Asked if this was the way to reach the country's "unbanked masses", FNB GM Mike Jarvis said: "You really have to take the banking to the people. You do not have to put up a very expensive infrastructure, so I believe it is going to be a real winner."

A survey has shown only 41,4% of SA's 25-million adult population use banks. That leaves a huge new market for banks eager to reach a new source of profit, while addressing demands for corporate social responsibility.

FNB is not alone in expanding to new ground. Absa, the Standard Bank group and Nedcor have all launched new banks or brands targeting lower income consumers. — Reuter.

Sections of Insurance Act discriminate against women, court rules

(58) BD 16/5/96

Deborah Fine

SECTIONS of the Insurance Act were unconstitutional because they discriminated against women unfairly on the grounds of sex and marital status, the Constitutional Court said yesterday.

The ruling on sections 44 (1) and (2) of the Act followed a challenge to its constitutionality by widow Annette Brink, who was paid R2,6m on a life insurance policy ceded to her by her husband, who died insolvent. Most of the money was claimed by the curator of his estate to pay creditors as the Act stipulated a married woman was entitled to only R30 000 of the policy if her husband died insolvent. The Act had no similar limits on policies ceded by a wife in favour of her husband.

Brink said the Act violated section eight of the constitution by discriminating against married women.

Her attorney, Hannes Smits, could not comment yesterday on whether the ruling meant she could reclaim her money, which was held in trust pending the Constitutional Court's decision. The matter would be referred to the Pretoria Supreme Court.

Delivering a unanimous judgment on the court's behalf, Judge Kate O'Regan said sections 44 (1) and (2) clearly treated married women and married men differently, putting married women at a disadvantage. Although discrimination on grounds of sex was not as visible in SA as racial discrimination, it nevertheless resulted in "deep patterns of disadvantage".

"That all such discrimination needs to be eradicated ... is a key message of the constitution. The preamble states the need to create a new order in which there is equality between men and women as well as equality between people of all races," she said.

The court rejected argument that the sections were necessary to prevent fraud or collusion between spouses because such dishonesty could as easily occur where husbands, rather than wives, were policy beneficiaries.

The second purpose of the provisions — protecting interests of creditors of insolvent estates — could still be achieved by the Act or other legislative provisions such as the Insolvency Act.

In formulating its order, the court took into account that many estates had been wound up since the constitution had been drawn up. As good government prevented the court making an order which would expose concluded proceedings to challenge, it declared the sections invalid from April 27 1994 but exempted payments already made on the strength of the provisions.

See Page 15

Southern thrives on new business

CT(BR) 16/5/96 (58)

By Sean Feely

Johannesburg — Southern Life posted a 28 percent rise in attributable earnings for the year to March 31 yesterday, as new business reached a record high and net investment revenue rose by a third.

The insurer's attributable earnings for the year increased to R391 million from R306 million a year earlier.

Earnings a share rose by 24 percent to R2,16 from R1,74, which was less than the bottom-line increase because of more shares in issue.

Southern Life said it would pay shareholders a final dividend of 86c a share, or shares in lieu of it.

This is a 25 percent increase on the previous year's 69c, bringing the total annual payout to R1,44 compared with R1,16 previously.

"There was a fantastic increase in recurring premium income in individual business," said Jan Calitz, the managing director of Southern Life.

"That creates long-term growth. It's more important and beneficial for the person that saves (the policy holder) and the company."

The insurer's strong growth resulted in a 21 percent gain in assets to R32,857 billion.

The excess of assets over actuarial liabilities rose 27 percent to R4,579 billion from R3,602 billion in the previous period.

The actuarial surplus increased to R1,038 billion from R944 million.

The operating surplus from the normal business of the life company amounted to R302,5 million from R230 million.

The investment returns on free assets soared 82 percent to R735,2 million from R404,5 million.

Southern's strong asset management ability was illustrated by the 33 percent increase in net investment revenue to R1,615 billion from R1,218 billion, because Southern's fund managers increased their exposure to fixed-income securities instead of equities. The investment picture for this financial year was mixed.

"At the moment the bond market is attractive but there's a lot of uncertainty," Calitz said.

Southern Life expects to achieve a real growth in dividends in this financial year, he said.

See Business Watch, Page 18

Report 'not very clear'

Louise Cook

BD 17/5/96

THE rural financial services commission had failed to address critical issues in its interim report, the Land and Agriculture Policy Centre said yesterday.

The commission had also not shown how the Land and Agricultural Bank was meant to transform itself into a rural bank.

The commission was appointed in 1994 by President Nelson Mandela and Land Affairs Minister Derek Hanekom to probe financial services to the rural poor. In its interim report earlier this year it suggested that the land bank, responsible for loans to acquire farm land, become a rural bank, lending money to sectors outside farming on a "wholesale basis".

Centre director David Cooper said the commission had failed to specify how this was to be done.

However, the centre agreed with the commission's interim recommendation that the Agricultural Credit Board be scrapped.

Other issues overlooked in the report were ways to boost land reform, keeping tabs on financial service provision and how to stop capital from flowing out of rural areas to cities.

CT (BR) 17/5/96

Cosab reports R54bn rise in managed assets

By Nancy Myburgh (58)

Johannesburg — Assets under management in the 40 member banks which comprise the Council of South African Banks rose to R398 billion for the year to December 31 last year, up from R344 billion the previous year, the council said in its annual report, released yesterday.

Deposits and savings from the public and corporations accounted for 89 percent of that amount, the report said, while capital and reserves totalled 7 percent and other liabilities 4 percent.

The country's largest eight banks together held capital of R21,9 billion, or 74 percent of the capitalisation of the top 100 banks in Africa, the council reported.

The council, which has links to several banking industry associations, was established in 1992 under the name Council of Southern African Bankers to promote the banking industry. Bank membership of the council increased from three to 40 in the year under review, the report said.

While the council reported success in several of its projects, including its drive to combat corruption, it reported "major difficulties" in the banking industry's undertaking to advance up to R2 billion for financing 50 000 new home loans by the end of this month.

Although the industry had revised its guidelines this year so that banks could lend up to 100 percent of a property value, as opposed to the former 95 percent, the council said the change would affect only about 30 percent of South Africans who could afford a monthly instalment on a mortgage bond.

The report said concern over unabated mortgage bond boycotting hampered the industry's attempt to reduce the housing shortage, as did the general level of unemployment and squatting.

Court told accident payouts discriminate

(58)

Star 17/5/96

By Helen Grange
Constitution Court Correspondent

The fact that a wide category of passengers involved in car accidents can claim only a limited compensation from the Multilateral Motor Vehicle Accident Fund (MMF) was attacked as "arbitrary and discriminatory" in the Constitutional Court yesterday.

The challenge, to Section 2 of the MMF Act under which the fund was established, has been brought by Elias Tsotetsi, who was seriously hurt in an accident four years ago. He has been able to claim only R25 000.

As the law stands, passengers injured in a vehicle whose driver is to blame for an accident are paid compensation which the fund limits to R25 000. If they are killed, their estate receives only R25 000. By contrast, passengers in a vehicle whose driver is not to blame are paid out according to the damages they suffer.

Arguing for Tsotetsi yesterday, Wim Trengove SC said this law infringed the constitutional rights of equality before the law and equal legal protection, in that it formed part of a pattern of "arbitrary and irrational exclusions and limitations" of claims from passengers.

"The limitation's only purpose is to limit the cost of the scheme of motor vehicle accident compensation overall. There is no rational justification for singling out passengers and their parents and dependants to suffer the prejudice," he said.

Arguing for the defendants, Mutual and Federal Insurance Company Ltd, Jeremy Gauntlett SC countered that the attack on the grounds of discrimination was overstated.

"What is constitutionally offensive is the creation of a class bearing the hallmarks of discrimination, not a classification.

"We acknowledge the classification of victims of accidents, but the same classification applies to the allocation of social benefits in terms of the old and young, the disabled, and diseased, and the employed and unemployed – or perhaps the allocation of legal aid in criminal but not civil matters.

"The legislative concern is the limited extent of resources and the need to avoid abuses," he said. The law may be open to reform, but the matter was not a constitutional one, he added.

■ The beleaguered MMF, which receives 9c from every litre of petrol sold, currently has an actuarial deficit of R4,2-billion.

Insurance: 'Women are deprived'

Star 17/5/96 (58)

By Helen Grange

The Constitutional Court has overruled section 44 of the Insurance Act, which it said unfairly discriminated against women, breaching their constitutional rights.

It said section 44 effectively deprived widows, in certain circumstances, of some or all of the benefits of life assurance policies ceded to them or made out in their favour by their husbands.

Delivering the unanimous judgment on Wednesday, Ms Justice Kate O'Regan said the section discriminated against married women on the basis of sex and marital status. She pointed out that widowers did not lose the benefits of assurance policies ceded to them by their wives.

The court also rejected the argument that the section was necessary to prevent collusion, saying such collusion could just as easily occur where husbands were policy beneficiaries.

The case arose from a challenge by a widow, Annette Brink, who was ceded a R2,6-million life assurance policy by her husband, who died insolvent. Most of the money was then claimed by the curator of his estate to pay creditors, as the act stipulated that a married woman was entitled to only R30 000 of the policy if her husband died insolvent.

In other judgments this week, the court ruled that:

- The procedure of appeals in civil cases in the Supreme Court, whereby the presiding judge must first grant leave to appeal, is not unconstitutional.
- The indirect influence of the Bill of Rights regarding defamation between individuals should be dealt with by the Supreme Court and the Appeal Court, instead of the Constitutional Court.

TREVOR MANUEL: Won't speculate on a rescue package.

CHRISTO WIESE: The state has already committed R130 million.

No rescue in sight for the Community Bank

(58) ARG 18/5/96

The government is facing a potentially embarrassing situation as the Community Bank searches for a rescuer, writes **WILLIAM-MERVIN GUMEDE**

The government is keeping mum on whether it would rescue the sinking Community Bank, given the precedent it set by bailing out the African Bank which was in a similar cash crunch last year.

Jennifer Charlton, spokeswoman for the Ministry of Finance, this week said Finance Minister Trevor Manuel would not comment on whether the government would help.

"The minister won't speculate on a possible government rescue package until the bank's curator has made his assessment and until all other avenues to attract investors have been exhausted," she said.

Mr Manuel put the bank under curatorship on Monday following its failure to lure a rescuer. The bank, which operates in the low-income loan sector was not insolvent, but has a liquidity crisis.

Stewart Patterson of Price Waterhouse accountants has been appointed curator.

Registrar of banks Christo Wiese said the bank had been put under curatorship because its original backers – the Development Bank of SA, the Industrial Development Corporation, the Independent Development Trust and the major banks – had refused to aid the Community Bank.

The funding agencies initially promised to pump R200 million into the bank, but got cold feet. The IDC froze R70 million, claiming it was unhappy with the bank's performance. The Community Bank forecasted a loss of R30 million for the 1996 financial year. "The bank's problems stem from the slow start in housing delivery, and the delay in creating the National Housing Finance Corporation," Community Bank's chief executive, Archie Hurst, said.

Mr Wiese said the government would bear in mind that the state had already committed R130 million to the bank.

Banking sources said it could be politically embarrassing for the government to give the bank a cold shoulder, as it played an important role in making credit available to those in the low-income market who were traditionally shunned by the commercial banks.

Mr Patterson told SATURDAY Argus he "would hope that the government provides some sort of assistance to the bank. We had a meeting with the Finance Ministry late this week and they were very sympathetic to the plight of the bank".

Meanwhile, various options were mapped out for the future of the Community Bank. One was that it may be split up and sold or restructured, opening the door to an R80-million injection from the World Bank's International Finance Corporation (IFC).

Mr Patterson said another possibility was to sell the Community Bank's assets to other banks operating in the low-income housing loan market. African Bank, saved from curatorship last year with state help, expressed interest in buying some of the bank's 17 branches.

Mr Patterson said the bank could be transformed from a mutual bank to an equity-based institution. The IFC has indicated such a move would lure it to invest the cash it had previously offered to the organisation.

Last week the bank slapped a R500 ceiling on withdrawals. Depositors have a total of R22 million in the savings vaults. Mr Patterson said no new bond applications would be considered. The bank still had funds for operations and the original funders - the DBSA, the IDC and the IDT - had suspended interest payments on the R130 million they put up to capitalise the bank.

Borrowers reel as commercial banks push up interest rates

BD 18/5/96 (58)

BRUCE CAMERON and ALIDE DASNOIS
Business Staff

FROM Monday most people will be paying much more to finance their homes, cars and bank borrowings than they were a month ago, after being whacked by the banks with a second interest rate hike in three weeks.

The latest one percentage point rise came as a surprise, following on the one percentage point at the end of April, as the Reserve Bank usually sets the pace in interest rate changes.

Led by Standard Bank, the commercial banks raised prime rates – the rate at which banks lend to their best customers – from 19,5 percent to 20,5 percent yesterday and basic mortgage bond rates to 20,25 percent a year.

Last week, Reserve Bank Governor Dr Chris Stals told SATURDAY Argus he saw no need to raise the bank rate at which the Reserve Bank lends to commercial banks and in another interview last night he was sticking to his resolve – at least for the moment.

He said he had been informed by the banks of their decision to raise rates.

"I told them this time they could take the flak themselves."

He said he thought the banks could make a good case for raising lending rates because their borrowing rates had risen fast. On a 20 year bond of R100 000, borrowers will now pay R156 more each month than they were paying three weeks ago.

On a R125 000 bond, borrowers are paying an extra R194 a month and on a R200 000 bond an extra R310 a month. Banks claim they have no choice in the face of the falling rand, narrowing margins and shortages of funds.

NBS general manager Trevor Olivier said the increase was disappointing "and we certainly hope it is a short term phenomenon".

Standard Bank treasury director John Lloyd said the rand's slide had left the banks facing heavy demand for foreign currency from importers, while exporters were holding on to their dollars, expecting the rand to weaken further.

At the same time, foreigners who held rands, South African shares or bonds, were moving their investments offshore, draining the banks' reserves of foreign currency and forcing them to borrow from the Reserve Bank.

The shortage of funds on the money market – where banks raise up to 60 percent of their funds – had soared to levels of R8-billion to R10-billion.

"The banks are having to pay more and more for deposits. Everyone is chasing money and this has a ratchet effect on interest rates," Mr Lloyd said. In three months, money market interest rates have risen 2.25 percent.

It was rare for the banks to increase lending rates ahead of a hike in the bank rate – the rate at which the Reserve Bank lends to the banking system. Usually the banks wait for the Reserve Bank to move first and then adjust their own lending rates in line with changes in the bank rate – as they did at the beginning of the month when the Reserve Bank hiked the bank rate from 15 percent to 16 percent a year.

"This is an unusually difficult situation," Mr Lloyd said.

"We hope to be able to reduce rates again by the end of the year. Everything depends on the level of confidence in our economy."

The banks had tried to stave off the increase by raising money overseas to reduce pressure on money market interest rates.

"This is crisis management," said Cape of Good Hope Bank treasury chief Lex Kriel.

"It's not a question of Reserve Bank monetary policy. Banks have been forced into this and rates could come down again in a couple of months if all goes well."

Racing's wheel locks

Will Community Bank be rescued?

Star 18/5/96 (58)

By WILLIAM-MERVIN GUMEDE

The Government is keeping mum on whether it will throw out a lifebelt to rescue the sinking Community Bank, given the precedent it set by bailing out the African Bank, which was in a similar cash crunch last year.

Jennifer Charlton, spokesman for the Ministry of Finance, said this week Finance Minister Trevor Manuel would not comment on whether the Government would help.

"The minister won't speculate on a possible government rescue package until the bank's curator has made his assessment and all other avenues to attract investors have been exhausted," she said.

Manuel put the bank under curatorship on Monday following its failure to lure a rescuer after funders refused to pump in more money. The bank, which operates in the low-income loan sector, is not insolvent but has a liquidity crisis. Stewart Patterson from Price Waterhouse accountants has been appointed curator.

Registrar of Banks Christo Wiese said the bank had gone into curatorship because its original backers – the Development Bank of SA, the Industrial Development Corporation (IDC), the Independent Development Trust and the major banks – had refused to aid it.

The funding agencies initially promised to pump R200-million into the bank but got cold feet, and the IDC froze R70-million, claiming unhappiness with the bank's performance.

"The bank's problems stemmed from the slow start in housing delivery," Community Bank's chief executive Archie Hurst said.

Banking sources said it could be politically embarrassing for the Government to give the bank the cold shoulder as the bank played an important role in making credit available to those low-income earners traditionally shunned by commercial banks.

Govt considering bigger stake in African bank

BD 20/5/96 (58)

John Dludlu

GOVERNMENT was considering lifting its stake in the African Development Bank but the decision hinged on several factors, including the availability of stock, the finance ministry said at the weekend.

A spokesman said the SA delegation, led by minister Trevor Manuel, would use this week's visit to the bank's annual meeting to assess progress by the bank in reshaping its operations. "But the matter will not reach finality during these meetings".

The bank's image has been tarred by reports of poor management and a bloated bureaucracy.

Another factor which would be crucial in the decision to increase the 1% voting rights stake, acquired by the government last year, would be the availability of unallocated shares.

When SA took up membership of the bank last year the amount of unallocated shares stood at 2,58%, according to the finance ministry.

The Abidjan annual meetings of the bank would also continue talks on plans to resuscitate the bank's concessionary finance arm, the African Development Fund.

The ministry's statements have been seen as a further indication of government's cautious attitude in committing the country to other institutions and concerns of being associated with the bank's troubled image.

The fund, which once lent $1bn a year to Africa's poorest nations, has not been stocked up since January 1994.

The spokesman conceded that SA's private sector, which now qualified to participate in bank-funded projects, and parastatals had shown interest in borrowing from the bank.

This would most likely be done through a parastatal such as the Development Bank of Southern Africa.

Strategic choices leave banks little room to manoeuvre

(58) BD 20/5/96

HILARY JOFFE

BANKS have a problem. Their interest revenue is shaped largely by the vagaries of financial markets while their operating expenses tend to be fixed in the shorter term. Essentially, their cost structures of today reflect their strategic choices of the past and do not respond to changes in their revenue streams.

In the present climate, with record money market shortages which have put upward pressure on interest rates and squeezed banks' margins, and economic slowdown which will limit volume growth and worsen bad debt experience, costs are the key.

This is part of the background to Friday's decision by the banks to "take the flack", in Reserve Bank governor Chris Stals's words, and raise prime interest rates to 20,5% without waiting for a further Bank rate increase. Bankers hasten to deny they are "taking the cream" while borrowers take the pain. Money market rates have risen by more than 2%, against April's 1% Bank rate increase. An analyst notes the latest liquidity crisis saw banks' interest margins (taken as the gap between prime and the interbank call rate) falling to below 2,5%, from last year's peak of 5,5% to 6%.

The extent to which each bank benefits from Friday's increase will depend on the structure of its books — essentially how fast assets (loans) reprice relative to liabilities (deposits). It will also depend on the effect of higher rates on customers — slower lending growth and more bad debts could counter fatter margins. But all else being equal, banks with lower cost:income ratios should be better able to ride out tough market conditions than those with higher ones.

Nedcor, First National Bank and NBS all pointed to margins being under pressure when they reported results recently — Nedcor and FNB for the six months and NBS for the full year to March. And all increased provisions for bad and doubtful debts substantially. But their operating expenses lines diverged, reflecting differences in their strategies and in their mix of businesses.

NBS's costs rose to 56,2% of its income in the year to March (52% in the previous year), but at this level it is still much leaner than the "big four" banking groups. Nedcor's costs were 62,7% (65,5%) of its income in the six months, the lowest ratio of the big groups, and the group is aiming for 60% within the next two to three years. By contrast, FNB's ratio stood at 69,9 (69) for its interim period, only a little behind that of Absa, which is due to report March year-end results later this month.

Its niche in "asset based lending" keeps NBS's cost structure low — it has chosen to avoid cheque and credit card accounts, and mortgage loans, which make up 71% of its book, require little servicing. Nedcor has the edge over its "big four" rivals in part because its focus is in metropolitan areas, with delivery points closer to home.

FNB senior general manager Viv Bartlett argues FNB's cost:income ratio is significantly distorted by low margin businesses such as Cash Paymaster Services (CPS, which pays out government pensions electronically in remote areas) and insurance brokerage First Bowring. But he points to a dilemma which comes with FNB's "banker to the nation" approach. With its wide geographical spread, it is caught in a situation of "dual costs": eventually all bank transactior ... tronically processed at a central point and brick and mortar branches will become scaled down sales outlets. Meanwhile, though, the group is maintaining its electronic network alongside the traditional branch network.

For their March reporting periods, NBS recorded a 35% increase in earnings a share, to Nedcor's 34% and FNB's lower-than-expected 17,5%. But operating performance showed different trends. At pre-tax level, stripping out the effect of bad debt provision, Nedcor looked far the healthiest, with a 31% increase in profit, while FNB recorded a reasonably healthy 19,7%.

NBS's bottom line was boosted by a 60% decline in provision for bad debts resulting from a R50m insurance payout and the pre-tax figure before bad debts rose only 5%. CE Tony Norton says this is not an accurate reflection, pointing to the group's policy of smoothing earnings growth.

Operating costs rose by 24,5% at FNB and by 24% at NBS, although in both cases one-off costs accounted for some of the increase. Nedcor's increase was 16%.

At FNB, new business startup costs, particularly of CPS, private ... niture retail bank initiated when FNB bought McCarthy Retail's furniture financing operations) added 9,5% to 10% to the cost line, Bartlett says. New businesses added 4,5% to the group's non-interest income line (which grew by 20,9% in the six months). Firstpref added meaningfully to net interest received and put an extra R1,2bn on the lending book (without which advances would have grown by 18% — against 22% at Nedcor and 17% at NBS).

Norton says R30m of NBS's costs were non-recurring. Treasury and corporate banking controls were beefed up following fraud in financial 1995 and provision made for pensioners' medical aid costs. Excluding these the increase would have been 17%.

The increase in operating costs at Nedcor slowed to 16%, as the group proved the worth of actions taken in recent years to restructure operations and enhance efficiency. For the first time the bottom line — up 34% to R450m — roughly equalled FNB's (which was up 17,6% to R455m). This is off less than half the staff (Nedcor employs 16 000 to FNB's 34 000) and a smaller asset base (R79bn to its rival's R82bn).

CE Richard Laubscher stresses Nedcor has not slowed down on strategic expenditure. It is developing telebanking, its cellular business, ... media Internet banking as well as smart card technology (50 000 cards are now up and running). "We are continuing to make fundamental changes to the way we do business and service customers because we believe this is where future competitive advantage is," he says.

But he says the group has had an active cost focus for some time. It is starting to get better payback from its investment in "back-end" technology. And the restructuring of the group initiated four years ago has bedded down. As one indication, Nedcor's ATMs have for the past 27 months been the largest authoriser of Saswitch transactions.

But there is some way to go. A cost:income ratio of 60% would bring it in line with top banks in the US and UK. Once there, it may aim lower. Laubscher notes the "really excellent" banks internationally run on ratios of 55.

The March results reflect little of the market crunch on the banks; September's figures will tell more. FNB has expressed confidence that it will achieve its "budgeted real increase in earnings for the full financial year".

Laubscher says Nedcor is fairly well placed to weather a rising interest rate environment. (It made the right decision for the wrong reason late last year, budgeting for higher rates on the assumption forex controls would go.) He expects the group to maintain its earnings growth for the full year. NBS, too, is well placed after repositioning its book in the last quarter of last year, says Norton.

The NBS share was trading last week on a p:e of 20, with the price up 60% over the past year — the market has clearly been unfazed by the "static and noise" (in Norton's words) in the financial statements and rates the former building society at a premium to all of the big four banking groups.

Analysts give Nedcor credit for delivering what it promised a couple of years ago. Its share price is 29% higher than a year ago and with a price:earnings ratio of 14 is more highly rated than the FNB share, which stands at 12.

Southern Life's RDP plans aided by Comprop buyout

BD 21/5/96 (58)

Samantha Sharpe

CAPE TOWN — Southern Life has bought variable loan stock company Community Property Fund (Comprop) from Property Asset Managers for R100m through its RDP investment vehicle Futuregrowth.

Comprop had planned a JSE listing this month, but retreated after the introduction of new pension fund taxes forced a downrating of the property sector.

Futuregrowth co-ordinator Michael Leeman said yesterday the transaction would allow Futuregrowth to complete its fund range, complementing its existing balanced, income and equity funds.

Comprop would be used to kick-start Southern Life's RDP property developments, providing tangible economic benefits to members of retirement funds investing in the RDP portfolio.

He said the new fund would target the shortage of shopping and business facilities serving lower income communities, with its emphasis being on investment in C and D income centres.

"While rental levels in the portfolio are extremely low in comparison with A and B income shopping centres, trading densities are comparable and superior growth is therefore likely."

About R20m in funding had been sourced from Futuregrowth's balanced fund, with its income fund providing R25m in short-term gearing and other Southern Life funds the balance, he said.

The newly acquired fund would be managed by Property Asset Managers, the Broll Property group and Southern Life Properties. "With the new acquisition bringing Futuregrowth's managed assets to R800m, the portfolio has the resources to undertake significant RDP investments."

Property Asset Managers MD Royden du Ploy said Comprop had abandoned its listing plans after the announcement of a 17% tax on pension funds' interest and net rental income had put a dampener on the JSE's property sector.

Negotiations with Southern Life had evolved at a highly opportune time and had provided Comprop with an alternative form of cash funding.

The portfolio's growth would be stimulated by a proactive programme of acquisitions and developments within disadvantaged communities, with a new centre at Motherwell near Port Elizabeth the first possibility, he said.

Nedbank faces Usury Act investigation

CT(BR) 22/5/96 (58)

By Stuart Rutherford

Durban — The police service's commercial crime units in Cape Town and Durban are investigating alleged contraventions of the Usury Act by Nedbank.

The investigation follows the submission of a report by the trade and industry department to the attorneys-general in the cities. The report alleges that the bank charged illegal fees on personal loan accounts and instalment sale agreements.

A source said fees charged by Nedbank during the past year have varied from R150 to R400 a transaction, illegal under Section Five, subsection one, of the Usury Act.

He said Nedbank faced prosecution in these centres, and others if the department approached other attorneys-general about the matter. If Nedbank is found guilty, it could face a flood of civil claims.

Mike Leeming, an executive director of Nedcor Bank, said he was aware of cases where the bank had charged a fee when entering instalment sale agreements, before the launch of NedCredit last year. But he was unaware of cases where it had charged fees on personal loan accounts. He said that at the time it had not known such charges were illegal in terms of the act because this was not a major part of Nedbank's business.

He said it was talking with attorneys-general and would credit clients with any money due them.

Willem Kruger, Nedcor Bank's company secretary, said it intended paying an admission of guilt fine in KwaZulu Natal, through the attorney-general, as a matter of good faith.

Nedcor probe involves R10 000

Staff Writer (58) CT (BR) 23/5/96

Johannesburg — A sum of only R10 000 and about 100 clients were involved in the summons issued to Nedcor Bank for an inadvertent contravention of the Usury Act, Jack de Blanche, the divisional director of Nedbank's commercial division, said yesterday.

"The clients that have been identified will be refunded. We regret this inadvertent contravention regarding the administrative fees," De Blanche said.

Officers from the Registrar of the Usury Act are investigating all banks countrywide.

They have alleged that Nedcor Bank contravened the Usury Act by charging a documentation fee when entering installment sale agreements.

The fee was a nominal levy to cover administrative expenses, he said. It was stopped almost a year ago with the introduction of Nedbank's NedCredit product, which did not attract such charges.

Before this the fee was openly disclosed in all contracts, De Blanche said. It was not hidden among other charges and did not attract interest. The charge was common practice by all banks, he said. Nedcor Bank had stopped this practice of its own accord before the visits by the Usury Act officials.

"This was a genuine error as we had no knowledge that we were contravening the act, which remains extremely complex and open to interpretation.

"Recently, there have been several allegations of overcharging by banks regarding interest rates. Nedbank has been the one bank not mentioned. We have been proud of our transparency and track record for open disclosure of not only interest but all bank charges to our clients," De Blanche said.

Land Bank resists pressure to raise interest on loans

Helmo Preuss

BD 23/5/96 (8)(58)

THE state-owned Land Bank has held off fully lifting interest rates on loans to farmers, despite a sharp increase in its funding costs.

The parastatal — which has more than R9bn lent to the farming sector — has sustained a 220-basis-point rise in its funding costs, but has passed on just a small portion to farmers through higher rates.

A Land Bank source said yesterday the bank was reviewing its lending rates. A move was possible later this month. However, relative stability in capital markets — about 45% of its portfolio — meant it was not under the same pressure as commercial banks, which had lifted their lending rates twice in less than a month.

The bank suspended its weekly bill auction on March 29 because of the volatility in money market rates. At the March 22 auction the rate on its 90-day bills was 14,30%, against the Reserve Bank's 90-day treasury bill rate of 14,16%. The rate leapt to 16,50% on Friday, against the Reserve Bank's 16,21%, almost doubling the spread between the two bills, signalling higher perceived risk in the Land Bank's bill.

After the one percentage point Bank rate increase on April 29, the Land Bank raised its rate to co-operatives three-quarters of a percentage point to 16,0% on May 8, to farmers for medium-term equipment loans one-and-a-half percentage points to 19,0% on May 15 and for production loans one-and-a-quarter percentage points to 17,0% on May 8. Prime rate is currently 20,5%.

The Land Bank's move was a concession to the cash-strapped farming industry, which faces attempts to force its loans on to a commercial footing.

At the end of 1995 the sector's debts were R19,5bn, nearly a third held by commercial banks. The agriculture department in April lifted interest rates on cheap farming loans from the Agricultural Credit Board from 8% to 14%.

New Republic Bank sees earnings plunge

(58)

CT (BR) 24/5/96

By John Sherrocks

Durban — The combined effects of reduced margins, high costs and sustained levels of provisions saw New Republic Bank's earnings plunge from 48,4c to 20,6c a share in the year to March 31.

In light of the drop in profitability during the second half of the year, the group opted to pass the final dividend, and the aggregate dividend payable is 7c a share compared with 19c for the previous year.

Jonathan Scott, the deputy chairman, said the poor results had been anticipated when Redbridge Assets obtained control of the bank in March.

"We are very comfortable with the situation. We did not buy the bank for this year's results ... we hope that in a couple of years' time we will see the benefits of the new management and restructuring," Scott said.

He said the upgrading of systems and rationalisation had largely been completed.

"The consolidation programme led to an 11,5 percent decline in advances, which negatively impacted on interest income."

Interest income rose to R209,9 million (R189,4 million) but interest expenditure climbed to R157,1 million (R128,5 million), resulting in a 13,4 percent drop in net interest income to R52,7 million (R60,9 million).

High operating and reorganisation costs pushed the ratio of operating costs to total income up 71,2 percent. Other income declined by 12,4 percent. Provision for bad and doubtful debts were kept at the previous year's levels.

'No-fault' system for accidents

(58) M+G 24-30/5/96

Mail & Guardian Reporter

ACCIDENT victims and their lawyers will be in for a nasty shock when Transport Minister Mac Maharaj unveils plans for a belt-tightening revamp of the Multilateral Motor-vehicle Fund (MMF) later this year.

Sources close to the Transport Department told the *Mail & Guardian* this week that the existing set-up, under which lawyers and experts prove negligence and secure high damages awards from the fund for their clients, is likely to be replaced by a "no-fault" system. This means proof of negligence in accidents will become irrelevant — the fund will automatically pay out.

Sources say the switch will be accompanied by a clampdown on damages awards. There are plans to scrap general damages awards, to cap loss of earnings damages awards to less than R3 000 a month and to put a lid on damages for medical expenses.

If the move goes through it will not only leave many accident victims stranded with pitiful awards, but will also torpedo thousands of lawyers whose staple work comes from the MMF.

It is understood the draft White Paper will allow victims to sue directly for the balance of their damages. But it will be worth it only if the person who caused the accident is one of the few rich enough to take out private insurance.

Critics of the fund say the new system will mean innocent motorists will have to pay for their negligent fellow drivers (the fund gets its money from a levy on the fuel price).

Proponents of the new scheme say it will pay its own way, hauling the fund out of the red. The fund claims it has a R4-billion actuarial deficit.

But its critics dispute the scale of the deficit. Interest groups representing accident victims and their lawyers hit out at the fund's refusal to open its books to the public to prove this deficit.

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Human rights body takes up cudgels on bank clients' behalf

(58) Star 25/5/96

Cape Town – The Human Rights Commission has joined in the fight against banks over the refusal by some of these institutions to disclose information on accounts being investigated for excessive interest charges.

The HRC has now requested that this information be submitted within 21 days. Without the information, clients are unable to have their accounts recalculated and to claim money back in instances where they were overcharged.

The commission made the requests on behalf of 182 account holders whose claims, totalling more than R2,2-million, were being investigated by the Financial Research Foundation this week.

Dave Thomas of the foundation said: "All banks, except First National Bank, have refused to pay out legitimate claims since August last year.

"FNB and Nedcor have been the only banks so far to respond to the commission's request," – Own Correspondent

... interest-rate case on Wednesday

'Collusion' decision due this week

(58) CT (BR) 27/5/96

By Roy Cokayne

Pretoria — The Competition Board will decide on Wednesday whether to hand the police the case it has built on the commercial banks' recent 1 percentage point increase in interest rates.

Pierre Brooks, the Competition Board chairman, confirmed on Friday that the board would make a decision at its meeting on Wednesday.

"We have approached the commercial banks for comment and have received replies from one or two of them.

"Once we have received replies from all of them, we will assess them and determine what is to be done," he said.

Brooks said collusion and price fixing were outlawed and the Competition Board therefore did not have to conduct a formal investigation.

"We build up a case and hand the matter over to the police with a view to prosecution.

"The Competition Board is not the enforcing party but the initiator where we see the notice on the prohibition of collusion and price fixing has been contravened," he said.

Brooks said the Competition Board had co-operated with the police in the past, giving them information and helping them build cases. But the board did not decide whether to prosecute, he said.

Brooks said one of the matters he would bring before the board meeting on Wednesday was whether a successful prosecution was likely, considering that cases such as these had to be proven beyond a reasonable doubt.

After the 1 percentage point increase by the commercial banks, Brooks said the Competition Board wanted to know why the banks had found it necessary to increase their interest rates by the same margin on the same date.

He said if a decision had been taken within an association, such as the Council of Southern African Bankers (Cosab), that decision would fall within the prohibition on price fixing and could be a contravention of that prohibition.

Cosab has denied there has been any collusion between the banks.

Brooks said that the Competition Board had previously discussed the issue of increasing interest rates by the same margin on the same date with the commercial banks.

Interest-rate increases were usually in direct response to an increase in the Bank rate, he said. The latest interest-rate increase was not preceded by an increase in the Bank rate.

Brooks said there was no doubt the board would take this factor into account.

He said the various commercial banks should have been in different positions because there had not been an increase in the Bank rate that would affect them all uniformly.

T-bill at 16,10% eases rate pressure

By Nancy Myburgh
MARKETS CORRESPONDENT

The three-month treasury bill rate of 16,10 percent at Friday's treasury bill auction, down from 16,21 percent the previous Friday, reduced the likelihood of a rise in the Bank rate this week, Chris Stals, the Reserve Bank governor, said on Friday.

"It certainly will take some of the pressure off the Reserve Bank (to raise the Bank rate)," he said. Bank officials said the Bank did not intervene in this week's tender in an attempt to hold the rate lower.

Stals had said early last week that a treasury bill rate of 16,25 percent, or a quarter-point above the Bank rate, would put pressure on the Reserve Bank to raise the Bank rate again.

It had already raised the Bank rate from 15 to 16 percent on April 29.

The Bank rate is the rate at which commercial banks borrow funds from the Reserve Bank overnight.

Banking officials said the treasury bill auction to watch for a threat of a rate eclipsing 16,25 percent was not last week's, but the one on May 31.

"Too much was made of last week's treasury bill auction in the first place," said John Lloyd, the director of Standard Corporate and Merchant Bank's treasury division.

He said there could be more upward pressure on treasury bill rates on May 31 if the money-market shortage was really high.

The money-market shortage is the commercial banks' short-

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T- bill at 16,10% dilutes rate pressure

☐ From Page 15

fall of funds required to meet their daily commitments to clients — the "leading indicator as to whether capital is flowing into or out of the country," Lloyd said.

It is reflected in the amount banks borrow from the Reserve Bank overnight at the bank rate.

A high shortage would require banks either to bid up money-market rates, such as rates on three-month NCDs (negotiable certificates of deposit) in an attempt to attract more liquid assets, or to borrow more from the Reserve Bank.

However, higher money-market rates have squeezed banks' profit margins, such as those over the past three months, which have increased on average more than 2,25 percent.

It was that tightening of margins that prompted commercial banks to increase prime lending rates on May 17, the second time in three weeks.

A significantly high money-market shortage next week could raise expectations of higher interest rates in general, Lloyd said.

If that happened, then banks would be likely to tender for treasury bills at a higher rate.

"If the market thinks the whole structure of interest rates might go up, there's no way they're going to tender for three-month assets (at a rate at which) they'll be holding those assets at a loss," he said.

The money-market shortage normally increases at month-end, when banks pay out government wages and salaries. Thursday's money market shortage was R7,014 billion, up slightly from Wednesday's shortage of R6,859 billion. Rates on three-month NCDs were unchanged on Friday, according to Rand Merchant Bank figures, at 16,85 percent.

Next week's treasury bill auction will come at month-end, and in the wake of the expiry of the R145 government bond on May 30.

The R145 is one of the "first-tier" assets banks use as collateral at the Bank. If banks do not have sufficient other first-tier assets after the bond expires, then they will have to use longer-term assets as collateral at the Reserve Bank, and be charged the penal rate of 17,5 percent.

Industrial shares closed firmer on the back of the reduced threat of a bank-rate hike this week, brokers said. The industrial index closed up 38,4 points at 7789,2. The all share index rose 15 points to end at 6686. Gold shares ended marginally weaker on a lacklustre bullion price closing 2,6 points down at 1973,1.

Bank needs support

(58) Sowetan 27/5/96

Community banking can succeed with help of Government and unions

By Isaac Moledi

COMMUNITY BANKING can be viable in South Africa if it gets Government and big business' support, says the chief executive of the embattled Community Bank Cas Coovadia.

Coovadia says although the Bank, which is supposed to pioneer community banking in South Africa, is going through a rough patch, the concept is still valid.

The Community Bank was put under curatorship early this month after experiencing liquidity problems.

The problem in South Africa, he argues, is that people associate community banking with low-income communities only.

Assured of survival

The concept of community banking can only be assured of survival if institutions with large sums of money – from both the private and the public sectors – recognise the role community banking can play in accessing low income communities to housing and enterprise finance.

Coovadia says the bank had to apply for curatorship as a last resort after negotiations with big business to put money in the Community Bank – which would have solved its cash flow problems – drew a blank.

Due to lack of support from big business, the bank had to rely on deposits from ordinary people.

"What we are saying is that you can't expect low income people who are having difficulty in making ends meet anyway, to be major depositors into an institution like ours.

Overly optimistic

"Government and its departments, the unions, insurance companies, pension funds and parastatals need to deposit their money with us too, so that we can be in a position to lend to low-income communities," he says.

Coovadia says when the bank was formed, its management was "overly" optimistic about the savings capacity of low-income people, as well as the readiness of the private sector to put money in an institution like the Community Bank.

According to Coovadia, the key problem of the bank is not poor management, bad debts or corruption, but liquidity.

In fact, the bank has lent about R90 million in the last two years to low income communities. This represents about R80 million the bank spent in housing and R10 million to small enterprising and personal loans lending.

Until a month ago, the bank granted housing loans in Gauteng and the Western Cape.

In Gauteng, Community Bank has granted 811 loans and its closest competitor issued only about 300 loans, says Coovadia.

The bank, he adds, has also granted about 300 loans in the Western Cape.

"This situation shows that to a certain extent, we have been victims of our own success. That is why we have no money," says Coovadia.

Among the problems he believes had a serious impact on the bank and drained its finances, is that the bank expanded faster than expected resulting into 17 branches opened in two years at the cost of R500 000 a branch.

Initial capital

Also, the Community Bank had to continue paying an interest of about R10 million on the initial capital raised from the Independent Development Trust, Development Bank of Southern Africa, Industrial Development Corporation and some commercial banks.

"The demand for the service shows that Community Bank has a role to play and has the potential to be viable if institutions with large sums of money and Government show their confidence by placing some of their money in it," Coovadia says.

"We don't want handouts. We are saying to these institutions deposit your money with us and we will give you market-related rates of return on those monies.

"By depositing directly in us, the Government will also be showing confidence in community banking and this will encourage other institutions to follow," argues Coovadia.

Coovadia believes there is still hope for the bank to survive.

He says the Curator, Steward Patterson, is expected to work on the restructuring of the bank – from a mutual bank to an equity bank – to enable it to raise enough investment.

This will mean that the people will invest directly and have shares with the board of trustees still holding the majority shares to enable them to manage the vision of the bank.

"If the needed investment cannot be raised, then the Curator will take whatever decision he has to take," he says.

Formed in early 1994, the bank's main objective was to bring to the banking fold, people who have been overlooked by the large commercial banks because of their income earnings.

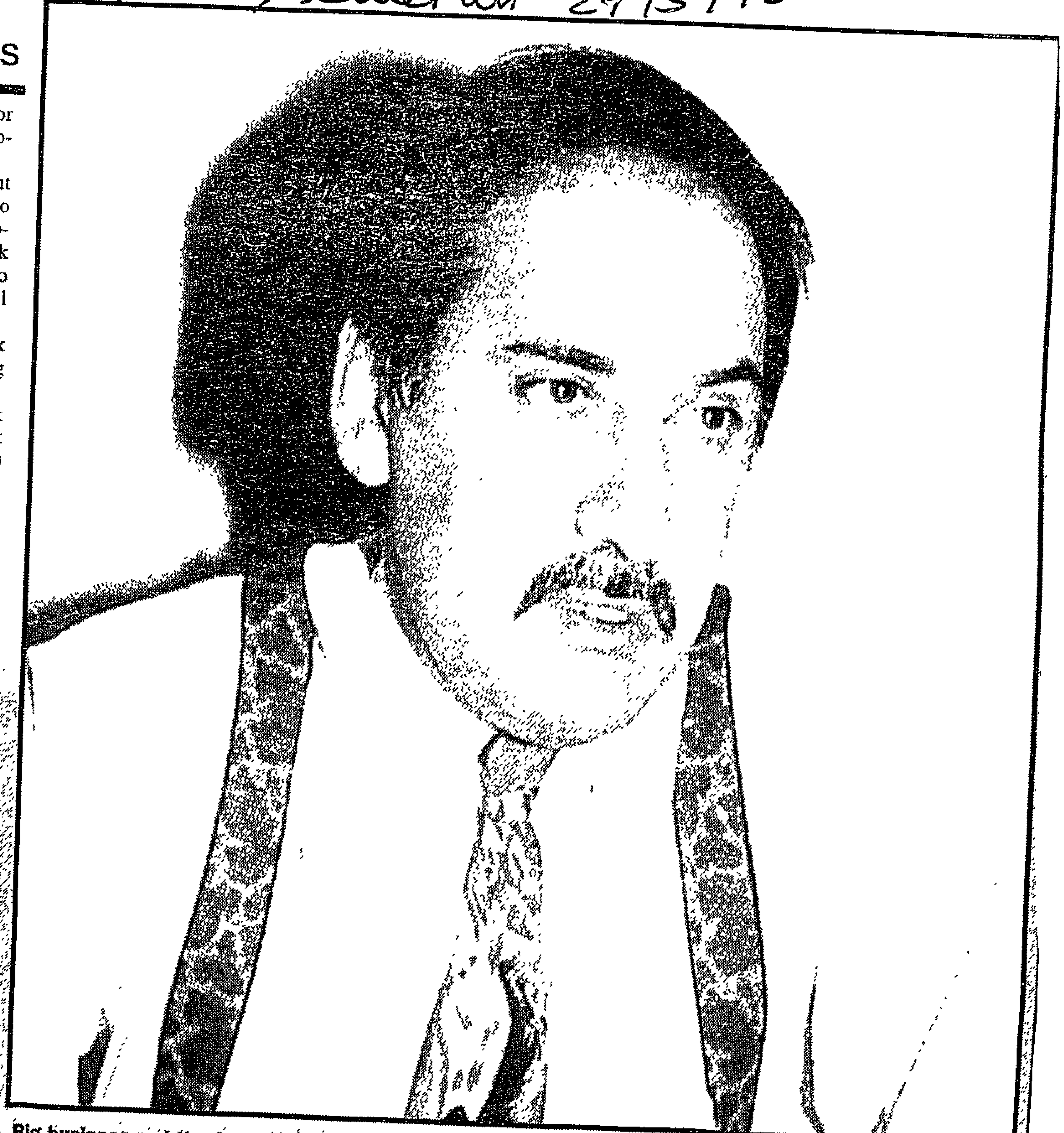
It provided housing loans worth not more than R30 000 and personal or business loans of less than R15 000.

The bank was established with an initial capital of R200 million raised from the IDC, DBSA, IDT and some commercial banks.

But only R130 million of the R200 million has been issued to the bank so far.

It is understood the bank has incurred a loss of about R21 million during the first 15 months of operations. This was followed by another loss of R23.3 million in the nine months to last December.

Besides the capital from IDC, DBSA, IDT and commercial banks, the Community Bank has been operating with deposits of about R20 million from ordinary people.



Big business and the Government should take the lead and invest with the Community Bank if the notion of community banking is to succeed in this country, says Cas Coovadia.

PIC VELI NHLAPO

Homeowners vow to fight rate increase

Cosatu plans protest on interest rates

(58) CT(BR) 28/5/96

By Stuart Rutherford and Reuter

Durban — Public pressure is mounting on the country's largest banks to reverse their recent unilateral 1 percentage point interest rate increase, with Cosatu announcing yesterday that it would lay charges against the banks and call protest marches for July 6.

Also yesterday, the South African Consumer Affairs Corporation (SACAC), a non-profit welfare organisation based in KwaZulu Natal, appealed to consumer bodies countrywide to support its mortgage bond boycott.

SACAC called on its 360 000-strong membership in the region to stop paying bonds until the government intervened to force banks to reduce interest rates.

"The executive committee rejects and condemns the collusion by banks to unilaterally increase the interest rates," said Sam Shilowa, the Cosatu secretary-general, reporting on last Friday's meeting of the labour federation's executive committee.

"Not only have they committed a crime, but they are further making it impossible for workers and the poor to afford housing ... We will lay a formal charge with the police and seek a meeting with the banks to call on them to drop the increase."

Allegations of collusion by banks are being investigated and a decision is expected tomorrow.

Shilowa said Cosatu would hold marches on July 6 to protest against the rate rise. "We call on all South Africans to support this action .. We will also adjust our wage demands to take on board this latest increase. When this happens the banks will have to accept the blame and responsibility."

Kevin Dempsey, an SACAC spokesman, said yesterday that struggling bondholders in KwaZulu Natal had thrown their weight behind the campaign and the organisation had been flooded with telephone calls. A petition calling for the intervention of Trevor Manuel, the finance minister, had been launched.

Vernon Govender, the chief executive of SACAC, said the campaign had grown out of the distress of its members who found it was becoming impossible to meet their bond commitments and other financial obligations.

The major banks did not share his view and most called the proposed campaign unnecessary and short sighted.

Lance Edmunds, the general manager for housing with the Council of South African Banks, said the strategy was foolish and would bring the housing process to a standstill.

Trevor Olivier, the general manager of mortgage lending and savings administration for NBS, said the campaign would only succeed in chasing the banks out of the market and prevent the regeneration of funds for reinvestment in the economy.

"The government should stamp this out forthwith. We will act swiftly and with resolution. People stand the chance of loosing their houses," he said.

□ See Business Watch, Page 20

Aids crisis takes toll on employers and employees

CT (BR) 28/5/96

(SB)

Unless action is taken to resolve the consequences of the Aids epidemic employers face a significant reduction in profitability, while employees will see a substantial reduction in their benefits.

Life assurance expert on Aids, Peter Doyle of Metropolitan Life, told the annual conference of the Institute of Retirement Funds in Cape Town that there was no chance of heading off the epidemic in South Africa with more than 1,5 million people now HIV infected.

Doyle said the window of opportunity to avoid an epidemic similar to that seen in other sub-Saharan countries had passed.

"Since most Aids cases occur amongst young adults there will clearly be an impact on those in employment."

Doyle said employers could expect the mortality rate to double over the next five years, with serious implications for employee benefits and for profits.

The implications on employee benefits from the higher than would normally be expected mortality and disability would be exacerbated because of the generous in-service lump-sum benefits in South Africa, which ranged up to seven times annual salary.

Medical schemes and other health care costs would also be affected. The impact of Aids on any particular employee benefit arrangement would be affected by three important factors. These were: how the risk benefits were structured; who paid for the risk benefits; and was the benefit structure or the contribution rate fixed.

Doyle said the issue was further complicated by the new Labour Relations Act, supported by the new Constitution. Central to these changes in legislation and the greater focus that would be given by organised labour to the economic struggle, was the "question of discrimination in the work place".

The trade unions were already well aware of the issues, which were brought into focus by the increase in premium rates for the National Union of Mineworkers' fund last year.

Doyle said World Health Organisation principles for employment of HIV positive people were likely to be legally entrenched in South Africa.

These principles stated:

- The only criterion for employment was fitness to work;
- HIV infection did not, in itself, constitute lack of fitness to work;
- HIV screening for employment was not required; and
- Employees affected by Aids must be protected from discrimination.

The Labour Relations Act would also make it difficult for employee benefits to be separated from employment.

Doyle predicted the HIV epidemic and the new Labour Relations Act would come "face-to-face over the issue of employee benefits.

The problem was that many of the actions required to ensure financial soundness of retirement funding could be construed as unfair discrimination.

However, if some action was not taken, all employees would face a reduction in the level of employee benefits.

Doyle said there were a number of options available depending on the structure of the benefit arrangement.

These included: A review and agreed purpose of employee benefits; risk benefit costs had to be capped in some way; basic levels of cover had to be reduced and voluntary top-up cover increased; retirement funding had to be protected from escalating in-service costs; changes to benefits had to be negotiated; professional and objective advice had to be received; and well-structured health care and educational practices in the workplace had to be implemented.

Doyle said until cost-effective treatment for HIV-related diseases became available, most South African employees could expect a continuous reduction in the value of their employee benefits.

It was up to the retirement industry to find creative solutions to escalating employee costs, while not falling into the mire of unfair discrimination.

Cosatu takes strong view on bank rate

(58) Star 28/5/96

The alleged "collusion" of banks to increase interest rates would result in the Congress of South African Trade Unions laying a charge with the police, and would also be challenged by industrial action, the giant federation has said.

Speaking in Johannesburg yesterday, Cosatu secretary-general Sam Shilowa said their executive committee condemned the move by banks and hoped that the mobilisation of labour would help the banks to realise their folly and reverse their positions.

The proposed action would include marches on July 6 as well as a one-week boycott of banks.

Shilowa said the increase in interest rates would make it impossible for workers to afford housing.

▶ **Pressure on banks**
... *Business Report*

SA commits money to African bank fund

(58) BD 29/5/95

John Dludlu

IN A growing indication of SA's commitment to the African Development Bank, government was to discuss plans which would see SA becoming the first nation in Africa to contribute to the bank's concessionary fund, a finance ministry spokesman said yesterday.

This follows a statement by Finance Minister Trevor Manuel to the bank, indicating SA's intention to become the first regional member to contribute to its African Development Fund.

Ministry spokesman Jennifer Wilson said the Cabinet would discuss the scale and timeframe of SA's planned contribution.

The fund, which once lent more than $1bn a year to some of Africa's poorest nations, has not been liquid for some time.

Since his appointment as the bank's president, Omar Kabbaj has been involved in discussions to replenish it.

SA sources, who attended last week's annual meetings of the bank, said that discussions on the replenishment were continuing. Manuel's address was "well received" and was seen as a vote of confidence in the bank and the continent, they said.

Manuel called on other regional members to follow Pretoria's lead in contributing to the fund, which has traditionally been made up of contributions from non-regional bank members.

Wilson also confirmed that Manuel had used last week's visit to sign a co-operation agreement with the bank, paving the way for the bank to begin lending to the private sector in SA.

Shortly before the departure of the SA team to Abidjan last week, government confirmed its interest in lifting its 1% shareholding in the bank, but said that the move would depend on various factors, including the availability of unallocated shares and the pace of restructuring in the bank. At the time of SA's accession to the bank last year, the amount of unallocated shares stood at just under 3%.

Banks' assets growing, but analysts warn of slowdown

BD 29/5/96 (58)

Adrienne Giliomee

THE banking sector's asset base grew 4,2% to R415bn during the first quarter of the year but analysts warned that a cooling off period was imminent following recent increases in prime overdraft rates.

The latest Reserve Bank DI900 statistics for March showed that banks' assets grew faster than in the fourth quarter of last year when growth was 3,7%.

IBCA banking analyst Mark Young said higher interest rates during the past two months were expected to "hurt the already stretched consumer".

Absa still has the biggest market share at 27,5% or R110,4bn.

However, this percentage is lower than the comparable period in March last year, when its share was 28,7%.

Standard Bank had the second largest share at 21,4% or R85,9bn.

Standard was followed by First National Bank with 17,6% or R70,8bn, and then came Nedcor at 16,3% or R65,8bn.

Mortgage loans in the Nedcor group had increased by 5% to R25,8bn in the first quarter against the fourth quarter of last year, compared with the market average of 4,2%.

Absa maintained its dominant position with 36,2% (R48,9bn), while Standard Bank captured 16,8% (R22,7bn) and FNB 11% (R14,9bn).

Young said that other players in the market — in particular Investec — had been very aggressive in the professional market, and they showed growth in their mortgage books for the first quarter and the year to March of 10,1% and 51,4% respectively.

He said Mercantile Bank had increased its book by 165% during the year, off a small base.

Young said that market growth appeared to have slowed in the credit card market.

Credit card debtors had increased by only 6% in the first quarter of this year — against 17% for the last quarter of last year, and 47% for the year.

"Banks have become much more circumspect in granting private label cards because of the higher loss ratios associated with them," he said.

Nedcor had made the biggest gains in the credit card debtors market for year-on-year figures to March, and its market share had grown to 19,8% from 11,8%.

Standard Bank lost ground to 31,7% from 39,2% and Absa to 19,5% from 23,6%.

Growth in the instalment credit market had started to ease off, registering 4,1% for the quarter to R59,2m against 6% in the last quarter of 1995.

Market growth was 25,6% for the year to March.

"It appears the market has begun to stabilise after the introduction of the Nedcredit product and demand has become soft, particularly in the second hand car market," Young said.

"Public service retrenchments have also begun to filter through," he said.

Land Bank suspends tender

(58) BD 29/5/9

Helmo Preuss

THE Land Bank has again suspended the weekly tender for its bills, due to the volatility in the money market.

A bank spokesman said the tender — suspended from March 22 until May 17 — had not gone ahead last Friday, and was unlikely to this Friday, due to normal month-end pressures on the money market, which led to higher money market interest rates.

The resumption of the weekly auction of R50m would be evaluated regularly, but the bank was dependent on its money market bills for only about 5% of its funding, he said.

The bank, which had held fire on fully raising interest rates had now raised them. The rate to co-operatives has been increased 1% to 17%. Shorter-term production loans to farmers have risen 1% to 18%. Rates on medium-term equipment loans will rise 0,5% to 19,5% from June 15. Shorter-term production loans had a 1,25% increase on May 8 to 17,0%. From May 24 these were now 18,0%.

EXECUTIVE SUITE

Cosatu puts banks under pressure

(58) Sowetan 29/6/96

Sanco has also threatened to join the strike to protest rates hikes

By Joshua Raboroko and *Sapa*

BANKS are under severe pressure from Cosatu and its allies to reduce the latest interest rate increase and to stop issuing threats to evict bond defaulters.

The organisations have warned they will embark on mass protest action to put pressure on the banks to meet their demands.

Meanwhile, the Sasbo-Finance Union yesterday called for urgent top level talks with Cosatu, banks and the Reserve Bank following union federation's planned actions against banks.

Cosatu general secretary Mr Sam Shilowa warned that they would lay a criminal charge against banks.

Sasbo-FN general secretary Graeme Rowan, who claims to represent 75 000 bank workers, said yesterday that although the union was a Cosatu affiliate, they had been unaware of the decision "as our members left the executive meeting early."

He said the issue was of major concern to the union as they were committed to job security.

"Both Cosatu and the banks have the potential to affect job losses. Rash action by either party could lead to an acceleration in downsizing the workforce.

"The banks are struggling to match global competitive standards and it is obvious that fluctuations in interest rates and margins have the potential to affect profitability and job security," he said.

The South African National Civic Organisation yesterday supported Cosatu's proposed march against banks next Thursday adding that they would launch a separate protest action against the financial institutions.

Sanco spokesman Mr Mbongeni Ngobeni said they were [illegible] interest rate hikes and the impending threat by banks to crack down on bond defaulters from June 1

"The banks have consistently ignored us when making decisions regarding housing. They never consulted us when they negotiated a Record of Understanding with the Government on ending bond boycotts. They also increased interest rates without consulting us or the Government."

Ngobeni said Sanco's national executive committee would meet on Sunday to decide what form of mass action to take.

Deputy general manager of the Council of South African Banks Mr Steward Grobler yesterday said Cosatu had every right to protest but the banks would not reverse their decision now.

SOUTH AFRICA'S NATIONAL FINANCIAL DAILY

MAY 30 1996

Competition Board to stop bank collusion inquiry, sources say

(58) CT (BR) 30/5/96

By Roy Cokayne

Pretoria — The Competition Board is believed to have decided yesterday to halt its investigation into collusion between the four large banks to raise interest rates.

On May 17, Absa, Standard, Nedcor and First National all raised their prime rate 1 percentage point to 20,5 percent.

The board said yesterday it had taken a decision, but would not release it immediately because it wanted to provide a written justification.

Observers said the board was moving slowly to craft an escape from the inevitable criticism it would face from the trade unions and other consumer groups.

Market sources said the board had decided to issue a written statement on its decision because it had found insufficient evidence to hand the matter over to the police and feared a public backlash, particularly from Cosatu.

The trade union said earlier this week that it intended to lay charges against the banks over the interest rate increases and called for protest marches on July 6.

The four largest commercial banks said yesterday the board had not informed them of its decision.

The board will also provide a written explanation of its decision into whether Vodacom and MTN have broken any South African anticollusion laws.

Its interest in the cellular phone companies was sparked by a disaffected employee who recently produced a document that apparently revealed a deal between the two companies to co-operate in setting tariffs and controlling costs.

Pierre Brooks, the board's chairman, said last week that he would discuss the chances of a successful prosecution at yesterday's board meeting because criminal cases have to be proven beyond a reasonable doubt.

He said the board could only recommend the initiation of criminal proceedings if it found the prohibition on collusion or price fixing had been contravened. The board builds up a case and then hands it over to the police, but the final decision on whether to prosecute rests with the attorney-general.

Brooks has been critical of the lax enforcement of competition laws.

He said last year the criminal sanction in competition policy had not worked satisfactorily in the past, largely because it involved a commercial crime that did not appear to have the same priority as other crimes.

Brooks also said that the police and prosecuting authorities lacked a culture of antitrust policy enforcement.

Hundreds jailed in big bank cleanup

(58) Sowetan 31/5/96

LAGOS – A bid by Nigeria's military junta to clean up the country's troubled banking sector has put hundreds of rich and influential Nigerians behind bars for fraud and corrupt practice.

The battle against bank fraud is one of the myriad of wars waged by the regime of General Sani Abacha against corruption.

The government believes cleaning up this sector is essential to revive the nation's ailing economy

More than 100 erstwhile ~~million~~aires are being detained at the headquarters of the Federal Investigation and Intelligence Bureau here, officials said.

Their luxury limousines, skyscraper offices and other properties have been seized by the government pending investigation into their financial background.

"When I went to visit my uncle last week in his cell at the FIIB, he was looking like a shadow of his old self and he must have lost about 20kg during the three months he has been in detention," a relation of one of the detained bank directors said

Some of the men have already been tried and convicted under a decree, promulgated last year by Abacha.

About six years ago, there were close to 150 banks in the country, while scores of others were waiting for approval from the Central Bank of Nigeria.

But in the past two years, about 30 of these banks have been officially declared bankrupt, after being run aground by their directors.

Some of the bank directors knowingly defrauded their banks with huge loans

Policies introduced by these bankers often totally contradicted those laid down by the government, the CBN and other regulatory bodies, including the Security Exchange Commission

But the bubble burst [illegible] Abacha issued the Failed Banks and Financial Malpractices Decree No 18 of 1995 which calls for imprisonment [illegible] bank fraud and for givers or [illegible] unguaranteed loans from the [illegible]

Since then, some bank [illegible] directors whose banks collapsed, [illegible] fled the country [illegible] prosecution

Sapa-AFP.

'Insufficient evidence' of banks' collusion

(58) BD 31/5/96

Adrienne Giliomee

THE Competition Board has decided against investigating alleged collusion between SA's major banks in their recent simultaneous hike in interest rates, ruling there had been "insufficient evidence" to substantiate claims.

The board announced also that it would formally investigate alleged anti-competitive behaviour by cellular phone network operators MTN and Vodacom.

Board chairman Pierre Brooks said yesterday the board could not act on speculation of collusion by the banks, saying there had been "an absence of concrete evidence".

"There is a thin dividing line between unilateral price leadership and collusion, but banks acted on business principles."

He added that individuals or other organisations were free to press charges with the police. The Consumer Council, which had lobbied for the board to probe the rate hike, said it had no plans to press charges.

Brooks said the banks argued that the dynamics of the money market shortage and the currency crisis forced them to raise rates. "Banks were forced to follow Standard Bank's example of lifting prime overdraft rates for competitive reasons."

But he said the banks should have advised and informed consumers of their actions in a more comprehensive manner.

He warned that banks should take note of the perception that the Council of SA Banks and the Association of Mortgage Lenders were used as vehicles for collusion.

"Correspondence between the banks and their clients may on occasion reinforce the perception," he said.

The cellphone investigation covered the agreement between the two operators forged in London in 1994, which covered areas such as bonus connection fees and tariffs. Service providers had made allegations of anti-competitive behaviour.

"The board decided that the relevant issues can best be addressed by undertaking a formal investigation into restrictive practices that exist, or may come into existence, in the industry," Brooks said.

Vodacom and MTN, who have previously denied collusion, said they would co-operate with the investigation.

Research Funding Committees are quite prepared to make a statement on this issue if further information or clarity is required.

In the 1995/96 financial year the Directorate: HIV/AIDS and STDs set up both an NGO Funding Committee and a Research Funding Committee. Both committees are made up of members who were nominated through a process of public nominations. They are entrusted with the responsibility of establishing funding criteria; establishing. annual priorities; calling for funding proposals; assessing and evaluating funding proposals; allocating funding, and monitoring and evaluating the use of such funding. The list of NGO allocations during 1995/96 is available.

Minister for Health: rental of accommodation

274. Dr W A ODENDAAL asked the Minister for Health:†

What amount was spent during the (a) 1995 calendar year (i) by her on the rental of accommodation provided by the State in (aa) Pretoria and (bb) Cape Town, (ii) by her Ministry on hotel accommodation for her (aa) in Pretoria, (bb) in Cape Town, (cc) elsewhere in South Africa and (dd) abroad and (iii) by her Ministry on (aa) domestic and (bb) overseas flights undertaken by her and (b) 1995/96 financial year on the (i) refurnishing and (ii) interior decorating of her office suite in Pretoria?

N475E

The MINISTER FOR HEALTH:

(a) (i) (aa) R12 400 was spent on accommodation provided by the State in Pretoria.

(bb) No amount spent on accommodation provided by the State in Cape Town.

(ii) (aa) No amount spent on hotel accommodation in Pretoria.

(bb) No amount spent on hotel accommodation in Cape Town.

(cc) R4 968 spent on hotel accommodation elsewhere in South Africa.

(dd) R30 393,81 spent on hotel accommodation abroad.

(iii) (aa) R42 100 spent on domestic flights.

(bb) R29 247 spent on overseas flights.

(b) (i) No amount spent.

(ii) No amount spent.

Multilateral Motor Vehicle Accident Fund

288. Mr D H M GIBSON asked the Minister of Transport: 58

(a) What was the average ~~(i)~~(aa) time spent on and (bb) cost of processing claims in terms of the Multilateral Motor Vehicle Accident Fund and (ii) amount paid out in terms of the fund in the (aa) 1992/93, (bb) 1993/94, (cc) 1994/95 and (dd) 1995/96 financial years and (b)(i) how many claims were still outstanding at the end of each of these years and (ii) what were the principal reasons for the delays?

N490E

The MINISTER OF TRANSPORT:

(a) (i) (aa) The pattern varies somewhat from year to year, but the average time taken for an MMF claim to be lodged in some 18 months, and the average time taken to finalise the claim is a further 16 months thereafter, that is some 34 months in total from date of accident to date of settlement.

(bb) During the MMF's financial year 1994/95 the following costs were incurred in the process of settlement:

	Rm
Fees to attorneys and other experts like doctors and actuaries	187
Administration expenses including handling fees to agents	31
Total	218

During that year 26 492 claims were finalised. These two figures are not directly related since the settlement procedures straddle more than one year, but the ratio indicates a cost of the order of R8 200 per claim.

(ii) The amounts paid by way of compensation to victims of road accidents (excluding reimbursement of legal fees) were as follows:

Financial Year		*Amount (Rm)*
1992/93		560
1993/94		654
1994/95		798
1995/96	(estimate)	932

It is not known how much victims pay out of this for further legal fees.

(b) (i) The number of claims outstanding were as follows:

30 April		*Number*
1993		56 429
1994		60 726
1995		65 709
1996	(estimate)	71 000

These figures increase by approximately 8% per annum. If the time taken to finalise remains constant, the outstanding claims will grow as new accidents and claims grow.

(i) The principal reasons for the delays are listed below. The first four items (a)-(d) were findings of the Melamet Commission, and the numbers in braqcketys denote the page numbers of the Commission. and the numbers in brackets denote the page numbers of the Commissionb's Report where the respective findings were made. These findings are confirmed by the MMF's subsequent experience: in particular, inflated claims, fraudulent claims and inflated legal accounts have assumed vast proportions.

(a) Some attorneys acting on behalf of claimants unnecessarily delay the lodging of claims (38, 39, 61 and 62); run up unnecessary legal costs (68); grossly overstate claims (55); submit fraudulent claims (74, 76, 77 and 78); and render highly inflated accounts (68, 75 and 76).

(b) Some medical specialists, known to prepare medico-legal reports exclusively for claimants, quote estimates of future medical expenses which are many times higher than the estimates obtained by the MMF and its agents from other medical specialists (69).

(c) Some agents maximise their profit on the handling fee received from the MMF by being understaffed (28, 54, 55, 67 and 73). In his Special Report on his investigation—which coincided with that of the Melamet Commission—the Auditor-General also severely criticised the quality of claims handling by the agents, but found the claims handling of the MMF itself to be good.

(d) The long prescription period (generally three years) before a claim needs to be submitted makes it difficult to reconstruct the events giving rise to the claim (92).

Other reasons contributing to delays include the following:

(e) The legislation pertaining to road accident compensation is extremely complex.

(f) The documentation of a claim as submitted is often of poor quality: incomplete, lacking in evidence, or self-contradictory.

(g) Sometimes many weeks pass before police or hospital reports are made available.

(h) If an inflated claim cannot be settled amicably and litigation ensues, long queues at the Courts can delay matters further.

Hospitals: cost/income per patient per day

290. Mr M J ELLIS asked the Minister for Health:

Overhaul planned for vehicle accident fund

Cape Town – A draft white paper aimed at overhauling South Africa's ailing and complex Multilateral Motor Vehicle Fund was tabled by Transport Minister Mac Maharaj in Parliament yesterday.

The MMF state insurance fund, which receives premiums through a fuel levy of 9c a litre on petrol and 5,9c a litre on diesel, pays benefits to road accident victims.

The key proposals include an end to apportioning blame for an accident in favour of a "no fault" system; a cap on medical expenses; and an end to financial damages for non-financial losses, such as claims for "pain and suffering".

It also proposes an automatic annual increase of 9% in the fuel levy from a 12c-a-litre base – an increase of 3c a litre.

It is hoped the white paper and draft legislation will be finalised by September, and the "new" MMF operating by May 1 1997. – Sapa

MAC MAHARAJ

(58) Star 1/6/96

Triple blow to motorists as MMF bids for fuel levy

(58)

ST(BT) 2/6/96

By DON ROBERTSON

MOTORISTS are facing a triple blow to their pockets. In addition to Friday's 13c a litre increase in the petrol price, two other government funding levies are in the pipeline.

Transport Minister Mac Maharaj plans to add a permanent 3c a litre to the levy on petrol and to increase this by 8,8% a year in an effort to wipe out unpaid claims of R5-billion incurred by the Multilateral Motor Vehicle Accident Fund.

Also on the cards is the introduction of an additional levy on fuel to finance a dedicated road fund.

The planned MMF levy, contained in a Draft White Paper for the restructuring of the fund, is being discussed by Government, although the necessary legislation for the "new" MMF is not expected to come into effect until May next year.

The proposals came on the same day that the Central Energy Fund announced a "temporary" increase in the price of petrol and diesel of 13c/l and 5c/l respectively, effective from Wednesday.

For the road fund, the Department of Transport has proposed a levy of 8c/l as well as the doubling of licence fees, which could raise an additional R2-billion.

Since the beginning of the year the price of 93 octane petrol in Gauteng has rocketed by 34c/l (from 185c/l to 219c/l), while diesel has put on 27c/l to 202c/l.

The MMF, which will become the Road Accident Fund, had an accumulated deficit of R4,1-billion in the financial year to last April. In addition, it has a provision for outstanding claims of R5-billion.

Over the past six years, the volume of fuel sold increased by an average of 3% a year, while the level of claims paid by the MMF rose by more than 21% a year.

The White Paper, released on Friday, says that reliance cannot be placed only on the growth of fuel sold to meet escalating claims. Rather, the rate per litre will need to be regularly adjusted.

Mr Maharaj says that to make the MMF self-financing and fully covered by 2007, it will be necessary to increase the levy on petrol from the current 9c/l to 12c/l, with the levy on diesel rising in proportion. In addition, the levy will need to be increased by 8,8% a year in nominal terms.

The White Paper also proposes to limit the amount victims can claim and plans considerable savings in the MMF department, which in future will be controlled by the Department of Finance

It is estimated that savings of 41,5% can be achieved. The annual increase in the levy to 28c/l by 2007 should allow the MMF to show an operating profit of R230-million in 1998, after a loss of R434-million this year and R187-million in 1997.

It is projected that by 2007 the provisions for outstanding debt, estimated at R5,2-billion, will be fully covered. A R59-million surplus will be earned.

Savings will be achieved by placing a limit on medical expenses for permanent impairment. This will not exclude any reasonable costs which could be incurred after an initial period of 18 months.

There will also be a cap on claims for lost income of R2 500 a month or loss of support of R1 875 a month. It is proposed to scrap compensation for general damages such as pain and suffering.

"This package of proposals will ensure more benefits flow directly to all victims, remove the current distinctions between certain types of passengers, allow for more effective administration of the benefits and bring the fund to financial stability with its contingent liabilities covered by the year 2007."

Submissions on the proposals can be made to the Director-General of Transport after which draft legislation will be formulated.

CT (BR) 5/6/96

Bank needs to boost capital base

(65)

DBSA seeks better rate on homeland debt

By Christo Volschenk

Cape Town — The Development Bank of Southern Africa is negotiating with the government to refinance the R3,1 billion of former homeland debt on its books at higher interest rates, to help strengthen its capital base.

Almost half the total loan book of the bank is involved in the negotiations, the outcome of which will affect the bank's credit rating, said Div Botha, the bank's senior general manager.

The average interest rate on the debt is about 8 percent. Commercial banks' prime rate is 19,25 percent at present.

The bank gave the long-term loans to the homelands for infrastructure projects at concessionary interest rates.

The government's total service payments (interest and capital) on the R3,1 billion at those rates will be about R350 million annually for the next 10 years. If it agrees to refinance the final amount of the debt at higher rates, its annual service payments will be far higher.

The government indicated in the Budget that it would take over R2,9 billion of long-term debt the former homelands owed the bank.

Further disbursements by the bank to projects in progress have since pushed the debt to about R3,1 billion and will push it even higher next year

Once the projects have been completed and all disbursements have been made, the government will take the final figure on to its books, Botha said.

He said that negotiations between the government and the bank were "on-going and fruitful".

The bank was hopeful that some kind of agreement could be reached on the refinancing of its loan book in the next three months, Botha said.

The government recently decided that the bank would have to become financially independent. It also decided that it would stop guaranteeing the debt of public sector institutions.

The bank said in a report last year that about half the assets it funded now fell under the jurisdiction of the national government, while the rest fell under the jurisdiction of provincial governments.

Since it was seen as impractical and politically problematic to call upon provincial governments to repay debt incurred by homeland governments, it was decided that government should take over all the loans, the report said.

About R134 million of the debt involved in the negotiations was used to finance airports and national roads, and R509 million for national water schemes

Another R223 million was used to finance post and telecommunication networks.

A further R1,1 billion was used to finance district roads, which fell under the provincial governments

Racial study haunts state accident fund

MtG 7-13/6/96

(58)

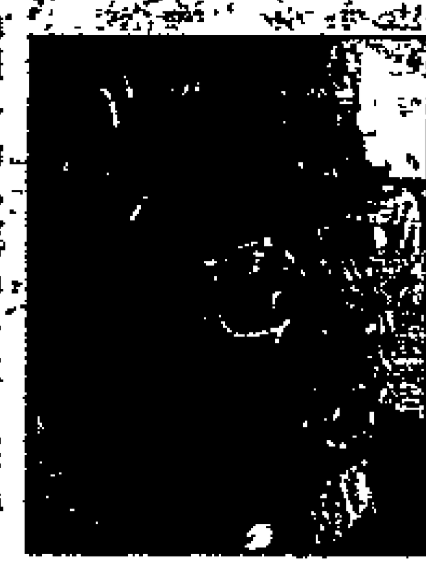
An imminent shake-up in the Multilateral Motor Vehicle Accident Insurance Fund has thrown what the scheme spends its money on into the spotlight. Mungo Soggot reports

A PSYCHOLOGICAL study which was used to justify lower damages awards for black children with head-injuries from car accidents is haunting the state car accident insurance fund.

Two years ago the Multilateral Motor Vehicle Accident Insurance Fund (MMF) pumped R21 000 into the study which was done by the Human Sciences Research Council.

Psychologists acting for the fund quoted the report in court to try to prove black children should be judged against special standards. In short, it was argued some of the failings in a black child with head injuries stemmed from a cultural background and not the accident.

The study was based entirely on data from a black college in Johannesburg and found "a consistent trend for the South African sample[s] to score lower than their American counterparts on [the] battery of tests administered".



Mac Maharaj: Minister at the wheel of insurance reform

Two years on, lawyers representing accident victims have cited the fund- [illegible] example of the fund's ineptitude and, more specifically, racism. Their attack forms part of a battle over the looming shake-up of the state car accident insurance scheme, which is likely to see the fund's role expanded.

Transport Minister Mac Maharaj is pushing for a revamp which could give all accident victims a payout regardless of whether they are to blame. The new "no fault" set up will cut lawyers out of the system by dispensing with the task of proving negligence. Maharaj proposes draconian caps on claims to make the new scheme feasible.

affairs last month. Apart from the drastic caps, they voiced misgivings about bequeathing the whole system to the MMF, which has been much criticised the past few years. A judicial commission of inquiry in 1992 found widespread mismanagement, incompetence and irregularity in the fund. In 1994 it was reported Cabinet was intervening over the decision of Willem Swanepoel, the head of the fund, to appoint his daughter as public relations officer without advertising the post. The action groups criticised Swanepoel for not even bothering to turn up to the briefing.

Addressing the parliamentary committee a few weeks later at the MMF offices in Pretoria, Swanepoel lambasted "certain attorneys" for mounting a campaign against the fund, using the report as ammunition.

Swanepoel told the committee one of the reasons for the attack was that it would be more difficult to mount heavy claims for black children involved in accidents. "We have had instances where a black child did not even suffer a head injury, but vast amounts are claimed on the grounds that the child performed poorly when measured against American or British standards. If you were to believe everything some attorneys and their psychologists tell you, then all the black schoolchildren in South Africa are brain-damaged.

"The MMF agreed to the proposed pilot study as a scientific exercise to help South Africa create its own indigenous statistics and standards, [illegible] yardstick for blacks." The MMF was currently taking the work of the pilot study further, he said.

He said many psychologists had welcomed the study as it was inappropriate to judge black South African children against psychological tests devised for Americans or Europeans. "This scientific exercise aimed at arriving at culturally fair standards is now being decried by the MMF's critics as a racialistic exercise, designed by the MMF with sinister intent to prejudice the rights of injured black schoolchildren."

The *Mail & Guardian* has established that parties quoted from the report on had voluntarily decided to withdraw the report before it was contacted by the Psychological Society.

The HSRC told the M&G this week the study had been "temporarily withdrawn from our library as certain parties quoted from the report on from the fund to a psychological expert specialising in medico-legal work enclosing the report which "should be borne in mind when considering claims involving brain damage to children".

That same psychologist said the although it was sometimes inappropriate to apply European tests to children who had been subjected to Bantu Education, the development of special "norms" for blacks was treated worldwide as a controversial and delicate matter which needed

Crash and burn: A report commissioned by the Motor Vehicle Accident Insurance Fund on whether black children who sustain head injuries in accidents should be judged for insurance purposes on a different scale to white children has been welcomed by some, lambasted by others

PICTURE: HENNER FRANKENFELD

'No-fault' system could hurt victims

Mungo Soggot

TRANSPORT Minister Mac Maharaj's proposed shake-up of car accident insurance will benefit negligent accident victims but will saddle the seriously injured with hopelessly inadequate compensation.

This is the opinion of accident victims and lawyers of Maharaj's draft White Paper on the Multilateral Motor Vehicle Accident Insurance Fund (MMF).

Maharaj is proposing a "no fault" system to replace the existing set-up under which lawyers prove negligence and secure high damages awards from the fund for their clients. This means proof of negligence in accidents will become irrelevant — the fund will automatically pay out regardless of who is to blame for the accident, taking all its work out of the courts.

But there will be a severe clamp [illegible] plans to scrap general damages awards for pain and suffering, to cap loss of earnings damages awards to R2 500 a month and to limit damages for medical expenses to R200 000 for the fully disabled.

Maharaj says the move is "victim-friendly" and will help the MMF's financial position by cutting costly lawyers and expert witnesses from the process. He wants to hike petrol 3c a litre to help pay for the new system.

Maharaj says he will debate the proposal with interest groups and says he has not yet decided on the crucial question of whether victims should be allowed to sue negligent drivers for extra damages.

Neville Cohen, an accident victim who has given expert evidence on compensation for accident victims in 300 cases, and who is a member of Disabled People South Africa, praised the idea of a "no-fault system".

But he said the "no-fault" system could be abused easily. For example someone who falls asleep at the wheel can simply say he was pushed off the road.

His main criticism concerns the draconian caps on damages awards [illegible] costs of giving a paraplegic a liveable life.

He said quadraplegics and paraplegics can need more than R1,5-million in damages for medical expenses alone, with just the paraphernalia a victim needs to get around costing R10 000 a year.

And he believes R2 500 a month is hopelessly inadequate to compensate a paralysed victim for loss of earnings. Cohen says the department justified the cap on 1991 figures, and had assumed 84% of the population earned this much. But five years on, he said, the correct figure of those earning this much would be closer to 50%.

He said the abolition of general damages for pain and suffering is worrying. In the past those damages were used by most paraplegics to help them move into a new house or alter their existing house. This could cost between R20 000 and R100 000.

The White Paper limits medical outlay mainly to provincial hospitals which, said Cohen, are not up to dealing with complicated spinal injury. He also questioned Maharaj's proposal to pay for only one atten- [illegible] a day.

Cohen said more emphasis should be put on reducing South Africa's notorious road accident rates, such as beefing up low penalties for drunken driving and teaching driving in schools.

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A new helping hand for South Africa's poor

(58) M+G 7-13/6/96 (BM)

One of the world's most successful lending organisations that targets the poor is to open its doors to South Africans. **Peter Roussos** reports on new hope for the informal sector

SCEPTICISM about lending to the poor is not confined to the corridors of banking. Few people believe that the poor, with virtually no jobs or income, no banking history or collateral, and no track record of repayment, could develop successful enterprises, pay back loans, and generate enough loan volume to be able to build successful institutions.

But the Ecumenical Development Co-operative Society (EDCS) has succeeded where many others have failed: it boasts a 90% recovery rate after 21 years of operation and loan loss provision of 20% of outstanding balances.

Arguably one of the world's most successful lending organisations that targets the poor, and one of the only institutions in the sector with an average loan size of US$250 000, EDCS is soon to open its doors in South Africa, with Zanele Mbeki, former head of the Women's Development Bank in South Africa and wife of Deputy President Thabo Mbeki, on its international board.

On a fact-finding trip, Gert van Maanen, EDCS general manager, met South African players, including Cas Coovadia of the Community Bank, Zanele Mbeki and the Reverend Peter Story. They agreed a reference group should be set up. The next step will be to recruit the EDCS branch manager in South Africa.

Over the past 15 years, numerous organisations such as the EDCS, the Grameen Bank, Accion International, BankoSol and Bank Rakyat have revolutionised the concept of lending to the poor. Loan sizes vary from a few dollars in the case of Grameen (average loan size of $75) to $250 000 in the case of EDCS.

The common thread is that the loans are repaid; the institutions are viable, and the sector is growing.

How can these institutions lend profitably to the poor, despite the absence of almost all the four "C's" traditionally required by the commercial banking sector: collateral, capital, character and capacity?

The EDCS was founded in 1975 to mobilise financial credit and resources from the First World to aid development of the Third World. It is not an aid agency — it mobilises the institutional savings of the churches and the individual savings of church members and invests them in selected business ventures that have the potential to repay these loans with interest.

The majority of the bank's clients are groups, mostly co-operatives, rather than individuals. The bank finances productive investments that lead to sustainable income-generating activities (a viable business plan is a pre-requisite).

'The borrowers are expected to raise a percentage of the loan amount (up to 20%) as proof of their commitment'

The success of the bank (90% repayment rate over the past 20 years) is related to its policy of financing activities defined by its members (the urban and rural poor) and not schemes drawn up by overseas consultants or international donor agencies.

The activities must be within the reach of the borrowers and in line with their skills and experiences. Although collateral is seldom required, the borrowers are expected to raise a percentage of the loan amount (up to 20%) as proof of their commitment. The bank insists on ownership of the business venture by the borrowers.

EDCS emphasises the participation of women up to management level, believing that the commitment of marginalised women to the success of a business venture goes far deeper than that of their men.

The interest rate charged by EDCS is related to its cost of capital and operations. The bank charges a flat rate of 9%, comprising 2% cost of capital; 3% operating costs; and 4% loan-loss provision. The loan period is generally between five and seven years (up to a maximum of 10 years) with either one or two years' grace period for the enterprise to gain economic strength. The flexible repayment period enables the bank to allow for cases of drought or loss of harvest.

Today EDCS works with more than 250 project partners in 65 countries worldwide. The minimum loan is $50 000 and the maximum is $1-million.

Some 50% of EDCS loans have gone to agriculture or agri-related business and a growing percentage to financial intermediaries (similar to, although not including, the Community Bank of South Africa), which then on-lend the EDCS loan to their own members in smaller amounts. Since the bank opened its doors in 1975, it has disbursed nearly 120-million guilders ($62-million).

Peter Roussos is a consultant on small business development and micro-credit

Buying power: The EDCS invests in Third World business ventures with the potential to repay loans plus interest
PHOTOGRAPH: HENNER FRANKENFELD

Traders pave the way to a better future

Peter Roussos

COCOPROVI is a co-operative comprising 847 market vendors who trade mainly in foodstuffs in Abidjan, Côte d'Ivoire. These informal traders, almost all women, have pooled their resources to update their market place and improve the supply of food.

The market was developed by squatters on a piece of land that was destined to become one of Abidjan's highways during the booming coffee-cocoa export years.

After years of struggle — when the women even had to defend their market by throwing chilli pepper at policemen — the important role of the market in providing the urban poor with fresh food at low prices was recognised.

The co-operative applied to EDCS for a loan of 300 000 French francs to upgrade the market. They have started to build permanent food stores, to pave the market floor with asphalt and to install a stormwater sewer system to ensure accessibility during the rainy season.

Part of the loan is being utilised to secure local supplies of food items to protect consumers from the inflationary effects of currency devaluation on imported food.

Cosatu asks board for its evidence on rate increase

(58) CT(BR) 7/6/96

By Roy Cokayne

Pretoria — Cosatu has asked the Competition Board to make public all the evidence it gathered in its investigation into alleged collusion between the four major banks, which recently unilaterally raised their prime lending rates by a percentage point.

Cosatu wants to see the evidence that led to the decision not to refer the recent interest rate increase by commercial banks to the law enforcement agencies.

Nowethu Mmpati, a Cosatu spokesman, said yesterday the labour federation was not convinced the Competition Board should not have referred the increase to the police. She said that in the interests of transparency, the evidence gathered should be open to public scrutiny.

Pierre Brooks, the chairman of the Competition Board, said last week when he announced the board's decision that it had insufficient evidence at its disposal to substantiate a claim that the banks had colluded.

Approached for comment yesterday, Brooks said the evidence available to the board was freely available to everyone and included the money supply situation and the drop in the rand's value.

"The view taken by the board was based on the market realities at the time of the interest rate increase and was taken after an analysis of the information available. It is not for the board to lecture to other parties on how the money markets work — it is common cause," he said.

Brooks emphasised that the board's decision did not clear the banks, or state that collusion had not taken place, but was merely that it could find insufficient evidence to substantiate any claim that the banks had colluded.

Mmpati said a Cosatu delegation had also met Nedcor, Absa and the Reserve Bank to discuss alternatives and the interest rate increase in an attempt to get the banks to withdraw the increase.

She said she was "not versed" in what alternatives were discussed, but said no decisions were reached and Cosatu would meet the banks again.

An Absa executive confirmed some of its officials had met Cosatu "in a one-on-one" discussion. "It was an amicable meeting with the purpose of giving Cosatu the background into the market and how it operates," the executive said.

Dennis Dykes, the Nedcor group's chief economist, confirmed a meeting had taken place between it, Cosatu, the Reserve Bank and the SA Society of Bank Officials to explain how the money market worked, why banks moved on the same day and why interest rates in general were so high.

"We gave Cosatu our viewpoint and they gave us theirs. But there was no negotiation in any sense," he said.

Community Bank plan due out soon

BD 10/6/96 (58)

Adrienne Giliomee

CURATORS for Community Bank will table their proposals for the stricken institution to Finance Minister Trevor Manuel in the next two weeks.

Sources in the bank suggested at the weekend that curator Stewart Patterson was likely to recommend that the bank find a merger partner.

Patterson dismissed the suggestions, saying that the bank would not be taken over.

He could not be drawn on other options, though splitting its assets and hiving them off to other banks had previously been mooted.

"Negotiations are at a very advanced and sensitive stage and it would be unfair for me to comment before any decision has been taken," Patterson said. He said his findings would go to Manuel later this month.

The bank went into curatorship early last month after attempts to find a suitable partner to help fund the cash-strapped bank had failed.

It had originally been funded by the Development Bank of SA, the Industrial Development Corporation and the Independent Development Trust, but went adrift after the Development Bank and the IDC held back previously committed funds.

Bank rate increase: Cosatu will march as planned

(58) Star 11/6/96

By Goba Ndhlovu

Cosatu will go ahead with its July 6 march to protest against last month's bank rate increase, Cosatu's deputy general-secretary, Zwelinzima Vavi, reiterated yesterday.

Vavi, flanked by members of the SACP, the ANC and the Consumer Council, stressed that his organisation and those present were unconvinced that there was no collusion between the banks to raise the rates.

He said Cosatu could not accept that other banks had merely followed the lead given by the Standard Bank.

Vavi was speaking after a meeting called to discuss the bank rate increase and planned action, including the march.

However, other organisations outside the ANC Alliance had decided first to go back to their members to seek a mandate for participation.

Vavi said Cosatu wanted the Competition Board to release its investigation into the issue of collusion. "They should make their investigation public."

Replying to a question about the Cosatu action affecting the already struggling rand, Jeremy Cronin of the SACP said it was "old hat" that such actions would negatively affect the currency.

► **Cosatu insists banks colluded**
... *Business Report*

(58) BD 11/6/96

Finance union rejects Cosatu call for marches against banking sector

Renee Grawitzky

THE SA Society of Bank Officials, a Cosatu-aligned finance union, has rejected the federation's call for marches against banks and says that despite speculation on interest rate cuts, the opposite could occur if money-market shortages reach R12bn.

This emerged after a meeting organised by Cosatu to form a coalition with organisations opposed to recent interest rate hikes. The eviction of thousands of home owners was also discussed, sources said. Organisations which attended the meeting included the ANC, SACP, ANC Youth League, the Consumer Union and non-governmental organisations.

Cosatu assistant general secretary Zwelinzima Vavi said the meeting unanimously rejected the latest hike because of its "devastating effects on the lives of all, especially the poor". The organisations supported the view that the increase amounted to collusion between the banks. He reaffirmed Cosatu's plan to march on July 6, but other organisations would decide only once they had consulted their members.

Cosatu would meet the SA National Civics Organisation soon to discuss its proposed one-week bank boycott.

Sasbo general secretary Graham Rowan said his union did not support the march call. Some Sasbo branches had criticised Cosatu's actions because they feared such a move could result in further job losses in the banking sector. A meeting in August would review Sasbo's position in Cosatu, Rowan said.

SACP deputy general secretary Jeremy Cronin said although the banks had been united in increasing interest rates, recent information suggested there was a tendency among them "to break ranks" as they were embarrassed that they had been "caught colluding". Vavi said there was no convincing argument from the banks or the Competition Board that collusion did not take place.

A National Labour and Economic Development Institute document, circulated at the meeting, said the recent increase was essentially to protect banks' profit margins and rates would drop soon by one percentage point. This was partly due to political pressure on banks, "as well as the fact that the trade balance is improving and money market shortages are lessening". It proposed that short-term alternatives to hikes were banks absorbing the higher costs, the Reserve Bank lowering its rate thereby lifting banks' profit margins, and reducing the cash reserve for banks from 2% to 1%.

Picture: Page 2

SA near bottom in global savings league — bank

BD 11/6/96

(58)

Business Day Reporter

SA's savings rate was near the bottom of the developing nation league, and SA could be compared to countries with weak currencies such as India, Brazil, Argentina and Poland, the Bank for International Settlements (BIS) said yesterday.

The table from the latest annual report of the BIS central bank showed that SA's savings rate had plunged to 19,1% of GDP in 1994 and last year, from 26,5% average in the years 1980 to 1993.

It said the rand was caught in a vicious cycle, since savings financed direct investment. Without the cushion of savings and investment, the nation had to finance internal demand by importing and borrowing locally and externally.

Long-term interest rates remained high and depressed the economy. Foreign exchange reserves and currency were at the mercy of trade deficits and foreign rand bondholders and other lenders who could sell when their sentiment changed.

"The rand's depreciation reflected growing concern about SA's large fiscal deficit (5,5% of GDP in the last financial year)," said the BIS.

By contrast, Singapore's annual savings rate surged to 53% of GDP in the years 1994 to 1995, against an annual average of 43,4% between 1980 and 1993.

Singapore was also a good example of why sound currencies remained in a "virtuous" circle while others, like the rand, were caught in a vicious spiral — albeit with temporary respites from time to time.

Between 1990 and the first quarter of this year, the Singapore dollar appreciated 29% against the dollar. Its real effective exchange rate, adjusted in terms of relative consumer prices, increased 14% in the same period.

Rising productivity, a large current account surplus and low inflation had made the exchange rate appreciate steadily. Low inflation of 1,7% accompanied strong 8,9% growth last year. Current account surplus was 20,4% of last year's GDP and volume growth was 15,8%.

Cosatu insists that banks colluded on rate increase

(58)
CT(Bk) 11/6/96

By Nancy Myburgh
MARKETS CORRESPONDENT

Johannesburg — Cosatu is adamant that the four largest commercial banks colluded in their unilateral increase of prime lending rates by 1 percentage point on May 17 to a five-year high of 20,5 percent, a spokesman for the union said yesterday.

This contradicts the Competition Board's conclusion after an investigation that it could find no evidence of collusion.

Zwelenzima Vavi, Cosatu's assistant secretary-general, was unconvinced. "We haven't had any convincing arguments from the Competition Board or the banks that they did not collude ... I do not believe at all that Standard Bank (the first of the commercial banks to raise its rates on May 17) would not move without informing its colleagues."

Vavi was speaking after a policy meeting attended by representatives of the ANC, the Consumer Council, the Consumer Union, the South African Communist Party, Cosatu and others.

The meeting had been called to discuss policy moves in response to the rate increase, including a planned protest march on July 6 and a possible bank boycott.

Vavi said Cosatu would go ahead with the march, but said the other organisations involved needed more time to evaluate the proposal independently.

He said the meeting had taken no decision on the proposed bank boycott.

Vavi said the rate hike would have "devastating effects on the lives of all the people of South Africa, in particular the poor".

Jeremy Cronin, the deputy general secretary of the SACP, said though the banks had offered to meet with the Cosatu-led coalition to "give a lecture" on the banking system, "we'll give a lecture in Phola Park on the effects (of their rate hike)".

The National Labour and Economic Development Institute (Naledi) proposed in a policy memorandum that Cosatu could launch an independent commission of inquiry into the viability of a "separate monetary policy," which could require changes in the role of the Reserve Bank and the Reserve Bank Act to ensure job creation. Naledi said the Reserve Bank's board of directors should be reconstituted to include trade union representatives.

Other measures could include an investigation into what the institute called "the implicit banking cartel" and a possible once-off "windfall tax" on banks if their profit margins increased and showed that the rate increase had been motivated by the desire for greater profit, Naledi said.

Cronin said the SACP accepted the constitutionally mandated independence of the Reserve Bank, but its policy decisions should be "more in line with broader fundamentals" of macro-economic policy.

In particular "anti-inflation measures (such as rising interest rates) should be balanced with other concerns as well," he said.

☐ See Business Watch, Page 18

*16. Dr W A ODENDAAL—Health.† [Question standing over.]

SANDF: affirmative action

*17. Mr J A MARAIS asked the Minister of Defence:†

(1) Whether the South African National Defence Force intends introducing a programme of affirmative action in the SANDF; if so, (a) when and (b) what will the purpose of the programme be;

(2) whether he will make a statement on the matter?

N912E

The MINISTER OF DEFENCE:

(1) (a) Yes. The Department of Defence is presently implementing an equal opportunity and affirmative action programme.

(b) The purpose of the affirmative action programme will be on the education, training and development of black officers and non-commissioned officers, service women and previously disadvantaged personnel. There will also be appropriate strategies which will include special education and training courses, career development plans and the re-orientation of the recruitment and promotion systems. In this regard the Minister is establishing a joint work group on affirmative action and equal opportunity within the Department of Defence which will commence its work before the end of June 1996.

The first phase in this process was the creation of a Chief Directorate Equal Opportunity (CDEO), headed by a Major General with appropriate staff. The first incumbent will be Maj Gen A Masondo. This action is in accordance with the White Paper on the Transformation of the Public Service. The CDOE will direct equal opportunities in the SA National Defence Force by serving as a centre of excellence for equal opportunities and human relations and to translate the increased awareness of issues into improved leadership. This will be done to enhance combat readiness and unit cohesion in the SA National Defence Force.

The CDEO will have three broad functions:

First. Research into the existing application of equal opportunities elsewhere in the world, research in discriminatory practice in the RSA and the SA National Defence Force in particular and the result of any action taken to eliminate discrimination.

Second. Programming and Planning to develop specific programmes to ensure that the SA National Defence Force is truly non-discriminatory, that plans are carried through and that the results are monitored.

Third. Training to support the equal opportunity policy.

A separate investigation into the establishment of a joint SA National Defence Force Equal Opportunity training institution will be conducted in due course.

(2) Yes. As soon as the Work Group has completed its work, Parliament will be informed.

Provinces: new formula for allocation of money

*18. Mr A H NEL asked the Minister of Finance:†

(1) Whether his Department has calculated a new formula for the allocation of money to provinces; if so, (a) what is the formula and (b) when will it come into operation;

(2) whether he will make a statement on the matter?

N914E

The MINISTER OF FINANCE:

(1) (a) Allocations of funds to Provinces have never been done in terms of a formula, but the Department of Finance has now received the recommendations regarding the allocation of funds to the Provinces in terms of formulas as compiled by the Financial and Fiscal Commission, in terms of the provisions of sections 155 and 199 of the interim Constitution. Discussions around the formulas to be used for the 1997/98 financial year were held recently between the Provinces, the Financial and Fiscal Commission, and the Departments of State Expenditure and Finance.

(b) It is intended to introduce the formula procedure with effect from the 1997/98 financial year once agreement between all parties has been reached.

(2) In terms of the Government's policy of transparency an announcement in this regard will be made at the appropriate time.

*19. Mr T D LEE—Education.† [Question standing over.]

*20. Mrs T J MALAN—Education.† [Question standing over.]

*21. Dr W A ODENDAAL—Health.† [Question standing over.]

SAA: corporate image

*22. Mr A G MOHAMED asked the Minister for Public Enterprises:†

(1) Whether South African Airways is currently investigating the possibility of changing its corporate image; if not, why not; if so, what will be the cost of such image change;

(2) whether she will make a statement on the matter?

N918E

The MINISTER FOR PUBLIC ENTERPRISES:

Transnet Limited furnished the following reply to the hon member's question:

(1) Yes. It is very difficult to furnish a Rand figure as no finality has been reached on the extent of the change to SAA's corporate identity, if any.

(2) Yes. When finality has been reached.

MMF: restructuring 58

*23. Mr A E REEVES asked the Minister of Transport:†

(1) Whether his Department is currently investigating the possible restructuring of the Multilateral Motor Accident Fund (MMF); if so, what are the relevant details;

(2) whether such restructuring will bring about an increase in the price of petrol; if so, what are the relevant details;

(3) whether he will make a statement on the matter?

N919E

The MINISTER OF TRANSPORT:

(1) Yes, the Department of Transport has recently published a draft White Paper in which it sets out a comprehensive set of proposals for restructuring of the MMF.

There are three main areas in which the way the MMF currently operates is problematic:

- Firstly, substantial resources, both financial and human, are utilised in peripheral activity which does not directly benefit the victims.
- Secondly, it discriminates within its current legal framework against certain passengers by placing a limit of R25 000 on their claims.
- Thirdly—and very importantly—it carries a contingent liability for claims incurred, but not settled, of approximately R5 bn.

The key proposals contained in the draft White Paper to address these problems include the following:

Moving to a "No Fault" system of compensation. This will simplify the whole claims process and eliminate legal and other expenses arising from the assessment of blame which currently have the effect of reducing the real benefit received by the accident victim.

The additional cost to the state of moving to a "no-fault" system will be controlled by placing a cap on medical expenses *for permanent impairment.* The cap will not apply to medical expenses in the initial acute phase of treatment, which is defined as up to 18 months after the accident.

and it will not exclude any reasonable costs likely to be incurred after this initial period. There is also a cap on lost income of up to R2 500 a month, or loss of support up to R1 875 a month.

Conversely, the existing cap on benefits to certain categories of passengers, which impacts most on users of public transport, is to be removed, and they will now have the same set of benefits as others.

These caps must be understood in the context that they will result in a maximum limit of close to R2 m per claimant.

The final area of reduction in state expenditure will be the removal of benefits claimed under the heading of "general damages". These are damages—often extremely costly—related to issues like pain and suffering—and they are essentially financial benefits for non-financial losses.

The total package of proposals contained in the draft White Paper will ensure that more benefits flow directly to all victims; it will remove the current discrimination against certain passengers; it will allow for more effective administration of benefits; and it will bring the fund to financial stability with its contingent liabilities covered by the year 2007.

(2) Funding the new system will require an annual increase in the fuel levy of 9%. This is in nominal and not real term, and assumes a starting level of 12c a litre.

(3) An official statement was made on 31 May 1996 when I launched the Draft White Paper on the MMF. No further statement is contemplated at this stage.

Competition Board: continued existence

*24. Mr F P SMIT asked the Minister of Trade and Industry:†

(1) Whether he or his Department has taken any decision regarding the Competitions Board; if so,

(2) Whether the Board will continue to exist; if so, why; if not,

(3) whether the Board will be replaced by another body; if not, why not; if so, what body;

(4) whether he will make a statement on the matter?

N920E

The MINISTER OF TRADE AND INDUSTRY:

(1) No. Such a decision can be taken only after greater clarity has emerged on the type of institutions or bodies that will be necessary to implement and enforce the new competition policy that is currently being fashioned. In the meanwhile, four additional appointments to the Competition Board will be made in the near future.

(2) and (3) A decision on these matters will be governed by the objectives and imperatives of the new competition policy that is eventually adopted.

(4) Yes. This will be done at the appropriate time.

Building of new prisons

*25. Rev M M PHENETHI asked the Minister of Correctional Services:†

(1) Whether his Department is considering the building of new prisons; if not, why not; if so, what will be the building cost per prisoner;

(2) whether he will make a statement on the matter?

N921E

The MINISTER OF CORRECTIONAL SERVICES:

(1) Yes.

(a) Falls away.

(b) The building cost per prisoner is dictated by various factors such as the size of the prison complex, the category prisoner in detention, type of supportive structures that have to be erected and whether the prison is being erected on serviced or new land. According to the latest figures for the new prison at Goodwood, the building costs amount up to approximately R80 843 per prisoner.

(2) No.

Decrease in number of apprentices receiving training

*26. Mr M O ROBERTSON asked the Minister of Mineral and Energy Affairs:†

(1) Whether there was a decrease in the number of apprentices receiving training in 1995 compared to the number in 1994; if so, what was the decrease;

(2) whether his Department is investigating possibilities of training more apprentices; if not, why not; if so, what are the relevant details;

(3) whether he will make a statement on the matter?

N923E

The MINISTER OF MINERAL AND ENERGY AFFAIRS:

(1) Yes, in 1994 there were 3 161 apprentices receiving training at the Mining Industry Engineering Trades Training Board (MIETTB), and in 1995 this figure dropped to 3 072, a decline of 2,8%. The MIETTB is statutorily accredited to train and test apprentices and to administer the mining industry's apprenticeship system. The Chamber of Mines is responsible for the functioning of the MIETTB.

(2) and (3) The training of apprentices for the mining industry is entirely industry-driven. The mining industry regulates the number of apprentices it requires and it will identify the number of employees which it will have trained through the MIETTB, as well as the course that each apprentice will be learning.

The Department of Mineral and Energy Affairs has never been involved in the training of any apprentices. The Department of Labour administers the Manpower Training Act, 1981 (Act 56 of 1981), to which all industry training boards, including the MIETTB, are answerable.

What is important is not so much the number of apprentices sent for training each year, but rather how many of them are passing exams and becoming qualified artisans. In 1994 1 360 apprentices qualified as artisans and in 1995 the figure was 1 119. The pass rate for the two years in question was 74%.

Justice officials: accelerated retirement

*27. Mr B C BESTER asked the Minister of Justice:†

(1) Whether his Department intends making an offer to officials in regard to accelerated retirement; if not, why not; if so, what are the reasons for the offer;

(2) whether he will make a statement on the matter?

N924E

The MINISTER OF JUSTICE:

(1) The Department does not, nor does it intend to make an offer to officials in regard to early retirement. In fact the Department is anxious to retain the services of all its personnel, especially professional personnel. However, on 22 May 1996 the Department of the Public Service and Administration made an offer to serving officials (not magistrates and attorneys-general) that they could request that their services be terminated on a voluntary basis with appropriate financial packages. If employees in my Department make such requests, it should not be assumed that they will be acceded to. Each application will be considered on its merit. In addition, the needs of the Department and the interests of the administration of justice will be taken into account and only thereafter will decisions be taken. Each decision will be taken in accordance with the prescripts laid down.

(2) I am not in a position to make any statement at this stage except to state that on the one hand I am mindful of the need to be fair to employees. On the other hand, the efficient functioning of the Department is a priority. I shall only be able to make a statement after the receipt of applications, if any.

Visas: pro-democratic groups in Nigeria

*28. Dr B L GELDENHUYS asked the Minister of Foreign Affairs:†

Foreigners in bid to save bank

(58) BD 13/6/96

Amanda Vermeulen

COMMUNITY Bank's curator has entered negotiations with two foreign groups in a bid to rescue the institution, which was placed under curatorship last month.

Curator Stewart Patterson would not comment yesterday on what options were on the table if an offshore institution or organisation came to the assistance, but sources close to the negotiations said recapitalising the bank was being considered.

The source said the curator was also talking to a number of local companies, but Patterson said he could not divulge any details. It is understood that some resolution is expected by the end of the month, and proposals would be put to Finance Minister Trevor Manuel in the next two weeks.

The bank, which has wracked up losses of R54m since it launched two years ago, could be merged with another institution. Market sources had not ruled out liquidation.

One observer said that the market had already discounted the bank's collapse, and was prepared to let it go to the wall, as many institutions believed that they could not do business profitably in the low-cost housing market.

Patterson said the bank had sufficient funds to continue operating until the end of this month, but would not elaborate on further financing plans to keep the bank operational. He said there had been no major withdrawals from the bank's R22m on deposit.

The Reserve Bank declined to comment on whether it could continue assisting in financing Community Bank's operational requirements. It relaxed the institution's liquidity requirements in April, giving it a R1,35m lifeline. The bank ran into trouble this year when its original funders refused to forward a further R70m allocated in its start-up capitalisation of R200m.

Sanco to step up protest

Sowetan 13/6/96

(58)

(123)

By Joshua Raboroko

CIVIC organisations have threatened to put pressure on the Government and encourage the community to withdraw their accounts from major financial institutions in protest against interest rate hikes and threats to crack down on bond defaulters.

The South African National Civic Organisation (Sanco), which is calling for mass action against banks, said it would use various other means to force banks to succumb to their demands.

At a Press conference in Johannesburg yesterday, Sanco president Mr Mlungisi Hlongwane said they would also disrupt "banking activities".

Sanco also announced it would go ahead with its countrywide mass action against banks, starting tomorrow.

He said Sanco was convinced that major financial institutions should be shaken up through methods of protests.

Other actions would include marches, pickets, sit-ins and blockades of banks.

Hlongwane said Khayalethu Home Loans, a subsidiary of the South African Housing Trust, would not be excluded from the protests.

The actions would be intensified when Sanco joins Cosatu, ANC and its allies in similar protests against hikes in interest rates on July 6, Hlongwane said.

Meanwhile the director-general of National Housing Billy Cobbett yesterday pointed out that his statement, published in *Sowetan*, was not directed at Sanco or any other organisation.

He said he was merely warning about the climate in which bond boycott were encouraged.

● See Page 11.

Maharaj offers his solution to accident fund crisis

(58) CT (Bn) 13/6/96

By Christo Volschenk

ECONOMICS EDITOR

Cape Town — An increase in the fuel levy and a limit to medical claims are among plans to put the technically insolvent Multilateral Motor Vehicle Fund on the road to financial recovery.

It is expected the plan, announced yesterday by Mac Maharaj, the transport minister, will enable the fund, soon to be renamed the Motor Accident Fund, to balance its books within 10 years and have enough funds to cover its liabilities.

Maharaj said in parliament a limit on medical expenses, which would only exclude very expensive items, and a cap of R2 500 a month on lost-income cover would be implemented.

"This will bring the maximum payment per claim from the fund to just under R2 million," he said.

The plan is included in the White Paper on transport that will be published next month.

"At present 99,5 percent of all claims on the fund are for less than R500 000, so the caps will not affect the majority of accident victims," Maharaj said.

Victims will not have to wait for payment from the fund until fault or blame has been apportioned — a process that is time consuming and that cost R180 million a year to administer.

"The fund will operate on a 'no fault' principle that compensates all victims regardless of their blame in the accident," he said.

The "no fault" system will cost just over R200 million a year to implement.

The new system will also remove the limit of R25 000 that exists for passengers on public transport vehicles.

'The caps will not affect the majority of accident victims'

These victims will in future be entitled to the same benefits that are available to other accident victims.

"We believe this will be a fair and equitable solution," said Maharaj.

"The state will give support to all victims of accidents without unduly increasing the financial burden of road users."

Sanco set to target banks in Sandton, East Rand

(58) Star 14/6/96

BY SHIRLEY WOODGATE

Sandton banks were due to be targeted from 10am today by members of the South African National Civics Organisation (Sanco) protesting against moves by the institutions against homeowners who have defaulted on their bonds.

Police spokesman Sergeant Mark Reynolds said this morning protesters had warned they would occupy banks if they failed to get favourable responses.

Sapa reports that Sanco said its members would march to banks in Vereeniging, Palm Springs, Sebokeng, Evaton and the East Rand on Saturday and would stage a march to the Association of Mortgage Lenders in Johannesburg's central business district on Tuesday.

Official action which included marches, pickets and demonstrations, was only due to kick off on July 18, said Reynolds, and although permission had not been sought for today's demonstration, Sanco had a constitutional right to demonstrate.

Sanco members were scheduled to meet in Alexandra, proceed to the Pan African taxi rank, then head by bus or on foot for Sandton where several protest actions were planned.

Police would monitor the protest action, Reynolds said.

BANKS

(58) FM 14/6/96

A GENTLEMEN'S CLUB BUT NOT A CARTEL OF FAT CATS

Courtesy calls but not collusion

The rate that new bondholders are paying to finance their homes has increased since the start of the year by two percentage points to 20,25%. And a prime lending rate of 20,5% has become an inhibiting factor for corporate SA. People at the bottom of the economic order will be among the first to feel the effects of high interest rates on a slowing economy

Against this, banks now lend money at a real prime rate of 14,2% (prime less inflation). That's the highest since World War 2 and compares with real lending rates of 5,1% in the US, 4,5% in the UK and only 7,4% in a rapidly growing economy such as Indonesia's.

But the banks work off an interest margin — after leading prime and mortgage rates up by 1% last month — of 4,5% against a 15-year average of 3,8%. That compares with an interest margin of about 3% in the US.

It's therefore no surprise that our banks are seen by some as the country's fat cats, colluding to protect profitability.

However ill-conceived Cosatu's protest actions might be (and dangerous for bond boycotters, who risk losing their homes), it has struck a chord with members of the public not usually given to supporting militant protests.

The question of collusion can be ruled out. But just how competitive are our banks?

In some areas, they are very competitive. But it all takes place within the parameters of a gentlemen's club, partly because of our isolationist past and the concentration of power in the hands of the four big banks.

The banking environment, however, is changing. As foreign banks enter the market, local banks will have to become more competitive — especially in response to the threat of an assault on the retail market.

Last month's increase in lending rates — the first time anyone can remember the banks leading the Reserve Bank up in the interest cycle — put banks in the public spotlight.

It was a public relations disaster Nedcor CE Richard Laubscher says if there is one area where the banks went wrong it was in not showing that "the market sets the absolute level of rates and banks manage the margin environment within these constraints."

Richard Laubscher

Jacko Maree

He says high absolute levels of lending rates are not good for banks because they reduce economic activity and increase bad debts.

Standard Corporate & Merchant Bank MD and Standard Bank Investment Corp acting CE Jacko Maree questions whether banking margins should be a matter of public debate.

"Comparisons with overseas banking margins are dangerous because of the large, under-used branch infrastructure we have to maintain here to serve outlying communities. Should there be a right margin for the banks here? Does the public debate an industrial company's margins?" asks Maree.

Usually not, but the banks, whether they like it or not, are firmly in the public domain, with interest rates affecting most people's lives

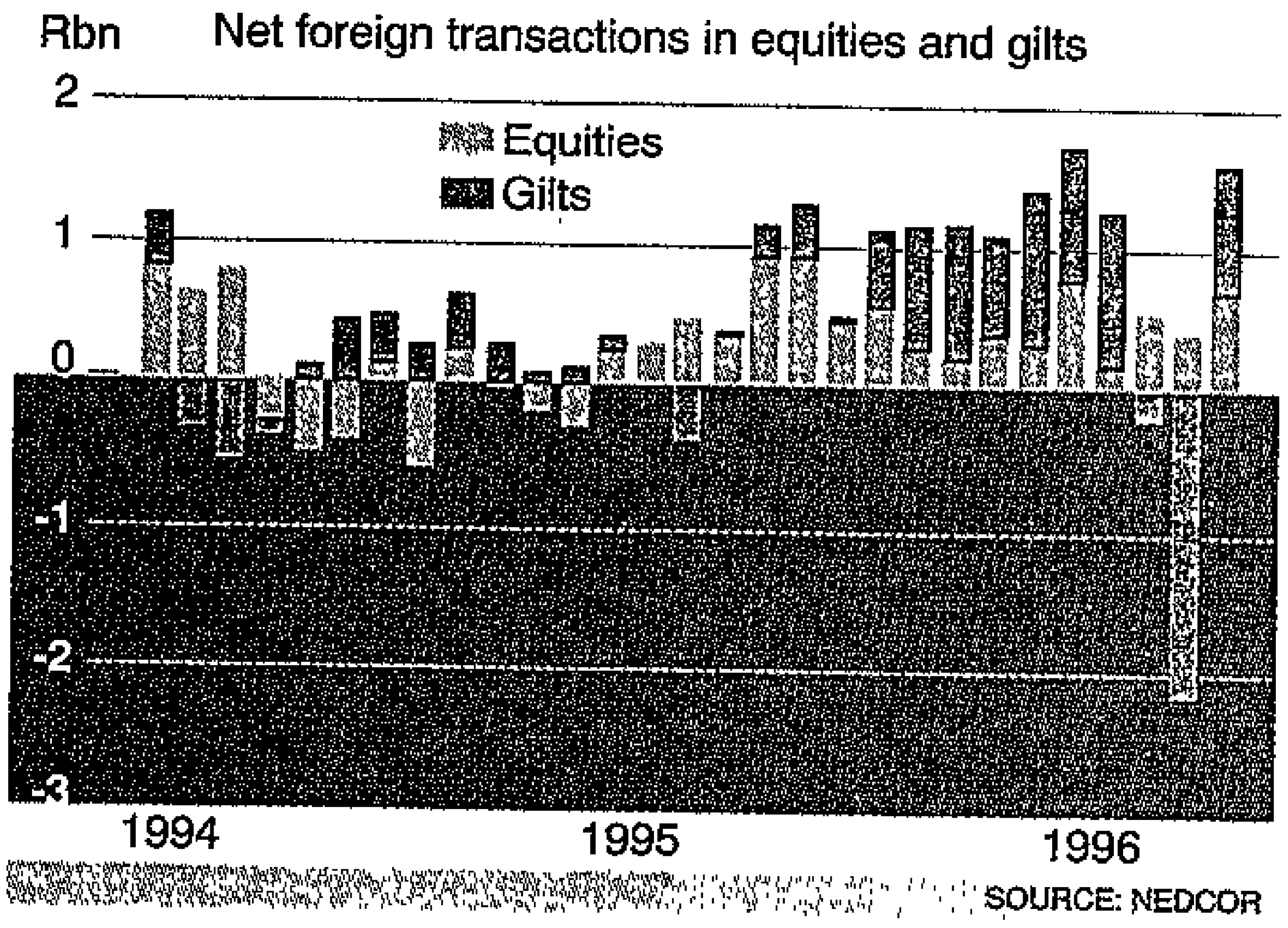
It's not hard to see why collusion was suspected when the four banks raised lending rates on Friday, May 17. Firstly, Standard Bank Investment Corp took the unusual step of preceding the Reserve Bank by announcing an increase in rates. Secondly, those closer to the industry would have known that Reserve Bank Governor Chris Stals met the Council of SA Banks (Cosab) the Wednesday before. The next day, Cosab had a meeting. On the Friday, rates went up.

Both meetings were scheduled meetings, planned in advance, but the timing would have reinforced the perception that the industry colluded on the increase.

Cosatu parliamentary office head Neil Coleman says "a crime of collusion" exists. But the union federation's stance appears to be softening, perhaps as the 75 000-strong affiliated SA Society of Bank Officials shows reluctance to join protest marches planned for July 6.

Cosatu, rejecting the Competition Board's finding of no evidence of collusion, wants a pub-

OUTFLOW BEFORE THE RISE



lic inquiry into the banking industry and the role of the Reserve Bank

So what actually happened on the Friday that rates rose?

"It was straightforward," says Maree "Since February, deposit rates had been rising, with three-month negotiable certificates of deposit up 2,25%. The prime rate went up 1% a few weeks before. A lot of funds flowed out in April, which the Reserve Bank did not put back. At one stage the money market shortage was more than R10bn, causing a huge liquidity squeeze."

Alwyn Noëth

Over a two-week period, Standard Bank Investment Corp had borrowed about R3bn offshore to fund its general pool of assets, at rates between 17%-17,8%. The shortage of liquidity was forcing some banks to borrow against second-tier assets from the Reserve Bank, attracting a rate of 17,5% against the 16% it charges at its discount window against liquid assets

"All market rates were being squeezed. We had to take a view and decided to move our rates up. We phoned the Reserve Bank and informed them of our decision, then made an announcement over Reuter," Maree says.

There was a chance that others would not follow the increase, a response at least two banks considered.

When Standard Bank Investment Corp announced its increase on Friday morning, Laubscher and colleague Mike Leeming were on the road. Nedcor's treasury head called Laubscher in his car and told him Standard had raised rates.

"I asked Jimmy Forbes what the market was doing. Deposit rates were going up, he said, and on that day the money market shortage had reached R8,6bn," says Laubscher. "Leeming and I discussed the possibility of lagging the increase but, with the shortage of liquidity, we had no flexibility. It was no time to be a hero."

At the time, Absa CE Danie Cronjé and executive director Alwyn Noëth were in a divisional board meeting. They were interrupted with a message to urgently phone First National "because SBIC had raised lending rates by 1% and they were going to follow."

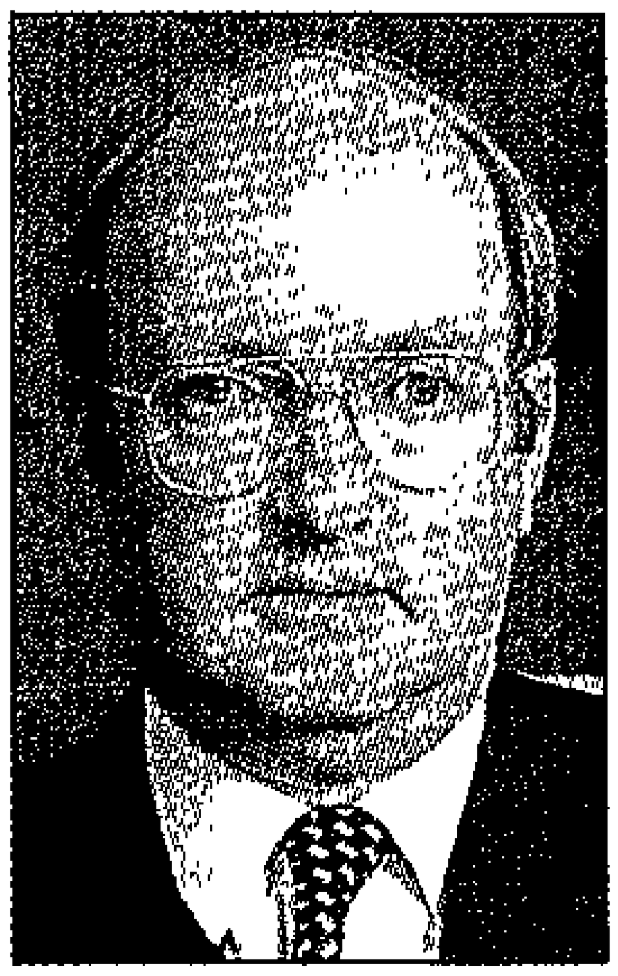
Nedcor also phoned Absa to say it was following the increase.

"I phoned treasury. We seriously considered the idea of staying out but the market was so short and deposit rates had been bid up so quickly we decided it would create more harm not to follow "

With a home loan book of about R50bn, not raising mortgage rates by 1% would have stripped R500m off Absa's income over a year.

For First National, the decision was simple. Senior GM and chief financial officer Viv Bartlett says when his traders told him SBIC had raised rates his spontaneous reaction, with the shortage in the money market, was to follow "Our book is similarly structured We were feeling the same squeeze and had no option but to increase rates."

The banks were responding to extraordinary circumstances, largely caused by the collapse of the rand at the end of February and the capital outflow which followed.



Viv Bartlett

But there is some puzzlement in the industry about SBIC borrowing such a large amount offshore. Liquidity has improved a little, but that R4bn, which includes R1bn SBIC borrowed earlier, is overhanging the system.

Once it leaves the country, the money market squeeze will be back to square one. Some analysts believe SBIC was caught more than others with short funding, its book structured for the earlier expectation of a cut in interest rates. With money being one of the most transparent commodities, says SBIC retail banking MD Noel Webb, "in any competitive market, there is one price."

And the money market has opened to the influence of the ebb and flow of foreign capital since the end of the financial rand.

Though the banks talk about restoring interest margins which were being squeezed by rising deposit rates, the latest increase raised their margin above the historical average.

This is where the banks are not competitive in international terms, though they do compete fiercely in the local market. "If we did not," says Laubscher, "why would we be spending so much on advertising and public relations?"

He argues that comparisons with international banking margins are made in absolute, not relative, terms "Remember that our 4,5% margin comes off a prime rate base of 20,5%. The 3% margin in the US is off a base rate of 8,25%."

But most bankers admit margins here are too high and will have to come down to international norms

"I accept the criticism that our margins are too high by some international standards," says First National's Bartlett. "There are reasons, like our history of higher inflation, but I don't think SA bank margins have reacted to the international competition that is coming."

However, he points out that the wider margin here is affected by cross-subsidisation in the industry.

So far, the foreign banks which have entered the country have targeted the corporate market

The real threat, though, is that sooner or later a large foreign bank will try to break into the retail market. And it will almost certainly focus on the top end of the market, cherry-picking profitable business while local banks are burdened by high fixed cost structures and cost-to-income ratios (between 65%-70%) out of line with international norms (generally below 60%).

What does this mean for local bank shares?

Against expectations that industrials would strongly outperform the banking sector as the economy recovered, the JSE Banks index recorded the third largest gain (41%) on the market over 1995.

Share ratings are now more or less in line with those of industrial shares, with a dividend yield of 2% and earnings yield of 6,4% against industrials' 2,1% and 6,3%.

Earnings growth is expected to remain strong, increases probably coming in at the lower 20% mark. But it's questionable if these ratings recognise the potential threat of foreign competition. Interest margins, despite the money market shortage, will have to come down. The effect of increasing competition may still need to enter the price of bank shares.

This could change perceptions of a sector which has long been a haven for investors during recession and which has recently performed in line with the rest of the market during economic growth. *Shaun Harris*

PRESS

THREATENED BY MBEKI AND ADMONISHED BY CHASKALSON

In a climate in which the "commercial press" is coming under direct and indirect criticism for not representing the views of the majority, Deputy President Thabo Mbeki's suggestion in parliament this week that a national news agency might be desirable was to be expected.

In effect, he was saying, if the media do not project government in a favourable light, they should be overridden by propaganda — though how this meshes with the constitutional right to freedom of opinion and of the press is nebulous.

The print media evaluate what is to be published on the basis of its news value, not on whether it promotes patriotism. They must survive commercially and would not do so if they gave pre-eminence to water reticulation projects in the Eastern Cape rather than, say, why Bantu Holomisa faces censure from his own party because he has aired memories of corruption in the old Transkei.

All governments have an uneasy relationship with the media, unless they are censored and restricted as they were under P W Botha. This is because governments do not always get things right, whether in the fields of law and order or the economy — and are rightly subject to criticism for their errors.

The ANC-led government should be able to take the heat by now. That it isn't is a fact with which editors who do not slavishly follow the party line must learn to live.

It is far more disquieting to find a version of this acrimony against the media coming from so eminent a source as the president of the Constitutional Court, Arthur Chaskalson. In a recent article for the Institute for the Advancement of Journalism (reprinted in *The Star*, May 22, without comment), the judge accused the press of shallowness in reporting the court's judgments.

Chaskalson pointed out that we have advanced from being ruled by parliament to being ruled by a democratic Constitution. While he accepted the constraints of space and time under which journalists labour, he stated that, in his view, "the reporting has been brief, largely descriptive, and often inaccurate. Little attempt is made to analyse the judgments, place them in meaningful contexts and explore the implications of decisions taken."

In an extraordinary misreading of the function of the press, he suggested these shortcomings "may be due to what is regarded as newsworthy." It is difficult to know what alternative criteria the press should apply in assessing events, including court judgments.

Leaving that aside, it is not fair to generalise: within the boundaries outlined above, the *FM* and *Business Day* have deliberately increased their coverage of the writing of the new Constitution, the issues involved, and the role of the Constitutional Court as supreme arbiter of the basic law.

Chaskalson seems to expect the press to focus too narrowly on the court's judgments Since, this month, the Constitutional Court is deliberating on the constitutionality of the new Constitution — and there have been a number of challenges on labour, property and provincial competencies, for example — the essential requirement for the serious press is to understand and communicate the nature of the assorted controversies — and the philosophical and political differences from which they spring.

This, surely, is being done. By entering into the matter of how it is being done — and to find fault with the process — is to accept the argument that what might be called the programmatic elements of the Constitution are above reproach. Chaskalson does not say so; in fact, he properly concedes that the right of the media to criticise court judgments, including those of the Constitutional Court, "cannot be questioned."

Nevertheless, a grievance emerges from his article: why don't you make more of an effort to understand our collective thinking and give it its due prominence? Surely, however, courts of law should form islands of competence, isolated from and contrasted with government agencies by the doctrine of the separation of powers and elevated above bureaucracies by impartiality and efficiency.

They should certainly be completely above trying to win the regard of the public for themselves.

Given that the Constitution remains to be certified, and that even if it is, it is certain to prove divisive on some issues, Chaskalson's court would, now, be best served by maintaining a low profile. ■

PETROL PRICE

(183)

AILING RAND OFFERS LITTLE COMFORT TO MOTORISTS

FM 14/6/96

Buckle up for higher costs

The world of oil is characterised by many and great uncertainties. But one prediction can be made with absolute certainty: that petrol price increases — however caused — are intensely and universally unpopular. Petrol, in the words of Sasol executive chairman Paul Kruger, is a grudge purchase.

We don't have to look far for the most immediate cause of the remorseless rise in the SA petrol price — to 219c/l for 93 octane (leaded) in Gauteng. It's the fall in the rand of about 17% since February. This influence has been compounded by some net, if erratic, firming in international crude oil prices. Brent light crude, as low as US$16/barrel mid-1995, hit a high of almost $24 in April 1996, though it has since slipped back to around $18,50.

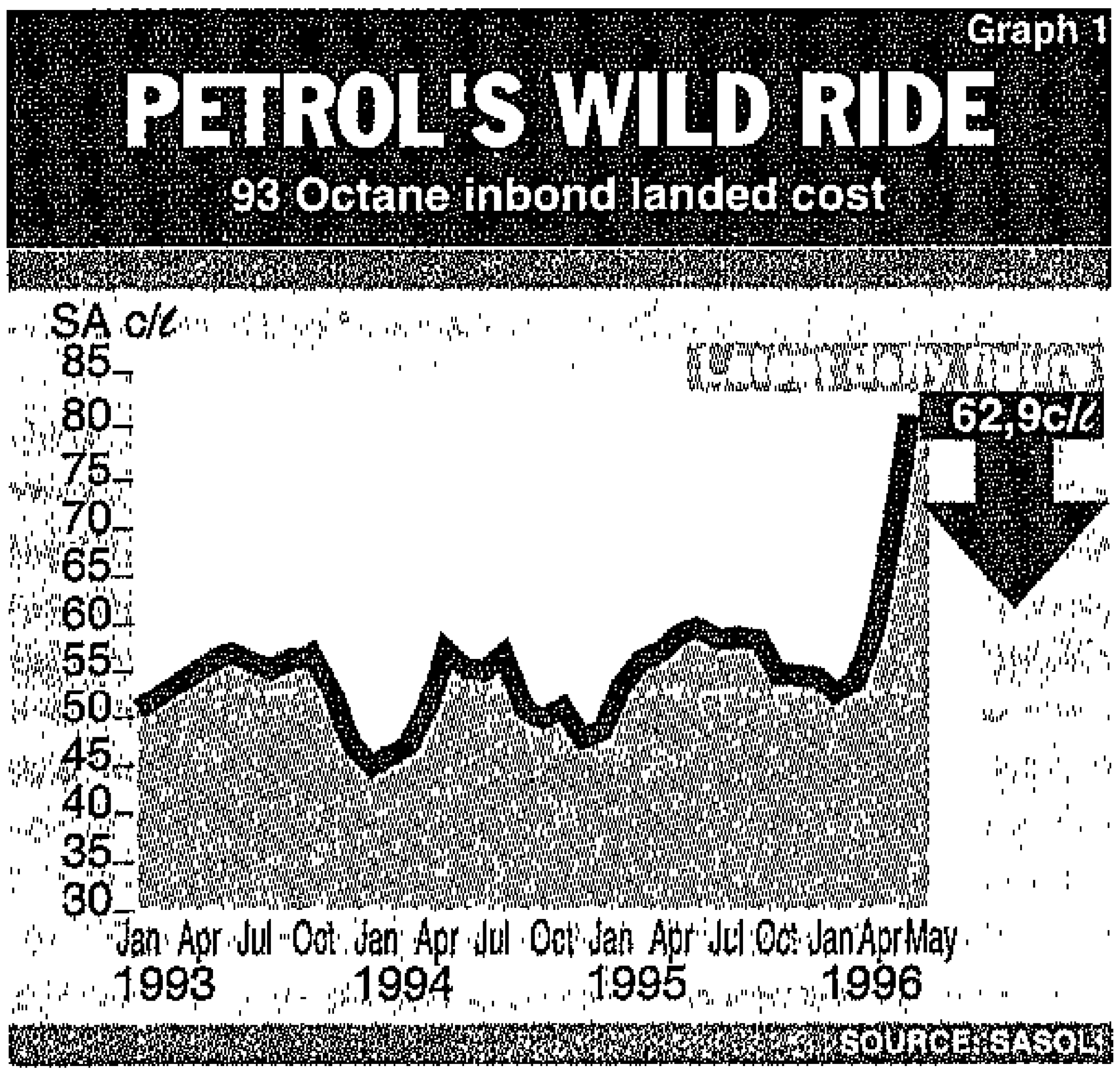
We have also seen a sharp increase in first quarter 1996 in Singapore refining margins, caused mostly by a maintenance shutdown of major Gulf and Far Eastern refineries, in parallel with a high demand for petrol in Asia. Petrol's price behaviour has deviated from diesel in recent months, because diesel's international price has been stable or even falling.

All these influences have fed through to the price forming the basis of SA's regulated petrol pricing system — the so-called in-bond-landed cost (IBLC) procedure. This is used by SA, in common with many other oil importers, as a net-back arrangement which puts pressure on local refiners to match international efficiencies. If they exceed the benchmark, their profits benefit accordingly.

This is achieved by calculating a notional import price for petrol, based on prices prevailing at a number of modern, large-scale refineries surrounding the Indian Ocean. The formula — unchanged for many years — has recently been revamped to use prices at a more representative selection of refineries. The result was a modest, one-off reduction in the IBLC. Graph 1 shows the extraordinary volatility in recent IBLC prices, as well as an erratic upward trend.

Graph 2 shows how the pump price is built up from the IBLC by adding pricing elements, including trading margins, along the chain leading from refinery to the local petrol station. Included in the current items is 6c/l for the Equalisation Fund — the long-standing mechanism used to pay assistance to Sasol.

Sasol's assistance is no simple ad valorem or money amount. It was designed, on a basis of dollar/rand purchasing power parities, to relate the long-term averaged cost of producing synthetic fuel on the Highveld to international crude oil prices. The formula was revised downwards rather sharply in December 1995 to take account of various changed circumstances, such as the end of sanctions and increased production efficiencies at Sasol's Secunda synfuels plant.



Graph 1
PETROL'S WILD RIDE
93 Octane inbond landed cost
SOURCE: SASOL

Kruger then indicated that the dollar floor price above which assistance would not be received would be reduced with effect from January this year, from the then current $21,4/barrel for light crude measured at Dubai to $19/barrel until the end of this month, when there would be a further reduction to $18/barrel for the remainder of this year. Further reductions would reduce the floor price to $16/barrel by July 1999, following a set of proposals by accountants Arthur Andersen. Protection would be further reviewed in June 2000. Cabinet also decided that an improved protection mechanism would be devised during 1996, but there's no indication that this has yet been done.

Sasol's assistance has been the subject of deep controversy over the years. SA's legion of Sasol-haters may be surprised to learn that at the last (monthly) calculation of the "derived" (that is, formula-based) dollar oil price, it came out below the Dubai light price, so that Sasol will enjoy no tariff protection for June. There has since been slippage in international oil — but don't forget that the floor price will be reduced to $18 from next month onwards. Presumably, the Central Energy Fund, which administers the pricing mechanisms, is collecting 6c/l for its latest calculation period (starting June 6), because the momentary decline in the oil price may yet entitle Sasol to some payment.

Why should we now be confident that oil prices will not return to $16/barrel or less in the next few years? Oil demand was badly dented by Opec's series of price offensives, but has recovered after a valley period of moderate prices to the present 68m barrels per day (BPD), driven significantly by rapid Asian industrialisation. The former USSR collapsed as an exporter, while the US has struggled to maintain supply from its ageing fields. Iraq was knocked out as a supplier, while the rest of Opec has fought to maintain even relatively low prices through restricting output. But the rest of the world has filled the gap, with Mexico, Britain and Norway between them contributing more than 9m BPD. Opec's

Official claims clients are charged twice

Banks under fire over Usury Act

(58) CT (BR) 14/6/96

By Nancy Myburgh
MARKETS CORRESPONDENT

Johannesburg — Commercial banks are once again under fire, this time for alleged excessive interest charges in the area of the compounded interest levied on accounts in arrears.

Banking and government officials said on Wednesday that commercial banks were charging compounded interest — in effect charging interest on interest — in cases where only simple interest was legal under the Usury Act.

Herman le Roux, the deputy director for the Usury Act at the trade and industry department, said claims that the act was too complex in the area of compounded interest charges for most computer accounting programs to handle was a frequent excuse used by the banks.

A member of the legal department of one of the country's large commercial banks said on Wednesday that "the Usury Act is a minefield" and designing computer programs to adequately cover all aspects of it was difficult.

He said he was very conscious of the potential for banks to overcharge clients in arrears severely because of the complexity of the act.

But Le Roux said "the usual complaint (from banks) is that they can't write a program that satisfies the act's requirements.

"If you want to make money, that is what you will say."

Absa yesterday denied claims of overcharges resulting from inadequate technical backup.

"Absa does not agree with the statement made by other banking officials (about inadequate computer programs). Absa's computer programs and other systems comply with the Usury Act," it said.

Absa has allegedly refunded about R150 million to clients over the past few years in general overcharged interest, according to previous reports.

Reports have estimated that R200 million has been recovered from commercial banks in excessive interest payment claims over the past four years. Claims of R300 million were outstanding.

The problem of compounded interest allegedly charged illegally on accounts in arrears concerns a section of the Usury Act that has already been the subject of several court cases. Section 4 of the act was amended in 1986 and 1990. The 1990 amendment had the effect of a grandfather clause, allowing compounded interest charges on arrears in certain cases to be legalised retrospectively.

But many cases still existed where compounded interest was illegally charged, Le Roux said.

Certain mortgage bonds and step-up leasing agreements, where payments were not made at regular intervals or in regular amounts, were among the accounts most prone to the problem, he said.

Little interest in call for protests over higher bank lending rates

Mass action planned against banks yesterday to protest against the recent interest rate hike and evictions of bond defaulters turned out to be relatively low key.

The action, by the SA Civic Organisation, included pickets, sit-ins, marches and the handing over of memoranda to banks around the country.

Sanco president Mlungesi Hlongwane rounded off the action by closing his account at First National Bank's Bank City in Simmonds Street in the CBD. "We insist on a moratorium on all intended evictions until the proper systems are established that will ensure all South Africans have access to affordable housing," he said. "We also want the suspension of the record of understanding between the banks and the Government, and want it to be renegotiated with Sanco playing a part," Hlongwane added.

He said that if the banks did not respond positively to its demands, Sanco would force government departments to withdraw their money from financial institutions targeted by the civic organisation.

He lashed out at the Housing Ministry, saying doubt was being created among ordinary people after pending evictions were announced. – Staff Reporter

(58) Star 15/6/96

Sanco's first 'house call'

(58) CP 16/6/96

By JEFFERSON LENGANE

ABOUT 100 South African National Civics Association (Sanco) members broke the tranquillity in Constantia Kloof west of Johannesburg yesterday morning when they staged a picket at the house of Council of South African Bankers representative Lance Edmunds.

They were led by Sanco's secretary general and Nedlac's convenor of community constituency, Siphiwe Thusi, and Braamfontein ward 22 councillor and Gauteng housing unit head, Sandi Mgidlani.

The picket was part of Sanco's action campaign dubbed "Visit a Banker at Home" and aimed at pressing its demands on banks and financial institutions.

Sanco wants: banks and financial institutions to stop evictions and the attachment of defaulters' houses; the record of understanding to be re-vised; the one percent interest rate hike dropped; and the government to establish a bank with "a proper attitude" to the previously disadvantaged communities.

☐ Four hours later police arrived after neighbours complained that the street was inaccessible and that the noise was disturbing the peace.

Sanco members continued singing, vowing to stay put until Edmunds – who was out –returned.

When the picketers refused to disperse, Superintendent Dries Bruyns ordered their arrest.

The picketers did not resist arrest when police vans arrived. However, the vans could not hold them all and some had to be ferried to the Honey Dew police station in police sedans.

Those who could not be taken in police vehicles requested lifts in media cars to hand themselves in.

After being charged under the Road Traffic Act, the picketers were released and issued with summonses.

They refused to leave the station demanding to be taken back to where they had been arrested.

Bruyn refused – but offered to take them to Johannesburg city.

Sanco intensifies drive against banks

Sowetan 17/6/1998

Protest outside bank official's home was part of the planned mass action

By Joshua Raboroko

CIVICS ORGANISATIONS are to intensify their campaign against the eviction of bond defaulters by targeting the vicinities of more senior bank officials after the arrest of about 80 demonstrators outside the home of an official in Johannesburg at the weekend.

This was said yesterday by Sanco's national head of housing and services Mr Sandi Mgidlana after the organisation took its mass campaign to the Constantia Kloof, Johannesburg, home of Mr Lance Edmunds who represents various banks through the Council of South African Banks (Cosab).

Mgidlana, who was also arrested, said protestors demonstrated outside

The protestors were taken to the Honeydew police station where they were issued with summonses to pay fines of R100 each.

He said they were prepared to protest in court against the charges of allegedly obstructing traffic.

The protest outside Edmund's home formed part of Sanco's resolution to visit leading bankers at their homes – all white communities – to show their neighbours they were continuing with apartheid. Sanco's call for mass action, which includes marches, sit-ins, blockade of bank halls and disrupting banking activities, was heeded by hundreds of protestors in major towns countrywide at the weekend

The mass action is against a decision by banks to increase interest rates as well as the intentions to crack down on defaulters from July 1.

The offices of the Association of Mortgage Lenders, part of Cosab in Johannesburg, is the next place to be targeted tomorrow.

Edmunds said he believed that Sanco had targeted the wrong person, although he conceded that they had their democratic right to demonstrate conducted peacefully, no-one sustained any injuries during the march and no property was damaged by participants. The participants dispersed peacefully and without incident.

*4. Mr M F CASSIM—Education. [Question standing over.]

Registrar of Banks: inspections (58)

*5. Mr M F CASSIM asked the Minister of Finance:

(1) Whether the Registrar of Banks conducts regular and extensive *in loco* inspections of banks and financial institutions; if not, why not; if so, how many commercial banks or financial institutions in each specified province were inspected in the past calendar year;

(2) whether any irregularities were detected during these inspections; if so, what are the relevant details?

N966E

The DEPUTY MINISTER OF FINANCE:

(1) The approach of the Registrar of Banks to the supervision of banks comprises both regulation and supervision. Regulation concerns the creation and maintenance of a legal and regulatory infrastructure aimed at prudent banking practice. Supervision relates to measures aimed at monitoring and controlling whether banks comply with the laid-down prudential requirements. Supervision is performed by means of two processes, namely off-site analysis of key statistics provided to the Registrar of Banks by banks by means of statutory monthly returns, and on-site verification. On-site verification comprises regular meetings between personnel of the Registrar's Office and the executive management and boards of directors of banks to discuss banks' risks, strategies and plans, as well as examinations of the adequacy and effectiveness of internal control systems, and the inspection and evaluation of the quality of the assets of banks.

Although all these extensive on-site inspection activities take place to the required level at all banks several times a year, not all activities are performed by personnel of the Office of the Registrar of Banks. Extensive use is made of the work performed by external auditors and accountants from the private sector. The work performed on behalf of the Registrar by the external auditors of banks has been clearly defined in the Regulations relating to Banks, in collaboration with the South African Institute of Chartered Accountants, and goes far beyond that of the normal statutory audit for purposes of expressing an opinion on the fair representation of a bank's annual financial statements. External auditors are, for example, required to verify the accuracy of the statutory returns submitted by banks and to express opinions on the effectiveness of the risk-management processes within a bank.

In addition to the above, whenever the off-site analysis has revealed any areas of possible concern, an external auditor other than the particular bank's external auditor is commissioned by the Registrar of Banks to perform a detailed investigation, with specific terms of reference.

It is the belief of the Registrar's Office that this particular balance between off-site and on-site supervision, supplemented by specifically directed work of competent professionals from the private sector, is the most cost-effective and appropriate method of achieving the Registrar's mission to ensure sound banking through effective supervision.

Therefore all institutions registered as banks or mutual banks in the Republic of South Africa are subject to supervision by the Registrar of Banks in accordance with the aforementioned principles. It has to be noted that financial institutions other than banks and mutual banks are supervised by the Financial Services Board, and not by the Registrar of Banks.

(2) The process described briefly above is designed to identify any weaknesses, trends, practices and processes of banks that could cause concern with regard to the stability of the banking sector or the soundness of a particular bank. In all cases, such causes for concern are followed up and resolved through discussions, which may involve the board of directors of a bank, and, in all cases, corrective measures are agreed and monitored. It is the head offices of banks that regulate affairs in their branches. It would only be in certain instances that the Registrar may send an auditor to investigate.

It is not clear what precisely is meant by "irregularities". There are innumerable instances of "irregularities" with regard to the Banks Act that are reported and acted upon, for instance contravention of the prudential requirements, which would be attended to by the Registrar in discussions with the Board of the particular bank. However, theft occurring in a branch would be addressed by that bank's head office. Instances, mostly of non-compliance with different provisions of the Banks Act, have at times been revealed by these supervisory processes. Owing to factors such as the number of institutions that fall within the regulatory ambit of the Registrar of Banks and the diversity of such instances of non-compliance, full details would be all but impossible. Many such "irregularities" are technical and would be attended to in the normal course of bank supervision.

Umtata: massacre of children

*6. Mr R K SIZANI asked the Minister for Safety and Security:

(1) Whether any persons have been arrested in connection with the massacre in Umtata in 1993 of five children by the South African Defence Force; if not, why not; if so, what are the relevant details;

(2) whether the Police is still investigating the matter; if so, (a) who is the investigating officer and (b) what stage has the investigation reached;

(3) whether he will make a statement on the matter?

N968E

The MINISTER OF JUSTICE (for the Minister for Safety and Security):

(1) Yes, a certain Mr N Matiwane was arrested by the Murder and Robbery Unit in Umtata in connection with the massacre, after which the docket was submitted to the Attorney-General of the former Transkei. The latter at that stage refused to prosecute Mr Matiwane as a result of insufficient evidence. After his decision the Attorney-General requested that the further investigation of the matter receive priority attention.

(2) Yes.

(a) The case is receiving priority attention and two investigating officers, a Captain and a Detective Inspector, who are connected to the Priority Crime Unit, Eastern Cape, are dealing with the investigation. They fall under the direct command of the Provincial Head, Priority Crime Unit, Eastern Cape.

(b) The investigation is of a very delicate nature and has already reached an advanced stage.

(3) No.

Protection of ambassadors in South Africa

*7. Dr B L GELDENHUYS asked the Minister for Safety and Security:†

(1) Whether the South African Police Service is currently protecting any ambassadors of other countries in South Africa; if not, why not; if so, what is the (a) nature and (b) extent of such protection;

(2) whether he will make a statement on the matter?

N969E

The MINISTER OF JUSTICE (for the Minister for Safety and Security):

(1) No.

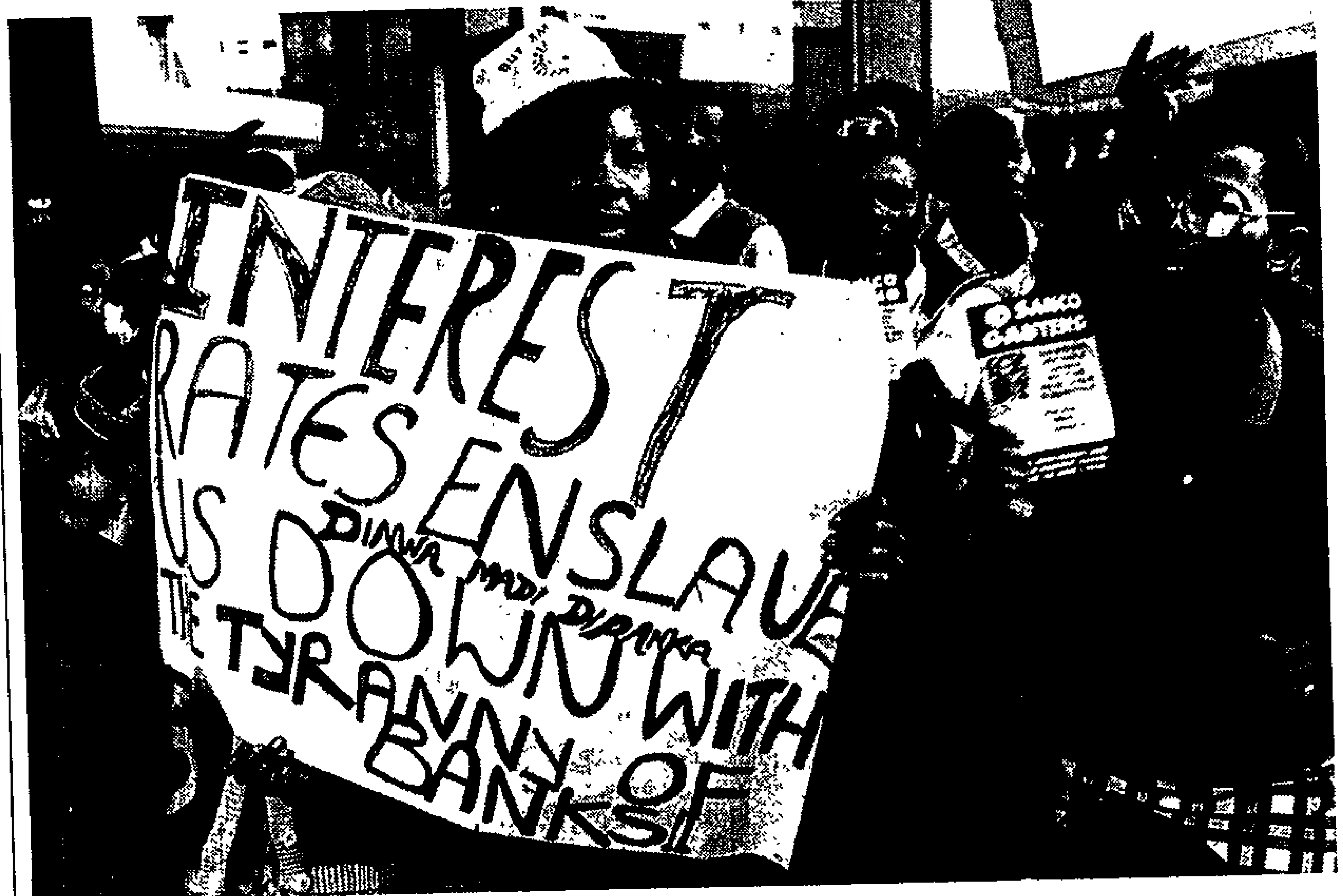
(a) and (b) Due to personnel shortage, the SAPS is not currently assisting any embassy with regard to permanent static protection. However, visible vehicle and foot patrols are being performed by relevant police stations and other specialised units (i.e. National Protection Services and POPS).

(2) Yes, a working group under the chairpersonship of Assistant Commissioner Vanqa, the Deputy Head of the Safety Services Division, has been appointed to formulate a new policy document. A preliminary discussion with the Doyen of the Diplomatic Corps, Ambassa-

Sanco's marches against banks continue to splutter

(58) BD 19/6/96

Robyn Chalmers



A group of SA National Civics Organisation supporters protested outside Association of Mortgage Lenders' headquarters in Johannesburg yesterday against evictions and interest rate increases. Picture: GARTH LUMLEY

THE SA National Civics Organisation's threatened mass action against banks continued to splutter yesterday, with fewer than 150 people marching on the Association of Mortgage Lenders' Johannesburg headquarters.

Sanco said earlier this month that it would launch countrywide marches from last Friday to protest against scheduled evictions of defaulting home owners and against recent interest rate hikes. It promised to mobilise at least one-million members during the campaign. So far, however, marches have been poorly attended or have not taken place at all.

Industry sources said yesterday that Sanco's struggle to get members — and defaulters in particular — to protest was an indication that popular support for the civic organisation had dwindled. Yesterday's march — which started about three hours late — was believed to have drawn on Sanco's own office secretaries to swell its ranks.

Nevertheless, Sanco's Johannesburg secretary Siphiwe Thusi handed a memorandum to AML representative Stuart Grobler.

Thusi said government and banks had neglected their duty to address the growing housing backlog.

In the memorandum, Sanco demanded that government and the banks stop the planned eviction of about 81 defaulters. Financial institutions have estimated that they have about 49 000 non-performing loans and repossessed properties on their books.

Police scatter protesters

(58)

Sowetan 19/6/96

By Noxolo Kweza

POLICE yesterday used dogs to disperse a group of placard-carrying demonstrators outside Trust Bank in Johannesburg.

The group was protesting against the eviction of bond defaulters.

The SA National Civics Organisation took its mass action campaign against bank institutions to the Bree Street branch of Trust Bank and picketed the building.

Earlier the group had marched to the offices of the Association of Mortgage Lenders, which represents the banks, and presented a list of demands. AML is part of the Council of Southern African Banks.

The demands included calls to banks to refrain from evicting bond defaulters and to reduce interest rates.

Trust Bank manager of communications Mr Nick Cairns said police were called after the protesters had intimidated clients.

"I know of two cases where our clients were manhandled by the marchers while attempting to enter the bank. We don't mind them picketing outside the bank but they should not interfere with our clients," Cairns said.

However, Sanco spokesman Mr Mathew Phetla denied the bank's allegations.

"Our members were toy-toying outside the bank when police were called to disperse them. Police chased out supporters without any reason," he said.

Memorandum

After receiving the memorandum AML deputy managing director Mr Stuart Grobler said there was no way Sanco's demands could be met.

He could not understand why people were boycotting while others were paying their bonds.

A Sanco spokesman said they would continue to picket and visit bank officials' homes this week.

Those who marched to the offices of the AML also demanded a clear commitment from banks that they would not crack down on bond defaulters.

Committee pledges to review banking and competition

(58) BD 19/6/96

legislation

Tim Cohen

CAPE TOWN — The parliamentary trade and industry committee decided yesterday to review banking and competition legislation to prevent collusion between banks following tough questioning of Competition Board chairman Pierre Brooks on recent interest rate increases.

Brooks appeared before the committee, held jointly with the parliamentary housing committee, to answer criticism of his decision that there had been was no evidence of collusion.

Brooks relayed information gleaned during investigations, which included statements that Standard Bank led the rate increase partly because its liquidity was squeezed after the rand's collapse and that banks had approached the Reserve Bank for a rate increase before acting unilaterally.

The committee established a three-person committee to investigate the Banks Act and to make submissions on competition legislation currently under investigation by the trade and industry department.

The committee will now direct questioning directly to banks on allegations of collusion and will report back shortly after Parliament's winter recess.

Brooks said it was important to note that the board had limited powers of investigation and that there was a critical difference between price leadership and price collusion.

Legislation required the board to find that a meeting of minds had taken place, which was often difficult to prove, Brooks said.

Standard had said its decision to increase its rate unilaterally was made because there was a shortage in the overall money supply and the country was suffering from a bout of currency instability, among other things.

Brooks said it was clear the bank's liquidity had been squeezed by foreign borrowings which had suddenly increased because of the rand's collapse. The other banks had followed because they feared increased revenue on loans would allow Standard to provide benefits to depositors which would lose them customers.

Brooks said he did not call for a commission of inquiry because some might have believed he had strayed outside the board's legal jurisdiction.

He had not called for a police investigation because of the police's poor record of investigating Competition Board complaints.

Without information from insiders, the board had decided against concluding that the banks had colluded, but this did not mean the board had exonerated the banks.

Banks to be probed for collusion on interest rates

(58)

A SUB-COMMITTEE of parliament's Finance, Housing and Trade and Industry committees is to investigate the Banks and Competition Acts following allegations of collusion between commercial banks on the recent interest rates increases.

It must report back to the committees as soon as possible after the winter recess, a joint meeting of the Housing and Trade and Industry committees decided yesterday.

Competition Board chairman Pierre Brooks told the meeting he would convey its concerns to bankers at a meeting later this week and urge them to be more sensitive to the issues of the day. – Sapa

ARG 19/6/96

Jobless rate

Sunday Argus 22/6/96

SA business chiefs are fat cats, claims survey

ALIDE DASNOIS

A HARD-HITTING report by the International Labour Organisation (ILO) has found that top executives in South Africa earn more than their counterparts elsewhere in the world and collect more fringe benefits.

The ILO report on Restructuring the Labour Market was released this week at the same time as the report of the Labour Market Commission.

Among controversial findings in the ILO report are:

- The unemployment rate is probably lower than generally thought, possibly closer to 20 percent than to 32 percent, but income distribution in South Africa is among the most unequal in the world.
- Top executives and senior managers are very highly paid compared to those in other countries.
- "Deregulating" the labour market and lowering real wages is no way to tackle poverty.

The report, written by Guy Standing, John Sender and John Weeks, warned that information on wage differentials in South Africa was inadequate. But from the available data it seemed that chief executives in South Africa earned higher gross salaries than other countries with higher incomes per head of population.

And if executive salaries were expressed as a ratio to average value added per worker, the ratio in South Africa was more than twice the level of Korea, Argentina or Chile and nearly four times as high as in the United States. Plant managers, personnel managers and engineers in South Africa were also relatively well paid. The ILO report criticised the costly fringe benefits given to privileged groups of employees, which were a major - but hidden - source of hidden economic inequality.

Employees, particularly executives and senior employees, received a wide range of non-wage forms of remuneration, the report said, from bonuses to medical aid to transport allowances. The hi[...] er the basic salary, the bigger the differen[...] between basic salary and total remuneration.

These high non-wage payments contributed to t[...] high labour costs which were said to underm[...] South African firms' competitiveness, the ILO sa[...]

Some of these indirect payments should be tra[...] ferred to the state, some could be phased out a[...] others could be converted into cash paymen[...] which had a stronger incentive effect.

Taking issue with the S A Foundation and oth[...] business lobbies which have advocated "dereg[...] lation" of the labour market, the report warned th[...] little employment would be gained from low[...] wages.

The SA Foundation claimed that deregulati[...] would generate employment growth of four perce[...] a year, with a six percent rate of growth of Gro[...] Domestic Product (GDP), generating one milli[...] low-wage jobs in three years.

The authors of the ILO report found that t[...] Foundation did not use the correct base figures [...] employment, that it did not take into account j[...] cuts in the public sector or falling mining empl[...] ment, and that even if lower wages prompted [...] immediate shift to more labour-intensive tec[...] niques, the creation of one million jobs wou[...] mean that net private investment would have [...] average nearly 19 percent.

The ILO study also examined in detail a 19[...] World Bank report and a 1995 International Mo[...] etary Fund document which have fuelled arg[...] ments for wage cuts. The authors concluded th[...] available studies had not shown either that re[...] wages in South Africa have been rigid, or th[...] real wages have had a strong negative effect [...] employment.

But this did not mean that higher wages wou[...] necessarily stimulate demand and raise empl[...] ment. "Neither side in the debate has establishe[...] clear empirical advantage."

Cosab criticises interest rate probe

BD 20/6/96 (58)

John Dludlu

THE Council of SA Banks has criticised plans by the parliamentary standing committee on trade and industry to investigate means to reverse the banks' recent interest rate hike.

A Cosab spokesman said yesterday public concern over the recent interest rate hikes was "valid", but the committee's plans were sending wrong signals to foreign investors.

"It would appear that they (the committee) would want to dictate to the banks what interest rates to charge," he said.

The committee's decision follows a briefing by Competition Board chairman Pierre Brooks on Tuesday over his decision not to proceed with an investigation into the rate hike.

The banks moved within hours of each other to lift their rates to 20,5% from 19,5% on May 17, ignoring a Reserve Bank decision not to lift its rate.

Asked if it was possible that his enquiry be reopened following his appearance before the committee, Brooks said "nothing we undertake is cast in stone, but I don't think we can just refer the matter to the police".

Banking sources said Brooks was being pressured to reopen the probe. He will meet Cosab officials today to discuss the concerns he voiced when he announced his decision not to go on with the probe.

Edna Sethema-Molewa, who chairs the committee, remained determined yesterday to proceed with the investigation.

Hearings would probably be held next month in which the public and the banks would be asked to appear, she said.

Molewa said the speed with which Brooks had made his decision left much to be desired, and vowed that "as public representatives, we'll use whatever means to get to the root causes of the hikes".

The investigation is known to have the support of ANC MPs, but other parties will be canvassed to participate. Two cabinet ministers, Trade and Industry Minister Alec Erwin and Finance Minister Trevor Manuel, would be interviewed, and recommendations of the hearings would be tabled to them for action, she said.

Asked if the mooted hearings amounted to the re-regulation of the market, she said the committee suspected the banks of anti-competitive behaviour.

Reserve Bank deputy governor Timothy Thahane played down the investigation, which will also look at the Banks Act if the probe finds collusion, saying he did not think it undermined the authority of the central bank.

Rejections for HIV applications climb

(42) (58)

SOUTHERN Life declined insurance to 1 263 HIV-positive applicants in the year to March —from 938 the previous year.

Executive director (life division) Chris Liddle said 2.3% of life assurance applicants were now HIV-positive and insurance cover of about R260m had been turned down last year.

"These rapidly rising HIV infection rates are a major concern for the life assurance industry and the SA economy as a whole," Liddle said.

Exclusive Life, which provides financial immunity against AIDS-related premium increases, accounted for more than one-third of the company's new recurring premium income.

BD 21/6/96

Are banks penalising clients because of their own failings?

BD 21/6/96 (58)

ADRIENNE GILIOMEE

DEPENDING on who is doing the analysing, SA is either blessed with an efficient and technologically advanced financial services infrastructure or burdened with one that penalises customers to compensate for its own shortcomings.

Banks are frequently the first port of call for potential international investors — providing an opportunity for them to dip their toes into a country with little risk of catching a cold. And it is against international norms that SA banks are now measuring themselves and being assessed by foreigners.

The World Economic Forum study for this year shows that while SA is slipping in terms of its world competitiveness rankings — 35th three years ago and now 45th — it was kept "above water" by a good infrastructure rating (19th) and a strong financial sector rating (20th) last year.

As a subdivision of the financial sector ranking, public trust in SA bankers was rated 5th worldwide.

However, recent criticism of SA banks — notably by Cosatu and Sanco — for raising their prime overdraft rates by an additional 1% after a Reserve Bank rate hike, has prompted many to ask: are the banks coining it in at a time when the country's delicate economic transition calls for a more diplomatic approach?

Two of the key figures in a bank's financial statements are its interest margin and its capital adequacy ratio. The former is a measure of profitability and the latter is a yardstick for foreign institutions to judge the operating soundness of a bank.

Banks justify the latest increase in prime overdraft rates by saying their margins had come under too much pressure as a result of the money market shortage. The market sets the interest rates, not the banks, they argue.

"Banks do not like charging high interest rates and would prefer to have long-term advances growth, lower costs and less bad debts — all factors which are inhibited by high interest rates," says Nedcor CE Richard Laubscher.

"We felt the pressure from deposit rate rising on the one side of our balance sheet."

"Banks have to reflect the pressures of the cost of money on the asset side, in other words their lending rates," says Standard Bank Investment Corporation CE Mike Vosloo.

Profitability would have been threatened had they not raised rates and, eventually, their capital adequacy ratios.

The banks argue that they raise a substantial amount of credit from overseas financial institutions to fund SA trade on the strength of their balance sheet, capital and profitability ratios. If these credit lines are cut all trade will have to be in cash, which will eventually eat away reserves.

But just how profitable do banks have to be to remain internationally competitive and acceptable?

The internationally recognised Bank for International Settlements ratio puts an 8% capital adequacy requirement on banks.

If the ratio falls below this, the bank is regarded as "persona non grata".

There are indications that this ratio might be increased to a more stringent 10% in the near future. The SA banking industry averages slightly less than 10%.

Banking analysts support the view that banks need to expand their assets profitably without impairing their capital adequacy ratios. "If a bank grows through unprofitable assets, its capital ratio will go down. Banks will then have little choice but to run to shareholders to raise more capital to improve their ratio," says one banking analyst.

"Banks must try to be self-sufficient in terms of their capital requirements," says Absa financial director Alwyn Noëth.

Would banks have needed to improve their margins if they had a lean cost structure?

The average interest margin of SA banks stands at 4,5% against highly competitive US margins of 4,3% and Australia's 4,48%. But some of these developed countries — notably Australia and the US — have far lower inflation rates than that in SA.

Banks even feel the margin might be on the low side, after taking into account the higher risk of lending, such as low-cost housing.

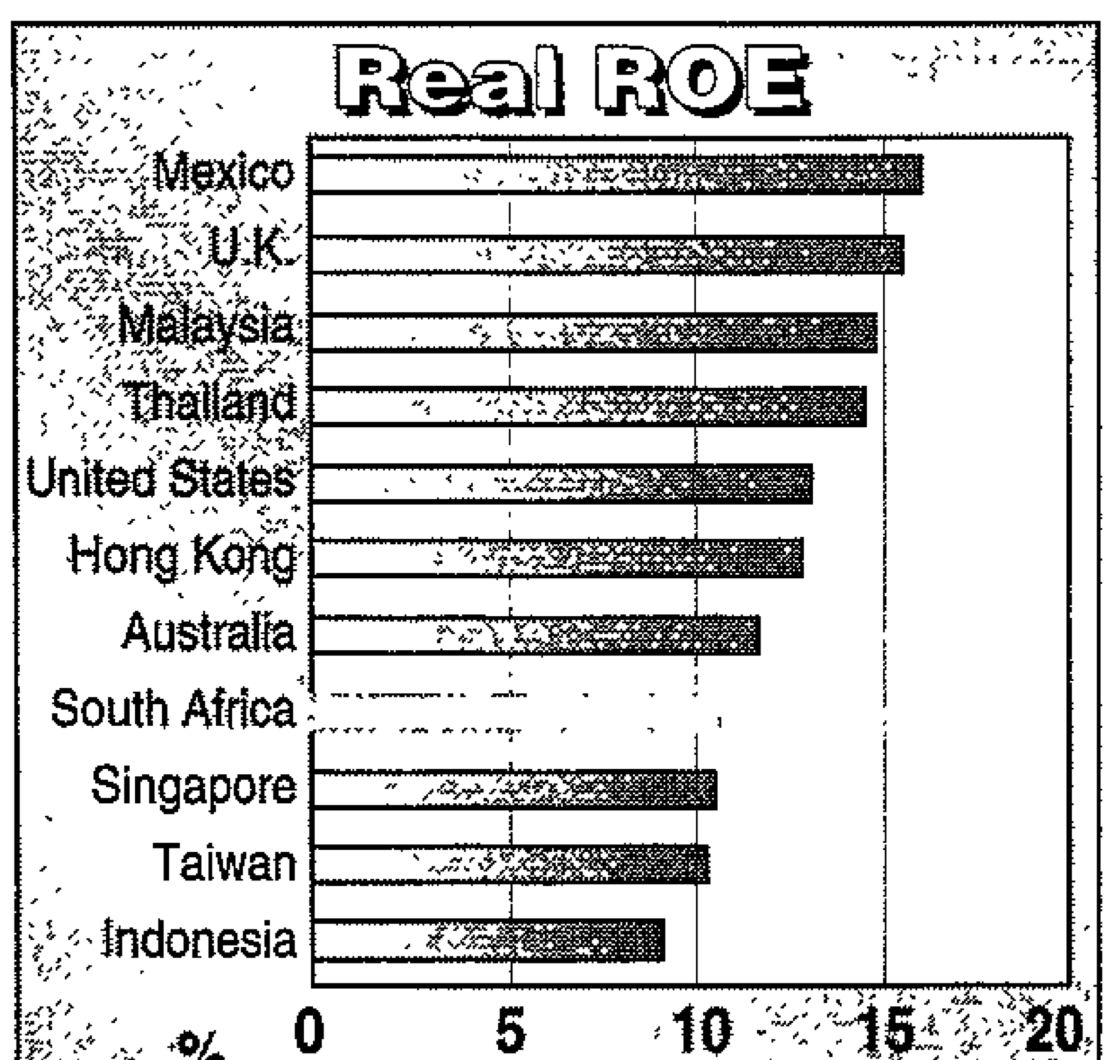
Some banking analysts believe the high interest margin in SA is a result of inefficient cost structure.

"The cost structure of SA banks is so high — on average 66,7% of operating profit is spent on operating costs — that they need a very healthy margin to survive. They cannot exist on a normal price structure," says one analyst.

The overseas picture does not look much better. Nedcor points out that cost-to-income ratios among local Australian banks was 63,4% in 1994, while the US commercial bank average was 63,3%.

Banks believe the operating cost structure should be seen against higher input costs, lower productivity, higher inflation and rising cost of security.

All four of the major SA banks have said they are aiming to reduce operating cost to income ratio to close to 60% by the turn of the century.



Graphic: SARAH EVANS Source: NEDCOR

The analyst believes banks will need to look at downsizing through the axing at least 10% of staff during the next five years. Standard Bank announced in February that it planned to shed 700 jobs, while other banks have indicated they plan natural attrition programmes and rationalisation in the near future.

But there are dangers in pushing the cost issue too much. "If banks are forced to cut costs, they will start by slashing staff numbers, which on average make out 50% of its total operating costs," says one banker.

Such steps would not be welcomed by the unions who are already criticising bank operations. He says that even if banks do cut costs, it would take significant reductions before benefits were passed on to clients.

Another analyst says while the high operating cost structure is worrying, it is a function of the diversity of the SA economy.

"Local banks have a very extensive branch network which is not cost-effective, while comparable international banks may specialise in other, more lucrative, fields such as private banking."

Absa's Noëth says the depreciation of the rand has also pushed up the cost of technology, where most of the equipment is imported.

Standard Bank Investment Corporation CE Mike Vosloo believes additional services including same-day value on cash transactions add to a bank's costs.

"If we could delay giving value on most of our cheques or establish some kind of clearing period, banks could receive a huge benefit of a float and a resultant lower cost structure."

A second argument from the banking ranks is that banks do not thrive on a high interest rate environment. "Unfortunately there is a perception that banks do well in bad economic times.

"Banks' performance lag that of industrial companies in a recession in that the bad debts and lower volumes only filter through in the economic upturn," another banking analyst says.

Judging by the return on equity of banks — generally the best indicator for foreign investors of a bank's performance for its shareholders — there are some indications that local banks have some way to go before they can be viewed as being on a par with overseas counterparts. SA banks have an average real return on equity (ROE) of 11% — against the US's 13% and the UK's 15,5%.

Banks' first priority lies with their shareholders, while funding their business to meet future growth and the international norms laid down by the banking industry that is regulated worldwide.

But questions will probably always be asked as to how much they care about the fate of account holders squeezed by higher interest rates. And while banks' actions, in many instances, may be in the long-term interests of the SA economy, it is unfortunate for them that interest rate hikes are unlikely ever to be favourably received by the public.

INSURANCE (58)

WHAT FUTURE IN AFRICA?

FM 21/6/96

The insurance industry could find itself permanently marginalised in Africa. That was the warning delivered by Africa Re's MD Bakary Kamara at the 23rd African Insurance Organisation (AIO) conference held recently at Sun City.

Insurance can play an important economic role, he said, since it promotes savings. But, he added, in many African countries it is still considered a luxury item of uncertain value to those investing in it

As a result, in 1993 Africa generated only about 1% of world premium income (life and nonlife). And no more than a dozen countries accounted for 90% of that 1%.

Many believe the sector's underdevelopment in Africa is due mainly to low per capita incomes. Komara disagrees. "The industry has failed to adapt its products to Africa's needs; more innovation is needed."

He cites India as an example of successful innovation. There, a life insurance product was developed costing only US$1-$2/month. It attracted a large clientele and earned over $1bn in premium income, which was used as development finance for the economy.

Komara points to further inadequacies in the African insurance industry· high premiums even for promising classes of business, poor quality after-sales service and delays in settling claims. The absence in some countries of an adequate banking system, he believes, also retards the development of their insurance sectors.

As a result, SA continues to dominate African insurance, accounting for about 80% of nonlife premium income. Its share of life business — the contractual savings of which enable insurers to play an effective role as institutional investors and development financiers — is even bigger.

SA's dominance of the continent's insurance industry could prove a mixed blessing. Other countries might have unrealistic expectations of, and rely too heavily on, the SA industry. And that could produce in them an ambivalence and suspicion towards it.

How, then, to avoid insurance's increasing marginalisation? Various initiatives were launched at the conference. They included long-range strategic planning, continental co-operation, and allocating more resources to technology development and education/training.

It remains to be seen whether efforts at co-operation among African countries in this sector will achieve more than they have in other economic areas. However, SA is beginning to provide a few African countries with training programmes adapted to the needs of particular insurance markets. ■

Commission to probe collution by banks

(58)

Sowetan 21/6/96

By Waghied Misbach
Political Reporter

THREE Government ministries are launching a coordinated investigation into the alleged collusion of South Africa's major commercial banks to raise interest rates, it was announced in Parliament yesterday.

Chairperson of the Portfolio Committee on Trade and Industry, Edna Sethema-Molena, said at a Press briefing that the Trade and Industry Ministry will head the investigation with the aid of the Housing and Finance Ministries.

Sethema-Molena said the ministries will hold their hearings over the issue next month while Parliament is in recess.

The banks, as well as trade unions, and individuals are likely to be called to testify before the hearings.

In reaction to criticism of the investigation by the Council of South African Banks (Cosab), she said the investigation into the suspected anti-competitive actions of the banks was not an attempt to "run the business of the banks" but to "clarify" whether collusion did take place.

Sethema-Molena said the investigation was to look at how Competition Board chairperson Pierre Brooks had come to his decision that banks did not collude in increasing interest rates.

Critical of haste

She was critical of the apparent haste in which Brooks had reached his conclusion that banks were innocent.

Brooks is said to have been grilled by Sethema-Molena at a Trade and Industry Portfolio Committee meeting on Tuesday on the same issue.

Commercial banks raised their interest from 19,5 percent to 20,5 percent on May 17.

This was done despite the Reserve Bank not increasing its rate as the lender of last resort.

Cosatu has argued that the rates will have a detrimental effect on consumers who will now pay more interest on their bonds and higher purchase agreements.

Sethema-Molena said the investigation will also have a re-look at the Competition Policy and the Bank Act to see whether these two pieces of legislation allowed the banks to collude on the issue.

She said the committee will only consider a reversal of the rates hikes if it found evidence "beyond a reasonable doubt" that the banks had colluded in raising their rates.

'Only clarity on Usury Act will stop accusations'

(68) CT(BR) 21/6/96

By Nancy Myburgh
MARKETS CORRESPONDENT

Johannesburg — Until the Usury Act is amended to clarify the position on the controversial interest rate charges levied by commercial banks and agricultural co-operatives, allegations of excessive interest charges will continue to grow, legal scholars said yesterday.

Draft amendment proposals are now before the Law Commission, the statutory body that advises the government on the law.

But "it could be a few years before you see any end result", said Pieter Smit, a commission researcher now in charge of the Usury Act project.

The Act has already been amended twice.

Previous reports have stated that banks have already overcharged clients by more than R500 million in the past four years. But government officials have said that additional allegations — that banks are charging compounded interest on certain accounts where only simple interest is legal — amounted to millions more rands.

These new allegations are not limited to commercial banks. The Interest Research Association of South Africa, a national body representing about 20 interest recalculation firms, has accused agricultural co-operatives of charging excessive interest to farmers as well.

Co-op officials have denied the charges. "I guarantee you, (the interest charges) are correct," said Johan Steyn, the secretary of the NoordWes Koöperasie in the Northern Cape.

But Laurie Friedman, the vice-chairman of the association, said the association had already helped stop one agricultural co-op from "selling certain members' farms against whom they obtained judgment debts based on the illegal capitalisation of interest".

Nick Grove, a private-law professor at the University of Pretoria and the co-author of draft amendments to the Act, said: "The Usury Act, as it stands, is a mess for various reasons.

"If reports are true, some creditors are entitled to charge compounded interest and others are not. The calculation and disclosure of finance charges should be standardised for all consumer credit transactions. Only then will a creditor be able to shop around for the best rates. For that we need legislative intervention."

Legal scholars have said that Roman-Dutch common law, which is often used as a tool to interpret ambiguities in statutory law, only allowed for simple interest in such cases.

Housing minister warns banks

(58) CT 21/6/96

HOUSING Minister Ms Sankie Mthembi-Nkondo said last night banks not assisting in financing low-income housing schemes would not be allowed to get away with it.

Replying to debate on the housing budget, she said legislation dealing with banks' non-investment in "poor areas" was being dealt with.

Meanwhile, the ANC's chairperson of the National Assembly portfolio committee on housing, Mr Titus Mafolo, said yesterday the housing crisis had reached such proportions that the state would have to take responsibility for solving it.

"The state at different tiers should take a direct, hands-on approach to the delivery of housing," he said.

The private sector should continue to play a role, but "they should not be expected to solve the housing crisis that is facing the country".

Mafolo also said his committee believed a massive programme of building for rental accommodation was necessary and that R15 000 subsidies should be used for the construction of houses, rather than the provision of services. Services should be provided by local government.

All state-owned land in the cities, including that owned by parastatals such as Transnet and the SA National Defence Force, should be given a special land price so that the poor could be integrated into metropolitan areas.

Mafolo said that since 1976/7 the government had shifted the responsibility of providing housing to developers. "This has not worked and it has further marginalised the poor.

"The government, through the housing department, must assume the lead by setting up a task team . . to draw up plans for mass delivery of low-cost housing in areas of greatest need, giving attention to issues such as urban sprawl, new models of housing ... and the maximum utilisation of infrastructure and accessibility to economic opportunities."

Local government had to be given the capacity to play a central role in infrastructure provision and the building of houses. — Sapa, Political Writer

Benefits for accident victims set to shrink

(58)

ST 23/6/96

By ANDREW UNSWORTH

GOVERNMENT reforms to the Multilateral Motor Vehicle Accidents Fund could leave many accident victims worse off and with no way to sue those who injured them.

The legal profession, which earns about R190-million a year from the fund, is up in arms over proposals to cap benefits and reduce costs.

Attorneys say the public are unaware of the severity of the changes, which could leave them underinsured in the event of major accidents.

They also warn that personal cover from the insurance industry will be prohibitively expensive.

The government tabled a white paper on the proposed changes on June 1 and has called for comment, specifically on the proposal to stop civil claims over and above what the fund will pay.

The Minister of Transport, Mac Maharaj, aims to simplify the benefits paid out and reduce the drain on the fund, which had an accumulated deficit of R4,1-billion at the end of last April.

The plan is to eliminate the 25 percent of pay-outs which go towards legal fees and commission to insurance companies, and to make the fund profitable by 2007.

Lawyers say that removing the right to sue negligent drivers for damages would be an infringement of common law rights — and the government could find itself in the Constitutional Court if this proposal is approved.

Dudley Honey, chairman of the Association of Law Societies' subcommittee on the fund, says the proposed changes will force victims to take civil action against negligent drivers to get adequate compensation, as was the position before the fund was launched in 1942. "There would be a mountain of litigation," he said.

The parliamentary portfolio committee on transport met Mr Maharaj in April to convey its concerns about the proposals.

Lawyers have described them as "worthy of the Soviet Union in the 30s".

The chairman of the Attorneys Association, Ronald Bobroff, has labelled them Draconian.

"What we see is a bureaucratic empire which is a law unto itself, making a sudden invasion of the rights of the injured.

"No system is perfect, but we have one that has served the public since 1942. The 1992 inquiry by Mr Justice Melamet found it to be excellent, except for the administration of the fund itself.

"Now a few individuals within that fund have decided to alter the system. The government needs wide and transparent consultation and debate, as the fund cannot investigate and judge itself."

Lawyers specialising in motor accident claims are set to lose out as there will be no need to prove negligence in an accident — the fund will automatically pay out on a limited schedule.

Most claims are settled after negotiation between victims' lawyers and the fund.

If the changes materialise, the fund will be renamed the Road Accident Fund. It will still be funded by a fuel levy, now at 9c/litre on petrol, but it is proposed that this rises to 12c, with an automatic annual increase.

The claimable loss of earnings will be limited to R2 500 a month, while medical expenses for permanent disability will be reduced to 18 months.

Payments for the loss of support by a breadwinner will be capped at R1 875 a month.

Critics say the innocent will effectively subsidise the guilty: payments will be made on a no-fault basis, with no distinction between drivers at fault and victims.

The most far-reaching proposal is to do away with claims for general damages, for example, those for pain and suffering.

The agency system, whereby insurance companies handle the claims for damages on behalf of the fund, will be phased out, leaving all administration to the fund itself from May next year.

Life industry in call for arbitrator

BD 24/6/96 (58.)

Adrienne Giliomee

THE life industry is calling for an independent, legally backed arbitrator to oversee the industry — in line with international moves to protect consumers.

The proposals include forcing life offices and brokers to disclose more information to clients and empowering the arbitrator to police the solvency and liquidity of life offices.

Life Offices' Association (LOA) executive director Jurie Wessels said at the weekend the proposals were spurred by the collapse of Masterbond and Supreme Holdings and the introduction of regulations governing the life industries of Australia and the UK.

The call represents a first tentative step toward regulation by legislation — a set-up that has cut deeply into the industry in the UK.

Legislation there has led to the industry facing a bill for at least £2bn for missold pensions and a regime so stringent that it was quoted by Liberty Life as one reason why it pulled out of the UK market last year.

Wessels said negotiations were already under way at government level about improved regulation of financial services marketing and that the association would argue for any statutory regulations to apply across the sector.

The LOA also planned to introduce "urgent" new voluntary regulations from next January.

These would force life offices to quote early surrender values to show the effect of upfront charges. Brokers would have to disclose who they were acting for and clients would have a "right to review" period, allowing them to back out of a policy in a specified period without penalty.

"Some critics argue that life insurance is being oversold by commission-driven intermediaries," Wessels said.

"Allowing people a grace period within which they can reconsider their purchases would hopefully silence those critics."

Improving the statutory regulation of financial institutions was also more important than regulation of marketing activity.

"Brokers should be able to rely on the fact that the regulator is seeing to it that the institutions are solvent and liquid," he said.

Old Mutual assistant GM marketing (individual life) Dave Hudson said while there was already an industry ombudsman office, the group would welcome wider public access to an industry arbitrator.

Hudson said the UK had tried to anticipate problems by imposing limitations, which resulted in a huge bureaucracy.

"It will be better to have a complaints-driven system that finds the source of a problem," he said.

Absa takes the lead in surprise move

Stals steps in to help banks lower rates

(58)

BD 26/6/96

Greta Steyn

THE Reserve Bank last night announced it would help banks survive the next liquidity squeeze — a move enabling them to follow Absa in lowering their prime overdraft rates.

Absa astonished its competitors yesterday by announcing a one percentage point cut in its prime overdraft rate to 19,5% from July 1, after weeks of public outrage over the banks' decision to raise rates in May.

The other major banks are likely to follow over the next couple of days, reducing their prime and mortgage rates. Before the Reserve Bank's announcement last night, some bankers expressed deep misgivings and even anger over the timing of Absa's move.

But Bank governor Chris Stals addressed some of their concerns last night. He announced that the Bank would take the pressure off their margins by reducing its penalty lending rate. However, its normal Bank rate would remain unchanged.

The Bank charges its normal Bank rate of 16% on loans to banks secured against liquid assets. Loans against other assets are at a margin above Bank rate. Stals said this margin would be reduced from 1,5 to 0,75 percentage points today. "Accommodation from the Bank's window will therefore be available at a slightly reduced average rate should the money market shortage remain high or rise again."

Stals agreed Absa was optimistic in its view of money market liquidity. "It is perhaps a bit of an assumption that the present trends in the money market will continue." However, he believed everything had been moving in the right direction for about a month.

Stals predicted that the other banks would have to follow Absa. "That is how a developed market works. The interest rates will all be the same."

First National Bank senior GM Viv Bartlett yesterday afternoon described Absa's announcement as surprising. "We have not yet made up our minds that the fundamentals have changed enough to warrant the step. But we will have to make a decision soon."

Continued on Page 2

Banks

Continued from Page 1

He said foreign capital flows had not improved dramatically since the banks decided on May 17 to raise their rates.

There was also concern about what would happen to the money market shortage once Standard Bank had repaid about R3bn in foreign finance.

Standard Bank treasury director John Lloyd, also speaking before the Bank's announcement, agreed that the liquidity problem had not been resolved yet. "Market interest rates have not quite discounted the move yet."

UAL treasury chief Peter Lane agreed there were "some unknowns" but the market had been moving in the direction of lower interest rates anyway. "It was bound to happen, but this is perhaps a bit sooner than expected."

SMK Securities' economists said Absa's move was not based on economic fundamentals as money market conditions remained tight. The current money market shortage of R6,9bn was higher than the R6,1bn shortage at the time of the last rate hike. The shortage is the amount the banks need to borrow from the central bank every day.

Bankers also point to the fact that the call rate has been the same as Bank rate or higher as a sign that the liquidity situation is still difficult.

Absa denied it was bowing to pressure from the unions and the SACP. It gave as its reasons for the move the easing of money market conditions, and expectation of further softening; the stabilisation of the rand; and the favourable reception to government's macroeconomic policy package.

Interest rate euphoria unleashed the bulls in the capital market, with long bond rates falling about 25 points. The yield on government's R150 stock sank below 15,20% in late trade from 15,46% late on Monday.

Renee Grawitzky reports that SACP deputy general secretary Jeremy Cronin, speaking on behalf of the coalition formed to fight last month's rate hike, welcomed Absa's move. If other banks followed suit, "we promise not to accuse them of collusion".

Countrywide marches planned by Cosatu for July 7 would be reassessed.

John Dludlu reports that the parliamentary portfolio committee on trade and industry will proceed with next month's inquiry into the controversial interest rate hike, despite Absa's move to reverse it.

Comment: Page 10

Recent exchange control changes have allowed South Africans limited acce

Wide-awake financial sector takes SA into overseas markets

(58) CT (BR) 26/6/96

There is no more pleasing manifestation of South Africa's rejoining the world than the growing investment in overseas share and bond markets. We have been able to achieve this through investment products designed by a wide-awake financial sector.

The country's major financial institutions acted after the authorities started relaxing exchange control last year. Financial institutions were allowed to swap five percent of their assets for overseas ones.

Now Trevor Manuel, the Minister of Finance, has announced in the government's economic strategy document that the proportion will be increased to 10 percent. We can now expect an even wider range of products.

In addition, transfers of up to three percent of net inflow of funds during the 1995 calendar year will be permitted, subject to an overall limit of 10 percent of assets.

TREVOR MANUEL

One of the first unit trusts set up to concentrate on both overseas shares and local "rand hedge" ones has already drawn more than R200 million. Other products are endowment policies, retirement annuities and deferred compensation schemes.

Selwyn Feldman, the deputy chairman of the Association of Unit Trusts and managing director of Old Mutual Unit Trusts, says unit trust management companies should be able to invest as much of their total assets overseas as they are able to swap.

"The stated aim of the authorities is to give the 'offshore opportunity' to as wide a spread of South African investors as possible.

There is no better way than through the unit trust industry, which provides all unit holders with the same benefit, irrespective of the size of an investment."

An individual can have a worldwide choice of exposure to different stockmarket sectors.

"This is a powerful reason for allowing offshore exposure through a specific fund, not just five or 10 percent of a portfolio of funds – which can be confusing," Feldman says. "If the limits were eased still further, a mass of small investors would be able to benefit."

What if the rand starts to appreciate and reduce, rather than increase, those returns from overseas? If you're admitted to a family, you have to take the rough with the smooth. Overall, it is best to have behind you the vast and varied resources of the "international investment family" that modernity has produced.

Banking competitors huddle in emergency meetings and are likely to follow suit

Absa stuns rivals with rate cut

(58) CT (MR) 26/6/96

By Christo Volschenk
ECONOMICS EDITOR

Cape Town — Absa, South Africa's largest banking group, took its competitors by surprise yesterday when it announced a 1 percentage point cut in its prime lending rate to 19,25 percent from July 1.

Standard, First National and Nedcor, the other large commercial banks, were locked in emergency meetings yesterday afternoon to decide how to respond.

It was clear that they were likely to follow suit. Most of them said the liquidity problems experienced in the money market, which were responsible for the recent hike in their rates, had dissipated sufficiently to warrant a cut in the lending rate.

First National Bank (FNB) said "the rate issue is being discussed by the executive". John Lloyd, the head of Standard Bank's treasury department, said "the markets are very good at bringing players in line, so sooner or later the other banks will have to follow Absa".

The Reserve Bank governor Chris Stals said he expected other commercial banks to follow Absa.

"The banks operate in one commodity, money, and there can only be one price for that commodity, so I wouldn't be surprised if the other banks followed very quickly," he said

He said conditions were not yet appropriate for the central bank to reduce its benchmark Bank rate, now at 16 percent. "The banks are only coming back in line with the Bank rate again," he said.

"FNB would like to drop rates as soon as possible," said Alec Grant, a general manager at FNB.

Most bank spokesmen were surprised by the timing of Absa's rate cut, coming so close to what might be another tight month-end in the money market, one day before the KwaZulu Natal elections, and a few days before the release of inflation and credit-growth figures that may not be very positive.

Fanie Leach, the head of Absa's treasury, said the rate cut was possible because of "greater stability in the money market" as reflected in lower interest rates.

Nancy Myburgh reports from Johannesburg that Cosatu welcomed Absa's move, saying it was the result of pressure by the Cosatu-led coalition to reverse the prime rate increase on May 17.

"Cosatu, Sanco, the SACP, the Consumer Council and other institutions have put pressure on the banks to make them see that the step that they had taken was wrong," said Nowetu Mpati, a spokesman for the coalition.

Cosatu still believed there was collusion, Mpati said.

The coalition said it called on all of the other banks to follow Absa's example. When the increase was imposed, "the banks assured us there was not collusion".

It said it was told no bank could move independently of the others. The coalition expected a favourable reaction from the other banks and promised not to allege collusion.

Mpati said Cosatu's planned march on July 13 to protest against the rate increases would go ahead as planned. "The other banks should now drop their rates and convince us to review our decision," she said.

The trade and industry department's parliamentary portfolio committee's inquiry into the latest interest rate increase would continue, said Edna Sethema-Molewa, the chairman.

☐ **See Business Watch, Page 21 and Absa's Gamble, Page 20**

Insurer sounds the alarm on AIDS

(92)(58) BD 24/6/96

Linda Ensor

CAPE TOWN — The R14m Sarafina II controversy had diverted attention from the fact that more than 10% of SA's sexually active population could be infected by the HIV virus, Southern Life chairman Neal Chapman said.

In his chairman's statement released yesterday, he said HIV and AIDS continued to spread at an alarming rate, and warned that all sectors of society and all industries would suffer it's effects.

Business leaders would have to take urgent steps to ensure the survival of their businesses.

The epidemic would affect all sectors of society and have implications for all industries in the SA economy. "The opportunity to make significant inroads into the numbers of new infections will now seem to have passed us by and the challenge of large-scale social and economic consequences must be faced."

Chapman said the number of HIV cases had grown sharply, and at least 50% would die within the next 10 years. By the end of last year the figure had grown to 2-million, with new infections increasing by 1 900 a day.

"It is now estimated that more than 10% of the sexually active population is infected with the virus," Chapman stated.

Dealing with other aspects of Southern Life's business, he said Futuregrowth portfolio, designed to fund investments of benefit for less privileged communities, had grown to R640m by end-March from R265m last year. More than 45 retirement funds had invested in the RDP via Futuregrowth which had financed the provision of electricity to about 40 000 homes and potable water to more than 200 000 people as well as helping to make 8 000 low income housing loans available.

For the first time the life assurer disclosed the make-up of its actuarial surpluses which it said would enable investors to make more informed judgements on its ability to generate both profits and investment returns.

In the year to end March, the surplus of R1,038bn (R944,5m) comprised an operating surplus of R302,5m (R230m — a 32% rise) and investment returns on free assets of R735,2m (R405m, an 82% increase).

The 1995 actuarial surplus included an adjustment of R309,9m due to changes in valuation bases and prior year adjustments.

Interest rate drop by four banks seen as green light for 'three further cuts'

Star 27/6/96 (58)

By Priscilla Singh

The percentage point decrease in interest rates by South Africa's four major banks is being seen by economists and bank executives as a green light for more cuts.

Top bankers and other businessmen said yesterday the general trend of interest rates would be a downward spiral after the initial decrease, which was first announced by Absa, and followed yesterday by First National Bank, Standard Bank and Nedcor.

Prime lending rates dropped from 20,5 to 19,5%, which means consumers save R78 in repayments on a bond of R100 000 whenever the interest rate drops by a percentage point.

Chief economist at Old Mutual, David Mohr, expects a further three cuts over the next 18 months and said consumers would make a substantial saving as the announcements were made.

He said interest rates had hit a peak and the combination of the slow growth in the economy and the decrease of spending power for consumers due to high interest rates had forced the banks to have a rethink.

"Also, the inflation rate is well under control and the rand is stabilising. The obvious move now for banks would be to gradually cut interest rates by a percentage point every four months or so, until it comes down to about 16,5%."

First National Bank chief executive Viv Bartlett said he agreed with Mohr's predictions and said the economy had turned around rather sharply, "enough to cut interest rates further".

"Capital is once again flowing

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Thursday June 27, 1996

Interest rate drop seen as green light

(58)

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because of the stability in the domestic money market.

"The interest rates are also influenced by the political front, especially in light of the positive and peaceful elections in KwaZulu Natal.

"Our readings from retailers, the motor industry and the property market is that demand had dropped because of the high interest rates putting people off investing in any one of these areas.

"When the interest rates drop, it will encourage consumers to support these industries, thus boosting economic growth," he said.

Absa group executive director Alwyn Noeth also agreed that interest rates would be on a downward trend and expected that the second cut in rates would be by the end of the year.

Property dealers and estate agents baying for further decreases in lending rates have applauded the other banks following Absa's example by dropping interest rates and are looking forward to further cuts.

Bearnard O'Riain, chief executive officer of Seeff Residential Properties, said: "The decrease is the beginning of a downward trend in interest rates and already investors realise that prices are at the bottom of the trough and they're starting to buy now."

Chief executive officer of Vered estate agents Colin Sacks predicted that a further drop in interest rates would also do wonders for economic growth, especially via the property market.

Interest rate war

Top bank undercuts rivals by 2 percent

(58) ARG 27/6/96

LLEWELLYN JONES
Business Reporter

AN interest rate war broke out today between South Africa's leading banks when Standard Bank announced it was undercutting its rivals in the home loan market.

Competition for the lucrative home loan financing market hotted up as Standard announced a new financing option which would reduce its home loan rate to a minimum of 17,5 percent – 2 percent lower than those of its nearest rivals.

This special scheme is, however, subject to monthly charges.

Homeowners taking the special mortgages with Standard Bank will be charged 70c a month for each R1 000 of the bond, but this will still lead to substantial repayment cuts.

For example, in the case of a R100 000 bond, the lower interest rate would amount to a monthly saving of R135. Deducting the 70c per R1 000 charge which is R70 in this case, the net saving for the homeowner would be R65 a month.

Existing Standard Bank bond-holders will have the option of converting to this plan.

For normal mortgages not subject to this special option, Standard Bank announced it was cutting its mortgage rate by one percent on July 1 to 19,25 percent. This is the same rate as that of its competitors.

The announcement follows events earlier this week when Absa stole the march on its competitors by cutting its prime rate to 19,5 percent and its mortgage rate to 19,25 percent.

Nedcor and First National Bank followed suit yesterday, cutting their prime lending rate to 19.5 percent and mortgage rates to 19,25 percent to match Absa.

Standard Bank also cut its prime lending rate yesterday to 19,5 percent.

However, it delayed cutting its mortgage rates until today, saying it would explain its stance in a special briefing.

That special briefing turned out to be an announcement of its new special minimum "capped" interest rate option.

This offers customers protection against interest rate increases for up to two years.

Customers now choosing the capping option with Standard Bank will reduce their home loan rate by up to two percentage points, to a minimum rate of 17,5 percent – subject to the 70c per R1 000 charge.

In addition, the bank guarantees that this rate will not rise for the period of the capping, but will drop if interest rates fall below the agreed capped rate.

Big banks cut lending rates

Sowetan 27/6/96 (58)

Analysts say banks backed down because of pressure

By Joshua Raboroko

SOUTH AFRICA'S THREE major banking groups have followed Absa's lead to drop its lending rate by a percentage point.

Two of the banks, First National Bank and Nedcor – which owns Nedbank, Permanent Bank and Peoples Bank – said they were going to cut their prime lending rate to 19.50 percent and mortgage loans to 19.25 percent from July 1.

Standard Bank announced that it was also going to cut its prime rate to 19,50 percent from next week.

FNB, Standard Bank and Nedcor made their announcement a day after Absa. FNB's group communication manager Alec Grant said they had been monitoring the money market constantly, together with other financial institutions.

As a result, he said, FNB reached a conclusion to decrease its rates after studying the present circumstances.

He added that banks had access to the same information data about the money markets and "we reached a conclusion to reduce our interest rates from the first of July." He dispelled beliefs that they followed Absa's lead.

Absa head of treasury Fanie Leach said the rate cut was possible because of greater stability in the money market as reflected in the low interest rates.

Absa took the market and its competitors by surprise on Tuesday when it announced a percentage point cut in its prime lending rate to 19,25 percent from next week.

Some of the banks were reported to have been angered by Absa's action.

Standard Bank's management was locked in an emergency meeting yesterday and public affairs manager Erik Larson said the institution would make a major announcement concerning the mortgage home loans today.

Larson said the bank took the decision after monitoring many factors before joining the other banking groups. Standard Bank said it would also continue to monitor various trends in the money market.

He was sure that the bank would drop its interest rate, not because of pressure from outside sources.

Nedcor's chief executive Richard Loubser said the bank had dropped its interest rates in line with other major financial institutions.

The banks have reacted sharply to criticism that they made the move following threats of mass action from Cosatu and Sanco, saying the decision was purely based on monitoring the circumstances locally and internationally.

The Reserve Bank governor Chris Stals said on Tuesday the bank would assist commercial banks lower interest rates.

He said banks operated in one commodity, money, adding – "so I would not be surprised if the other banks followed very quickly".

He said conditions were not yet appropriate for the Reserve Bank to reduce its benchmark. The Bank rate now stands at 16 percent. The banks were only coming back in line with the Bank rate again.

Major banks had increased their rates by 1 percent point over a month ago.

The hikes sparked large scale protests from various parties and contrary to speculation the Reserve Bank put its foot down and refused to increase the bank rate.

The Government, the private sector and consumer organisations also joined those who said they were not impressed with the banks' action.

Analysts say the response to the prime rate and mortgage loans hikes took banks by surprise and eventually forced them to back down and adjust their rates downwards.

Cosatu spokesperson Nowetu Mpati said the union federation and its allies have put pressure on the banks to make them see that the step they took was wrong.

Those who are paying mortgage bonds are sighing with relief after banks nominally reduced their lending mortgage rates this week.

(58) Star 28/6/96

Public can join probe into interest rate hike

The parliamentary subcommittee investigating the alleged collusion between banks in implementing interest rate increases has invited submissions from members of the public and organisations.

It said in a statement that the recent rise in interest rates had profound implications not only in terms of the ability of the public to borrow money from the banks, but also on the Government's programmes of providing affordable housing to the poor and promoting the small business sector.

The public's input would help with regards to determining whether the hike in interest rates was justifiable when one looked at the profit margins of the banks.

"It may be necessary to review legislation governing the banks and competition," the subcommittee said.

Public hearings are scheduled to take place on July 24 and 25 at the Department of Trade and Industry offices in Pretoria.

■ Written submission should be forwarded before July 15 to: Muzi Khumalo, Box 15, Parliament of RSA, Committee Section, 10th Floor, Parliament Towers, Cape Town 8000. Tel (021) 403-3754/1 or fax (021) 462-2141. – Staff Reporter.

Citizen Bank earnings fall 84,3% to R6,4m

BD 28/6/96 (58)

Adrienne Giliomee

CITIZEN Bank posted an 84,3% fall in attributable earnings to R6,4m for the year to March, affected by higher operating costs and the breakdown of talks to buy banking and building society operations in the Transkei.

Previous profits for 1995 included an extraordinary income item of R24,4m and a R3m reversal of a doubtful debts provision.

Earnings amounted to 50,6c (R3,25) a share, and a dividend of 18,3c (43,7c) was paid for the year. The dividend was 2,8 times covered.

Acquisition costs related to the Transkei deals had been accounted for and other acquisition costs incurred to date, amounting to R1,9m, would be amortised over five years.

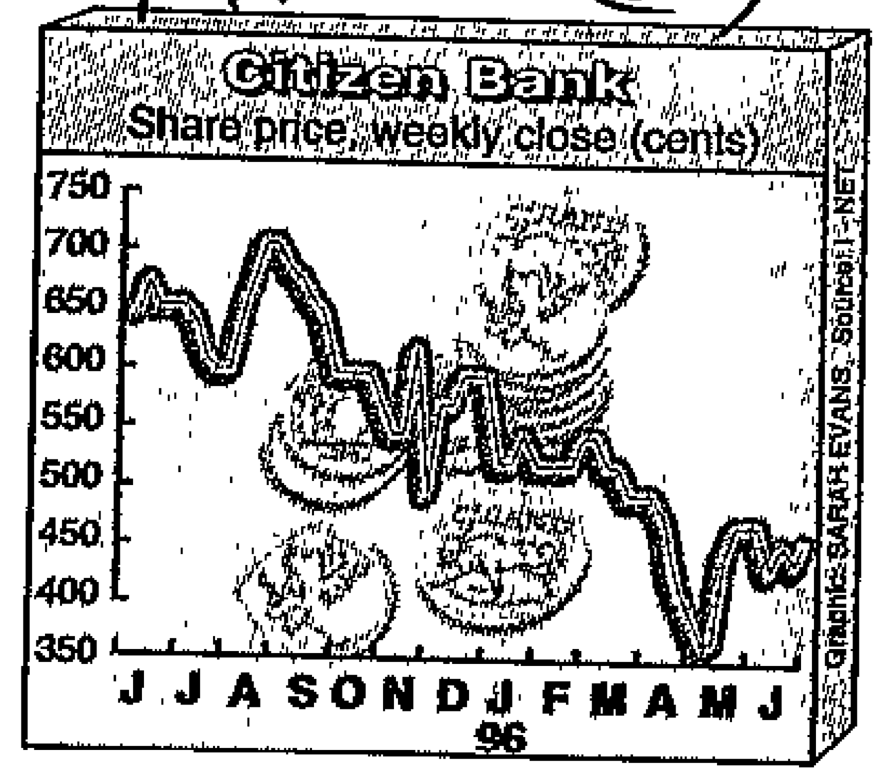
Its merchant banking and treasury division had not become fully operational, with the net loss attributable to the division totalling R2,9m.

Citizen Bank said it remained committed to the development of a national banking group.

Net interest income fell 15% to R12,6m and operating expenses rose to R17,5m from R8,3m. Income before tax of R6,6m (R41,2m) was subject to tax of R317 000 (R415 000).

The bank paid a phased-in tax rate of 17,5% during the current financial year, but would be subject to normal company tax of 35% from next financial year. Dividends would also be subject to secondary tax on companies (STC) from next financial year.

Total assets rose 4,8% to R423,4m, with advances and properties in possession standing at R301,2m (R270,7m).



The provision for doubtful debts came to R8m (R9,2m).

Directors said propositions were being evaluated and shareholders should exercise caution in share dealings.

$50m not R50m

GENCOR would spend up to $50m on exploration in 1996/97, not R50m as was reported yesterday.

PRIVATISATION

CHOOSING THE BANKER

(58) FM 28/6/96

Government's privatisation plans are back on track after labour jettisoned the process six months ago.

Three investment banks, all with substantial international ties, have been shortlisted to oversee the privatisation process for government. They are: Fleming Martin, Lehman Brothers and CS First Boston.

Fleming Martin, a Gauteng-based investment house with strong UK ties, is the leader in the overall ranking of firms in the *FM*'s ratings of stockbroker research. It refused to comment, as did CS First Boston.

SBC Warburg, the investment banking arm of Swiss Bank, confirmed that it had been on the shortlist but would not comment further

Some banks which were invited to tender withdrew their candidature after government made it clear that the appointee would not qualify for any other government work for the duration of the contract, which may take longer than a year.

The successful candidate, which will be responsible for drafting a final model to guide the privatisation process, will be announced on Friday.

In parliament last week, Public Enterprises Minister Stella Sigcau stressed that privatisation was not ideologically driven but "a pragmatic economic imperative" (see *Economy*).

Privatisation was necessary to attract international firms with the management and technical expertise, credit standing and financial muscle to help fund infrastructural expenditure of R173bn over the next five years.

Finance Minister Trevor Manuel says government is also relying on privatisation for about R5bn-R6bn a year by the turn of the century and on the dividend payments of public corporations to help reduce the borrowing requirement

Sigcau has pledged to move towards the full and partial privatisation of State assets before the end of the financial year However, labour will have to be consulted at every turn in what Sigcau admits is destined to be a "protracted and carefully considered process."

The public enterprises under review employ more than 300 000 workers, many unskilled The extent of labour's sensitivity is evident from the continual emphasis ANC speakers are placing on the benefits which privatisation holds for black economic empowerment and human resource development.

Posts, Telecommunications & Broadcasting Minister Jay Naidoo says government has no intention of relinquishing majority control in institutions such as Telkom, the Post Office, Eskom, Spoornet and the SABC which deliver basic infrastructure and services "Restructuring will never be used by an ANC-led government to weaken or undermine the aspirations of workers to better their lives."

In December, government said it would sell minority stakes in Telkom, SAA and the Airports Co and fully privatise Autonet, Transkei Airways and Sun Air

Sigcau told parliament that negotiations concerning an equity partner for Telkom were nearing completion Up to 30% of the telecommunications giant could be sold to an international investor by the end of the year.

Naidoo assures workers that the move will be linked to "democratisation of the workplace, ensuring greater participation in major decisions relating to issues of investment, affirmative action and training."

"To effect this and go beyond the obligations of the new Labour Relations Act, government has agreed to give the union movement representation on the boards of public corporations"

Sigcau says Sun Air is ready for privatisation which can be implemented without job losses, while loss-making Transkei Airways will either be liquidated or sold for whatever government can get for it later this year.

Aventura leisure group, expected to make a R3m loss this year, is constrained by lack of capital from undertaking much-needed refurbishment, Sigcau says. Staff may take a 25% equity stake when its future is decided towards the end of this year or in early 1997.

Eskom is considering reactivating three power stations with a view to attracting strategic partners which could realise R1bn in foreign capital.

Sigcau says the sale of a stake in SAA and other Transnet divisions is being hamstrung by the R4bn Transnet pension fund deficit. The Department of Finance is being consulted on how to resolve the issue, which significantly reduces the price government can ask for any of Transnet's assets

Sigcau failed to take parliament into her confidence on the future of Denel, Safcol, Mossgas and Alexkor other than to say that Alexkor, though financially sound, requires internal restructuring to survive in a stagnant diamond market. ■

TRUTH COMMISSION

FINDING A THREAD

FM 28/6/96

The glimmer of a breakthrough in the Truth & Reconciliation's quest to expose apartheid-era political crimes emerged this week with news that 22 current and former police officers had inquired about amnesty from the commission.

The move may have been precipitated by the decision of the National Party to explain its actions as government at a special hearing of the commission in

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Charting a Course Through The Winds of Change

A veritable whirlwind of legislative initiatives is driving the South African employee benefits industry further and further into uncharted waters, where clear vision and expert navigational guidance is vital.

Over the last few months the industry has seen three major changes. The first of these is the introduction of a 17% tax on the interest income and net rentals earned by Pension and Provident Funds Furthermore, wholesale changes to the taxation basis of retirement funds is expected next year.

The second influencing factor is the promulgation of amendments to the Pension Funds Act of 1956. This will have far-reaching implications, requiring as it does equal employer/employee representation on Boards of Trustees by the middle of December 1998. The amended Act also makes provision for the appointment of a Pensions Adjudicator, to whom members and beneficiaries who feel that they have been unfairly treated by the Trustees in relation to the benefits they receive may now have recourse.

The adoption of a new Constitution for South Africa which prevents unfair discrimination is the third major variable. Arising from this, issues such as the fairness of excluding members who test HIV positive from retirement or medical aid benefits are likely to be tested, as well as the question of differing benefits for temporary or part-time employees.

Behind this chilly front of high pressure, further legislative changes are on the horizon. For instance, it's widely expected that the new Labour Relations Act will be passed in August of this year. This Act brings 'social benefits' (which clearly include pension, provident and medical aid benefits) within the ambit of labour relations.

In addition, it's likely that employers will soon have to disclose on their balance sheets their company's liability for post-retirement health benefits. Also, a free primary health care system for all South Africans was launched on 1 April 1996, together with a proposal for a mandatory health insurance package for all persons in formal employment. And the taxation basis of medical aid is to be scrutinised by the Katz Commission.

Following on the Smith Committee report, a National Retirement Fund Forum is likely to be established at which the retirement fund system will be debated in detail. It's probable that funds will be required to credit members who resign with their 'actuarial interest in the fund', provided that they preserve their resignation benefit. Also, members may be allowed to join 'open funds'.

Environmental factors, too, impact on this changeable climate, one of which is the option for funds to invest part of their assets internationally (albeit to a very limited degree) via asset swaps. The abolition of exchange controls is, however, still on the horizon.

But the major whirlwind waiting to be reaped is AIDS. For instance, recent statistics released by the Department of Health estimate that about 12% of the adult population in South Africa are HIV positive. By the year 2005, actuarial models indicate that this will have increased to about 20%. Such an incidence of HIV positive people could, according to calculations, escalate the employer cost of retirement fund, sickness and medical aid benefits from

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their current levels of 20% of salary bills to a massive 35%.

It will be no easy task for trustees, employers and members to chart a safe passage through this Scylla and Charybdis of employee benefit complexities. But at Old Mutual Actuaries and Consultants, we have the leadership to navigate such a route, by keeping a keen weather-eye open and a steady hand on the tiller.

We believe that what's needed is a strategic approach which focuses on integrated, long-term workable solutions, rather than short-term piecemeal approaches, taking into account the interests of all stakeholders, and having the courage to embark on, and keep to, a carefully charted course.

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IAN GOLDIN

ON TRACK FOR SURVIVAL

FM 28/6/96 (58)

Though he was born in Pretoria, new Development Bank of Southern Africa CE Ian Goldin (40) is something of a new boy on the block for all the wealth of development experience he carries under his belt.

Dr Ian Goldin

Indeed, in a career including a three-year stint at the World Bank and one year as senior economist at the European Bank for Reconstruction & Development, Goldin has been exposed to 30 developing or re-developing countries.

He maintains he left SA in 1978 in a physical sense only, and claims he always kept tabs on its political transformation. "I hope I and the DBSA can contribute to SA's economic transformation, which includes meeting its development needs."

He adds that his lifelong commitment to development economics is underpinned by a strong sense of justice.

Goldin's immediate objective at the Development Bank is to complete — by October — the structural transformation process it is undergoing. A drawn-out process will lead, as he puts it, to "paralysis by analysis" and have a debilitating effect on staff morale. The bank's future survival and success, however, will depend on how client-driven it becomes

Indeed, the new CE is determined to set a firm course for the survival of one of SA's important development institutions. Though he believes its legitimacy and credibility are no longer questioned — some might differ there — he reckons the bank needs to adjust its internal systems rapidly to meet development needs

Apart from implementing an affirmative action policy, the bank is reassessing its lending criteria. Since its current concessionary lending may not be sustainable — government no longer guarantees its loans — it is bringing its lending rates more into line with those of commercial banks Returns on projects will therefore become more important

"In turn," says Goldin, "this will influence the type of borrowers it attracts, as well as the type of development that takes place."

The greatest external challenge facing the bank is the ability of its borrowers to implement projects successfully "We aim to provide support on this score, though the exact nature of how we will do this has yet to be decided."

Schooled at Pretoria Boys' High and Rondebosch, Goldin graduated from UCT with a BSc and a BA (Hons) in 1977 He left SA and read for an MSc at the London School of Economics. He then completed his PhD at Oxford

Goldin and his wife have two young children. An enthusiastic saxophonist, he also enjoys gym and hiking.

ALWYN MARTIN

CATCHING THE WAVE

Alwyn Martin (58) comes as a complete surprise — at 1,6 m, he's no taller than this vertically challenged reporter What he lacks in size, however, he seems to make up for in determination.

Having taken over from Danie du Toit earlier this year as Vodacom group executive chairman, the publicity-shy Capetonian has been commuting to an apartment in Sandton.

Responding to the leaked "London Agreement" — signed by heads of Vodacom and MTN in August 1994 and outlining agreements on tariffs, coverage, airtime discounts and connection bonuses — Martin says: "We've not done anything illegal and are assisting the Competition Board to come to a speedy resolution."

With cellular telephony showing no signs of slowing down, he says Vodacom should be allowed to apply for a third licence. "We need to take advantage of new frequencies and technologies." But with two thirds of the market and Telkom a 50% shareholder, Vodacom is certain to hit flak. Many would prefer a third licence going to an outsider.

Martin adds that Vodacom has no intention of selling air-time directly to the public — a promise certain to win favour with service providers, many of whom feel threatened by MTN's new channel strategies

Born in Paarl, Martin matriculated at a mission school in Genadendal From this environment — he had to study without the luxury of electricity or running water — he moved to UCT. After starting a BSc, he switched to commerce.

In 1967, he qualified as a chartered accountant. Unable to find a suitable job under the apartheid regime, his only option was to team up with a colleague, Victor Christian, to form Christian & Martin "We were two of the first three black CAs to qualify in SA."

Unable to break into business, they worked mainly for churches, sports clubs and trade unions. "Our community kept us alive for 20 years."

They merged with Ernst & Young in 1985. Martin had just become a senior partner when he accepted Telkom chairman Dikgang Moseneke's offer

He is a director of Telkom, serving as chairman of the audit committee, and sits on government's Financial and Fiscal Commission.

Alwyn Martin

He and his wife, Val, who runs a secretarial college for the disadvantaged, have a son and a daughter at UCT.

Martin enjoys golf and cycling.

FOREIGN BANKS (58)

NEW GIANT OPENS

FM 28/6/96

ABN-Amro, a universal bank based in the Netherlands, has been expanding abroad aggressively since the merger of ABN and Amro in 1991· from 49 countries in that year to 68 countries.

And its branch, which opened in Johannesburg this month is another dot in its global network.

Establishing a base in southern Africa was the logical outcome of a strategy initiated at the end of the Eighties. Like other Dutch banks, ABN and Amro were up against the limits of growth in their home country and facing the prospect of European Union, scheduled for 1992.

Michael Drabbe

To meet the competitive challenges the single internal market would bring, they needed to achieve a certain critical mass This could be done two ways: through mergers and geographical expansion They followed both routes

Legislation allowing banks to own insurance companies was passed in January 1990, and this added impetus to the merger process.

Michael Drabbe who heads the international division of the group says: "At that time, it was the largest bank merger which had taken place in Europe And it propelled the new bank's world ranking, based on assets, to number 18

The other leg of the strategy was to accelerate cross-border expansion The first move was into Europe. "We were already well established in Asia and Latin America and are, today, by far the largest foreign bank in the US. But until the mid-Eighties we had few European subsidiaries and branches outside of the Netherlands

"We decided to operate in every country in the EU – which we did. And we are now also in every country in central and

eastern Europe."

The group continued to expand outside Europe and, the year after the present government was elected, applied to the Reserve Bank for registration as a bank.

In one sense SA does not fit into its global strategy. Drabbe says retail banking is an area where it has considerable expertise in its Netherlands and US operations It would now like to export this through parts of its global network where markets are "less mature."

However, in SA, it faces formidable competition from the established banks and it has decided not to take them head on, says Drabbe.

CE of the SA branch Otto van den Bosch says the core business will be corporate, trade and structured finance. The branch is concentrating on medium and large corporates, particularly those with international activities. "Your big corporates are investing more and more in the US. And here our international network is a great competitive advantage."

Otto van den Bosch

In May, ABN Amro was lead arranger, of a US$120m five-year syndicated loan, for Tiger Oats. This followed loans for Telkom ($112,5m over three years) and Anglovaal ($100m over three years).

The group operates in 68 countries, has assets of $343,2bn, capital of $21bn and employs nearly 64 000 people. "Last year," says Drabbe, "ABN-Amro was first in the Netherlands, sixth largest European bank and 18th largest in the world — in terms of assets."

Size produces its own hazards and the most dangerous, says Drabbe, is complacency. "I remedy this by visiting countries like SA and realising that here we are only an ant, but a professional ant, in comparison with the big players." ■

Committee will continue its probe into banks' possible collusion over rates rises

(58) Star 29/6/96

BY WILLIAM-MERVIN GUMEDE

The parliamentary trade and industry committee's probe into possible collusion by banks in raising interest rates will continue, despite the banks dropping their rates.

This follows the one percentage point drop in normal home loan interest rates and prime lending rates announced by all major banking groups – Absa, Nedcor, FNB and Standard – this week.

Committee chairman Edna Sethema-Molewa said the probe would not be abandoned. "The investigation is not going to be suspended. We want to be fully satisfied that no collusion between the banks was behind the unilateral hike," she said.

Even if no evidence of foul play were found, the committee would push for legislative changes in the Banks Act to fill loopholes which could lead to a repeat of the hike. She said the banks' profit margins prior to the rates rise would also be examined.

Bank representatives will appear before an interdisciplinary committee in Pretoria on July 24 and 25. Sethema-Molewa said pressure from the committee was partly responsible for major banks slashing their rates.

Banking insiders told the *Saturday Star* that the first signs that a home loan interest rate war between banks may be in the offing emerged on Thursday, when Standard Bank and, a few hours later, the Nedcor commercial banks – Nedbank and Permanent Bank – dropped their capped bond rates to 17,5% from July 1.

The 17,5% rate applies to new and existing home loans, in which the interest rate is capped at a maximum, but not minimum, rate for individual bondholders who commit themselves to the scheme for a one or two-year period, Nedcor and Standard said.

The non-fixed rate throughout the market dropped to 19,5%.

The move to cut interest rates also comes after trade union and government criticism of commercial banks' unilateral decision to raise rates for a second time on May 17, without a lead from the Reserve Bank.

Banks cited the rand's 20% devaluation against the dollar this year and a resulting liquidity crunch on South African money markets as the main reason for the rate increase in May.

Cosatu welcomed the banks' decision to cut rates. "It proves that the position taken by Cosatu, the tripartite alliance and the range of organisations that formed a coalition to fight the increment in banks rates was correct," spokesman Nowetu Mpati said.

The SA National Civic Organisation (Sanco) said its programme of action against banks had been effective. "We note with pride our valuable achievements within a short period after the launch of our campaign against the bankers".

Meanwhile, the Association of Mortgage Lenders has called for a meeting with the Government to deal with Sanco's demands for the halting of scheduled evictions of people defaulting on home loan repayments.

Cosatu claims rate cut victory

Banks have learned their lesson, says assistant general secretary

LLEWELLYN JONES
Business Reporter

COSATU this week claimed victory for the campaign against South Africa's four big banks' surprise interest rate hike last month.

At the end of a week which saw the major banks, led by Absa, cut mortgage and prime lending rates by one percentage point, Zwelinzima Vavi, the assistant general secretary of Cosatu, said the banks had learned their lesson.

"This is a great victory for all home-owners, small and medium business, and ordinary people,' Mr Vavi said.

Last month's rate hike caused an uproar among labour organisations and consumer bodies, and resulted in allegations of collusion. These were fiercely denied by the banks.

The Amalgamated Banks of South Africa (Absa) was the first to break ranks early this week, cutting its prime lending rate to 19,5 percent from 20,5 percent and its mortgage rates to 19,25 percent from 20,25 percent, and taking rivals by complete surprise.

The other major banks - Standard, Nedcor and First National – were swift to follow, announcing similar cuts to match a day later. But Standard Bank and Nedcor Bank went a step further on Thursday, announcing special deals whereby bondholders could reduce their home loan rate to 17,5 percent.

> **QUOTE**
>
> **Interest rate war could impact negatively on lower end of market**
>
> *Mark Young*
> *IBCA*

Mr Vavi said the latest rate cuts and competitive positioning among the banks had opened the market to real competition. He also believed this would bolster the government's home building plans, by reducing repayment instalments to a more affordable level.

But Mark Young, the banking analyst at European credit rating agency IBCA's Johannesburg office, said that the war could have a detrimental impact on the ability of the banks to extend their services to the lower end of the market.

He pointed out that the banks' wealthiest customers already subsidised poorer customers, and that they would find it increasingly difficult to support the "unbankable" market. Interest margins were already under pressure and an interest rate war would only serve to exacerbate the situation.

He said that the big four banks were already losing their most profitable individual mortgage business to the smaller niche players. These niche players were able to offer better rates, better service and specialised products with "all the bells and whistles".

Investec Bank grew its individual business by 51 percent year-on-year to March, Mercantile Bank by 165 percent and Boland Bank by 33 percent.

In a different vein, a stockbroker analyst said Absa's pre-emptive move could yet cost it a lot of money if it caused an all out interest rate war.

"They may have appeased Cosatu, but they broke ranks and that isn't going to be forgotten," he said.

He said Absa's move had all the appearances of a public relations exercise to boost an image which was flagging in spite recent improvements in its financial performance.

As they had the largest share of the home loan market, they also had the most to lose when the other banks retaliated.

The analyst said that Absa's depositors and debtors book was better suited to a high interest rate environment.

The bank was more likely to feel further pressures on margins and "just does not have the war-chest to fight a protracted battle".

Absa has been losing market share in all the major credit areas.

In the home loan market, it holds a 36 percent market share, Nedcor (including subsidiaries Syfrets and Cape of Good Hope Bank) 19,1 percent, Standard Bank 16,7 percent, and First National Bank 11 percent.

FNB and Standard Bank grabbed their market share, worth R14.9 billion and R22,7 billion respectively, since deregulation of the banking industry in 1986.

FNB and Standard Bank also aim to increase their market shares to 18 percent and 22 percent respectively.

In instalment credit, FNB holds a 28,6 percent market share (mostly through Wesbank) compared to Absa's 26,3 percent (through Bankfin), Standard Bank 22,4 percent and Nedcor 12,2 percent.

Both Standard Bank and Nedcor have been gaining market share at Absa's expense.

Consumers score as banks face up to competition

(58)

ST(BT) 30/6/96

By MARCIA KLEIN

IT IS a new ball game in South Africa's banking sector.

The country's largest bank, Absa, introduced a surprising element of competition into the industry this week by unexpectedly cutting its interest rates.

The one percentage point drop in its prime lending and mortgage rates reversed last month's controversial rise in interest rates.

But, more importantly, it caught Absa's competitors completely off guard. Within a day all other banks had followed, most of them against conventional financial wisdom.

In the past two months, South Africa's major banks have raised lending rates twice, cut them once and introduced a range of new home loan options.

Their most controversial move was last month's unilateral rise in prime and bond rates, without the customary cue from the Reserve Bank. Worst of all, the banks did so on the same day.

The move raised questions about lack of competition between banks. Allegations of collusion were passed on to the Competition Board, which failed to find supporting evidence.

On Tuesday Absa surprised everyone by cutting the prime and home loan rates charged by its banks — Allied, Volkskas, Trust Bank and United — to 19,5% and its home loans to 19,25% from July 1.

According to Absa, this was made possible by an easing in money market conditions, a more stable rand and the favourable reception of government's economic policy.

The following day, three other major banks followed Absa's lead, saying they would also cut prime and home lending rates.

What has emerged since is nothing short of a price war which will benefit consumers. Apart from the one percentage point decline in the home loan rate, a number of cheaper options have been introduced.

Standard, Nedbank and Permanent Bank have offered capped and fixed home loan rates at 17,5% and below. It is expected that other products will soon be on offer to make mortgage repayments even more flexible.

Standard Bank entered the home loan market some years ago at about 2% below its competitors, but since then banks have generally offered the same rates.

The reduction of lending rates raises questions whether it was necessary to raise the rates in the first place. Some analysts feel the banks moved hastily without carefully considering the ramifications, particularly the reaction of labour and home owners.

At the time, the banks said their margins were being squeezed and the increase was necessary for them to keep heads above water. Banks' margins in South Africa are generally much higher than those of major international banks, although cost structures locally are onerous.

Some banks indicated this week that their circumstances were not materially different from those experienced some weeks ago, and that the lower rates were more about marketing than an easing of pressure on margins.

Standard Bank said that although its decision to bring rates down "was not driven by any economic justification", its new home-loan product would not exacerbate the squeeze on margins.

But if the banks' margins are indeed under pressure, the announcement of lower interest rates raises questions about their ability to offer the new rates without an adverse effect on profitability.

According to Diedrich Schutte, an analyst at SMK Securities, it may seem at first glance that the banks are expressing a view on future interest rates. He estimates that by using simple hedging techniques, banks can maintain their margins. This means that banks are still competing more on service than on price, says Mr Schutte.

Sources believe that pressure from all sides, led by Cosatu, could have played a major role in this week's decision. The cut in rates will have a beneficial effect on other consumer prices and ease some of the upward pressure caused by the earlier increases.

The parliamentary subcommittee probing alleged collusion between banks will continue to hold public hearings later this month.

"The subcommittee feels that the rise in interest rates recently has profound implications, not only in terms of the ability of the public to borrow money but also on the affordable housing programme and the promotion of small businesses.

"It may be necessary to review legislation governing the banks and competition," it said.

White paper charts motor fund revamp

(58) BD 3/5/96

CAPE TOWN — A comprehensive draft white paper aimed at overhauling SA's ailing and complex Multilateral Motor Vehicle Fund was tabled in Parliament by Transport Minister Mac Maharaj on Friday.

The MMF — a state insurance fund which gets its premiums by a fuel levy of 9c/l on petrol and 5,9c/l on diesel — pays benefits to road accident victims.

Key proposals include an end to apportioning blame for an accident in favour of a "no fault" system; a cap on medical expenses; and ending financial damages for non-financial losses, like general claims for "pain and suffering".

Far too much money was spent now on apportioning blame for an accident, Maharaj said, since the benefits are related to the extent of responsibility. The proposed "no fault" system would remove costs reducing victims' real benefits.

The white paper also proposes an automatic annual increase of 9% in the fuel levy from a 12c/l base. This would mean an initial increase of 3c/l.

It was hoped to finalise the white paper and draft legislation by September, with the "new" MMF to be in operation by May 1 next year. — Sapa.

DTI takes a back seat

(58) M+G (BM) 31/5-6/6/96

Alec Erwin is taking a hands-off approach on the alleged bank collusion, putting the ball in the Competition Board's court, reports Madeleine Wackernagel

Alec Erwin: intends to push for a tougher line on anti-competitive practices PHOTOGRAPH: RUTH MOTAU

The Department of Trade and Industry is keeping a low profile in the growing row over alleged collusion among the banks as part of its new strategy to leave competition policy to the Competition Board.

Legislation currently being drafted will put heavy emphasis on investigating and penalising collusion, giving the board greater power after years of being blocked by vested interests under the National Party.

Competition policy was "toothless" in the past, says an insider, but under Trade and Industry Minister Alec Erwin, the ministry intends to push for a tougher line on anti-competitive practices.

That does not entail putting political pressure on the present or future board, however. Says Erwin's representative Ismail Lagardien: "Pierre Brooks [head of the CB] must be given the opportunity to make independent decisions based on the law before him. We have no wish to influence him, or the legal process, but we envisage that in future the board will have more power to act against uncompetitive behaviour. Our hands-off approach on the banks is testimony to that."

The department is looking at various practices for regulating competition, but the European model, with ultimate power vested in government, is not favoured. So far, however, Brooks is not sure what the new legislation will entail. "We know what the basics will be, but there may be additional aspects to competition policy that differ from present legislation," he says.

The issue of bank collusion over the interest rate hike earlier this month is a tough call, however, and at the time of going to press, Brooks had not yet made his decision known. The banks were fairly confident the matter would end there. "Where there is no collusion, it is very hard to prove," says [illegible], executive director of Standard Bank.

But it is very difficult for the big banks to be out of step with each other. We all faced the same cash crunch, so Standard made the decision to raise its rates, and the next thing we knew the rest had followed suit.

"We couldn't afford not to act and we didn't do it lightly."

Dr Ben van Rensburg of the South African Chamber of Business agreed: "The banks do not operate a cartel; there is very strong competition. They face the same cost parameters, so it is not surprising that they moved more or less at the same time."

The pie, says Nico van Loggerenberg, general manager of the Council of South African Bankers, is only so big: if one moves the others have to adjust their rules accordingly. The short-term advantage of boosting market share with a lower interest rate would soon be outweighed by the cost. And, on the other side of the equation, deposit rates would be higher at the competitor banks. So the banks really had no option.

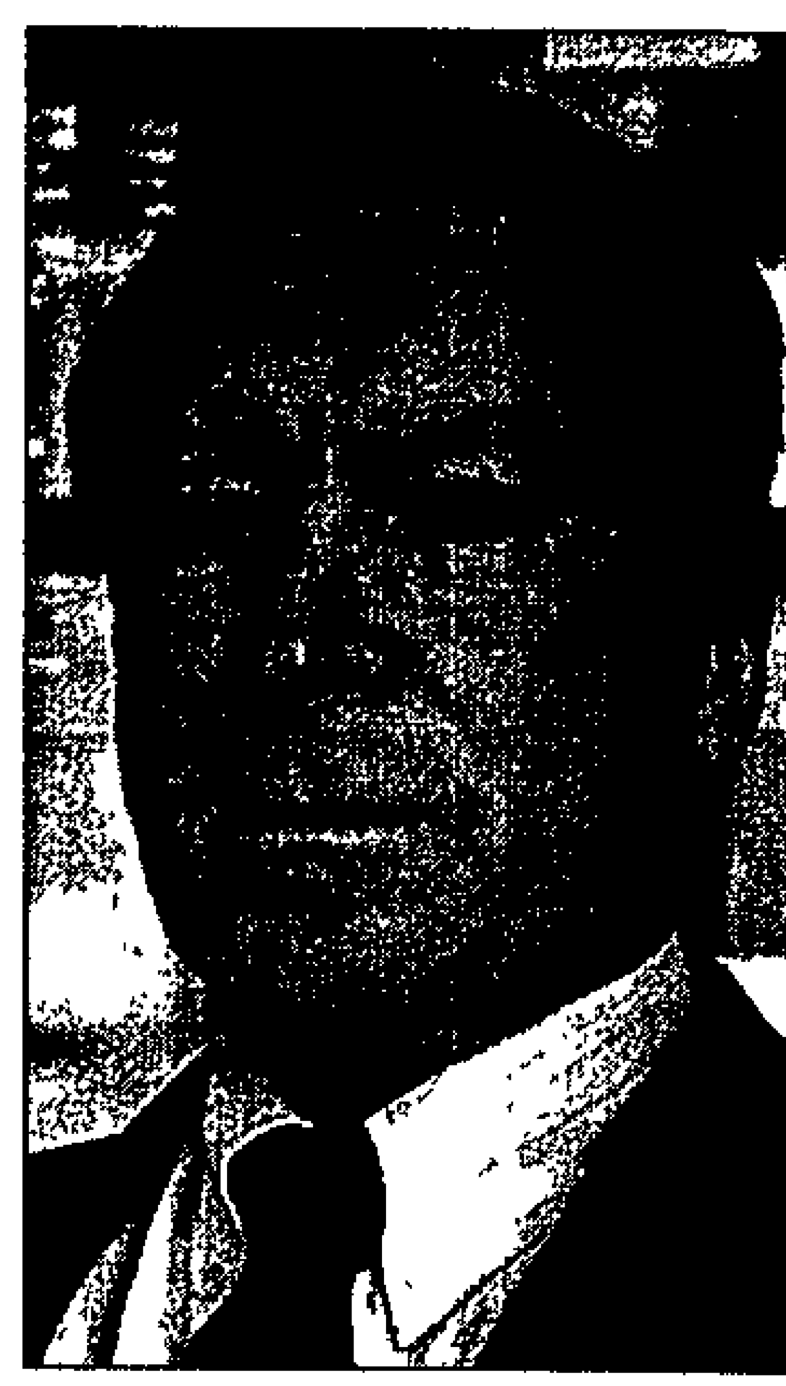
Van Loggerenberg was confident the investigation would be dismissed. He was less optimistic about the effect on foreign investors: "This inquiry creates the perception that market forces are not working in South Africa."

Meanwhile, Sasbo — the Finance Union, is embarking on a fence-mending mission, seeking a meeting between the major players — Amalgamated Banks of South Africa (Absa), First National, Standard and Nedbank, as well as the Reserve Bank and Cosatu.

Graeme Rowan, general secretary, was hopeful such a discussion could head off the mass action against the banks sought by Cosatu.

"We're not insensitive to the public's needs," says Rowan, "but our first priority is to our members. Putting pressure on the banks to cut their margins further could result in accelerated 'downsizing'. The last thing we need is more job losses."

Cosatu was unavailable for comment, but Rowan was optimistic a compromise could still be reached before the Cosatu leadership heads for the International Labour Organisation conference in Geneva tomorrow (June 1).



Pierre Brooks: Not sure what the new legislation will entail PHOTOGRAPH RUTH MOTAU

First National loses slice of market share

(58) BD 1/7/96

Adrienne Giliomee

FIRST National Bank has lost a large slice of its market share, Reserve Bank figures show.

The DI 900 returns for April, showed FNB's portion of advances, overdrafts, loans and credit card debtors all slipping on the performance for the same month last year.

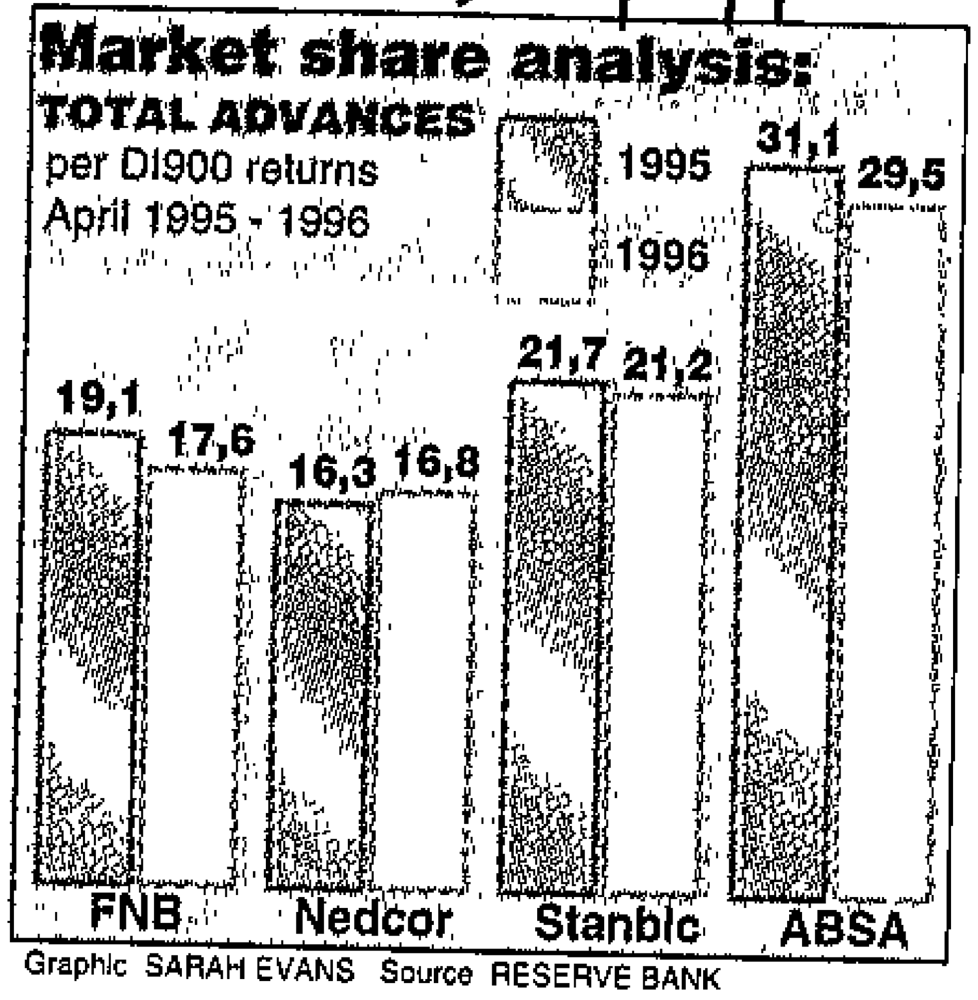
FNB's share of total advances dropped to 17,6% from 19,1%, while its total assets share fell to 17,6% (19,1%).

Banking analysts said the inclusion from May last year of 22 smaller banks into the DI 900 calculations had skewed the figures, as it led to a 1% to 2% drop in market share by the four major banks. The figures also showed Absa lost market share in all areas bar total deposits.

FNB strategic planning acting head Grant Dunnington said the bank was not overly alarmed by the drop, which also saw its market share in credit card debtors decline to 24,4% from 28%, and its instalment sale and leasing market to 28,9% from 30,9%.

"FNB has an approach to grow assets through profitable quality clients. We do not want to grow our book merely for the sake of increasing market share," he said.

Banking analysts compared the drop in FNB's market share to that experienced by Standard Bank when it went through restructuring last year. Standard lost some market share but has subsequently made up lost ground. FNB announced a major shake-up in its merchant bank at the end of last year, under which its treasury trading



Graphic SARAH EVANS Source RESERVE BANK

and corporate finance operations were moved to FNB's First Trading and corporate banking divisions respectively.

Dunnington said the restructuring was nearly complete and had not affected the bank's retail business.

He said the bank "held its own" in the instalment sale and leasing market, but conceded Nedcor's aggressive approach — the bank is believed to be writing R500m new business a month — has taken some of FNB and Standard's share.

Dunnington said FNB was satisfied with its performance in the credit card debtors area. "The majority of the growth has been in private label cards, which is a market we are moving into cautiously."

The figures showed Nedcor's share of the credit card debtors' market jumped to 20,4% from 11,3%. Standard's share fell to 31,3% (38,4%).

Draft legislation will demand full disclosure

(58) BD 1/7/96

Linda Ensor

CAPE TOWN — Proposals for legislation governing the financial services sector will include forcing companies to disclose the costs of financial products, such as unit trusts and life assurance.

The finance department, which plans to circulate the proposals in the next two weeks, said at the weekend that investment advisers that breached the new regulations would also be frozen out of the burgeoning financial services sector.

Reserve Bank deputy governor Chris De Swardt, who also chairs the department's policy board for financial services, said he expected draft legislation to be ready for Parliament by early next year.

The provision of retail investment services to the public was totally unregulated, and investor protection had to be beefed up.

The insurance industry had its own, non-statutory regulations, but legislative backup was needed Such controls also had to be extended to all collective investment schemes.

De Swardt said the recommendations would include establishing a complaints procedure, perhaps with an ombudsman, and a code of conduct for agents and brokers.

The proposals follow legislative crackdowns overseas, where the industry has found itself bound by extensive legally-backed requirements.

Industry sources said poor disclosure by SA life offices and intermediaries had led to the public being hit by hidden charges and costs. Investors have also suffered with heavy selling forcing them into unsuitable, costly products, with the adviser disappearing once he has taken his commission.

Life Offices' Association executive director Jurie Wessels said the association regarded disclosure of information by all players as "very important".

BUSINESS

Bank must show diversity – Madiba

(58) Sowetan 2/9/96

SARB is moving in right direction

ONE OF THE greatest challenges facing the SA Reserve Bank today is ensuring that its staff complement at all levels reflects the diversity of the country.

This was said by President Nelson Mandela over the weekend at the occasion marking the SARB's 75th anniversary in Pretoria.

Mandela congratulated the bank on having taken deliberate steps towards affirmative action and said that the Government is confident that more efforts at this policy will be taken by the institution.

Of its estimated 1 800 employees, only a handful of black people occupy senior and managerial positions. According to the bank, deliberate measures are being taken to address this imbalance.

The Reserve Bank governor Dr Chris Stals is an example to the country's youths as he rose through the ranks of the bank at the same time that he was upgrading his skills by furthering his studies.

In the forefront

During its 75 years of existence, the SARB found itself in the forefront of many serious financial challenges deriving from local and international developments.

The bank is also faced with such technical challenges as the abolition of the international gold bullion standard and the termination of the fixed gold price, which culminated in the collapse of the Bretton Woods system some 25 years ago.

President Nelson Mandela congratulated the Reserve Bank on making strides towards correcting the racial imbalance in its employ.

Financial stability

Mandela said the bank's role as the institution responsible for promoting financial stability in the country remained of utmost importance and a challenge to its management.

According to the constitution, the central bank is charged with the responsibility of protecting the value of the national currency in the interest of balanced and sustainable growth, and it is given autonomy over the instruments it uses in order to achieve that objective.

Today, the instability of the rand remains a challenge to the central bank as the country is still in a process of reintegration into the world economy.

Standard launches infrastructure fund

(58) BD 2/7/96

Greta Steyn

STANDARD Corporate & Merchant Bank will today announce the creation of a sizeable fund, combining the muscle of several large institutions, for investment in infrastructure.

The fund is the latest high-profile infrastructure investment vehicle set up as financial institutions vie to cash in on infrastructure spending needs and lay to rest the spectre of prescribed assets. Sanlam and Southern Life have set up similar funds, and Nedbank plans to establish an investment fund once it has a portfolio of sound investments to attract investors.

A government study found SA needs at least R170bn to finance infrastructure in areas such as water, transport and energy over the next five years.

Government and the Development Bank of Southern Africa have been at pains to woo the private sector in the hope that private finance will alleviate the burden on the fiscus. One of the major difficulties in getting the business sector to join the party is government's reluctance to provide guarantees. As a result, private and public sector deal makers have had to work much harder to set up transactions. Standard Corporate & Merchant's plans emerged in May when Sanlam turned up its nose at the bank's invitation to join forces, and went its own way, committing R100m to creating a development fund which would be "unitised" so that Sanlam portfolio managers could get RDP investments onto their books. Investments ranged from fixed interest and property to economic empowerment. The bank is also expected to cover those areas. It already has deals on its books which might be hived off into the new fund.

Old Mutual and Liberty have been named as participants in the bank's plan, but expectations are that Southern Life will keep all its eggs in its own Futuregrowth basket, which has investments of R800m in fixed interest, equities and property on its books.

A spokesman said yesterday the return on its equity investments in "black economic enablement" had been a non-annualised 39,5% in the six months since the fund's inception. Its fixed income fund had also outperformed the all-bond index.

Nedbank Investment Bank GM André la Grange said the bank's priority was getting deals on its books, rather than mobilising capital. "Later on we will look at selling part of the book to other investors."

Boland expects losses after decision to purge loan book

BD 3/7/96 (58)

Linda Ensor

CAPE TOWN — Boland Bank's decision to purge its loan book would cause losses in the year to end-March 1997, but would result in future bad-debt write-offs being lower than the R82m written off last year, MD Michiel Le Roux warned in the bank's annual report released yesterday.

He said Boland's provisions for bad debts, at 0,98% of advances of R5bn, was "far too high" and the bank's aim was to make provision for no more than 0,75% in a normal year. Normal provisions this year should be less than 0,75% of advances, but the corrective action taken would probably see the total write-off rate remain at a high level.

Active management, stricter controls and the adoption of a more conservative approach to non-performing loans should improve the quality of advances.

Boland's largest bad debts arose when, in an effort to avoid losses, additional loans were granted to clients who were already in trouble, Le Roux said.

The bank's risks were well spread with no individual client's debt higher than 10% of the bank's capital. Other concerns were the "uncomfortably high" increase of 35% in operating expenditure, mainly due to investment in information technology and the establishment of a card division.

Commenting on prospects, Le Roux said he was concerned about the effect of lending rate hikes on the bank's creditworthiness, but was confident of the bank performing well.

Chairman Christo Wiese was also confident that expansion would show growth in the current year. Wiese said the bank would apply its capital of more than R1bn to expand its corporate finance activities.

Newly established Boland Financial Services, a specialist merchant and investment banking operation in which Boland had a 60% stake, would become its international vehicle. BFS handled transactions worth about R1bn in its first six months and was expected to double this by the end of the 1997 financial year.

SBDC's equity option makes financing easier

BD 31/7/96 (58)

Nicola Jenvey

DURBAN — The Small Business Development Corporation is proposing to take stakes in small businesses as part of its new package of funding mechanisms for the sector.

The corporation said the equity option would make finance more accessible to viable small businesses, though medium and longer term loans would remain its core funding mechanism. The package was part of a line up of mechanisms to provide finance of between R50 000 and R3m.

Schwenke said the corporation would target an increasing number of black entrepreneurs as clients, and the financing products were specifically designed to achieve that goal.

"The lack of black applicants for formal mainstream business loans is a problem," he said.

"The organisation will now look at these more carefully." The corporation said it would view security as being less important, as equity could be obtained as reward for risk. It would inject risk capital and would be compensated for the risk by a share in future profit and capital appreciation.

"Equity partner deals are possible where a business proposition is viable and has growth potential, and the client has entrepreneurial qualities," SBDC MD Jo Schwenke said.

The corporation also wanted small and medium sized businesses to become shareholders prior to its listing, planned for the year 2 000.

Alongside the traditional loan packages, the options also included a business with low security gaining a fixed payment loan, with SBDC taking a minority stake as collateral.

"If the entrepreneur does not make it we also lose," Schwenke said, "so we are united with a purpose to succeed."

SOUTHERN LIFE

IS THIS SOUTHERN'S YEAR?

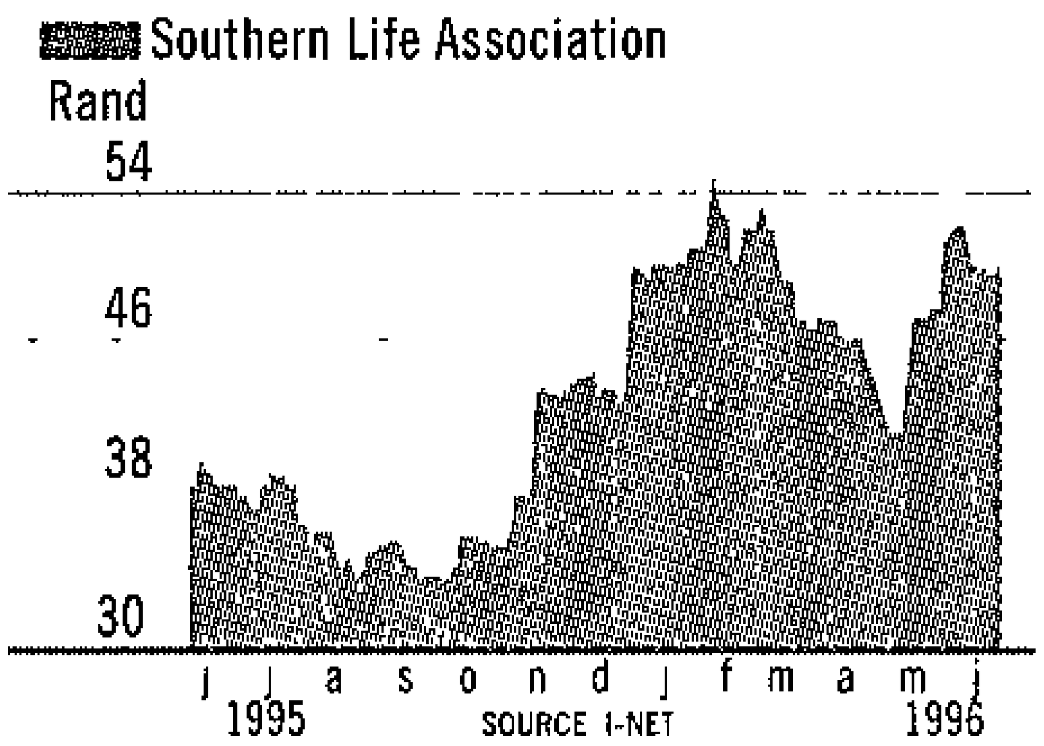
(58) FM 5/7/96

- **ACTIVITIES:** *Life assurance, pension and provident fund business. Subsidiaries in financial services and health care.*
- **CONTROL:** *Anglo American 37,5%; First National Bank 29,9%.*
- **CHAIRMAN:** *T N Chapman. MD: J R Calitz.*
- **CAPITAL STRUCTURE:** *184m ords. Market capitalisation: R9,1bn.*
- **SHARE MARKET:** *Price: R49,75. Yields: 2,9% on dividend; 4,3% on earnings; p:e ratio, 23,0; cover, 1,5. 12-month high, R56; low, R32. Trading volume last quarter, 1m shares.*

Year to March 31	'93	'94	'95	'96
Assets (Rbn)	19,2	24,8	27,0	32,9
Life fund (Rbn)	17,3	22,6	24,3	29,1
Return on shareholders' funds (%)	30,2	30,9	30,3	29,9
Net prem income (Rbn)	2,61	3,61	3,57	4,10
Net invest income (Rbn)	1,09	1,22	1,22	1,62
Distrib earnings (Rm)	196	240	306	391
Earnings (c)	116	141	174	216
Dividends (c)	77,5	94,0	116	144

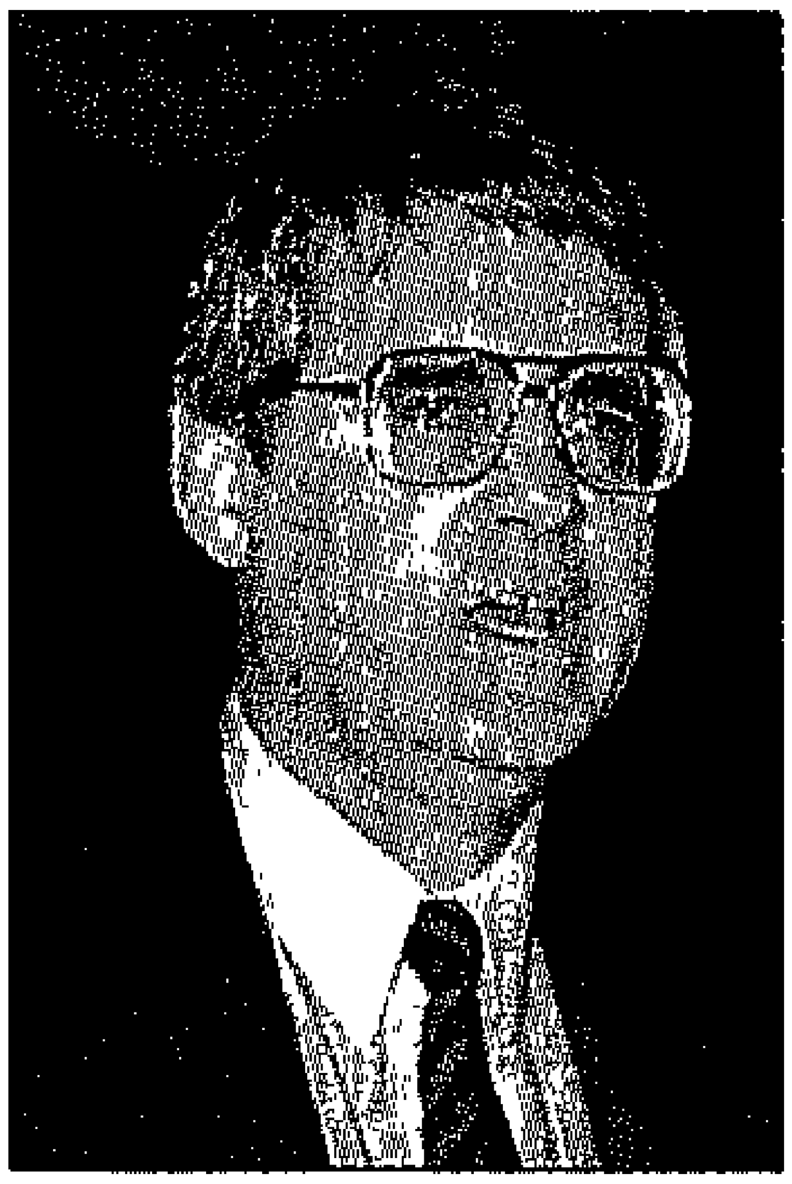
Vastly improved investment returns and business generated by new products should underscore the rerating of this share, which has lagged like-sized competitors over recent years.

It's always been a bit of a mystery why Southern Life failed to attract the same rating as other large assurers. Earnings and dividends growth have averaged 21% over the past 10 years, not out of line with the industry. But a weak spot emerged in the previous financial year, when investment income — more than 25% of total income — took a knock, declining by R6,2m.



Financial 1996's turnaround was dramatic, with net investment income rising 33% against a 10-year annual average of 13,6%. CE Jan Calitz says this was due to the "incorrect positioning of our fixed interest exposure during the third quarter of 1995 and the negative performance of certain cyclical shares in the last quarter of 1995."

Investment performance in some portfolios was obviously adversely affected. A breakdown of the gross figure shows interest-bearing investments coming through strongly, growing from R673m in the previous period to R1bn. Dividend income grew 7,7% to R437m, while income from rentals increased 16,7% to R188m.



Jan Calitz

Southern Life recently formed Southern Asset Management, a restructuring of the investment division into a wholly owned subsidiary Calitz says that the establishment of an asset manager with a "separate identity and culture" combines the benefits of the association with Southern Life and offers the independence, flexibility and decentralised decision-making necessary for today's investment environment.

Though investment performance of a large assurer should be measured over the longer term, the investment community inevitably looks at year-on-year returns. Calitz believes that the turnaround will be sustained and "underpinned by the refocusing and enhancement of our asset management and research capabilities." The new company could help improve Southern's rating.

Premium growth, particularly the 29% gain in new life recurring premiums, comes on the back of new product innovations, dominated by the Exclusive Life series of products, a world-first which offers financial immunity against Aids-related premium increases. Sales of the products grew 35% over the year and account for more than a third of new recurring premiums.

Southern also launched a new product to protect estates from duty and two indexed investment portfolios aimed at the retirement fund industry.

Strategic developments include a new financial services subsidiary — Southern Investment Management Company — targeting the retail end of the market, and a R140m joint venture with Anglo American and US group United HealthCare to provide managed healthcare services.

Calitz says the focus this year will be on the successful implementation of these developments and a period of growth through consolidation This is backed by a 27% increase in excess assets over actuarial liabilities to R4,58bn, showing considerable financial depth.

Though the share has been rerated, the past year's 31% appreciation still lags the 48% gain in the insurance index. It's likely that the rerating will continue on these results, particularly the more focused approach to investments. The past year's peak — R56 — is probably a fairer indication of the value of the share

Shaun Harris

AFRICAN LIFE

A JUSTIFIED UPRATING

Results show why this share has been strongly rerated upward African Life (Aflife)'s 83% appreciation over the past year comfortably outpaces the strong 48% gain in the insurance index.

It can also be compared with the 32% gain by former parent Southern Life over

- **ACTIVITIES:** *Life assurance. Subsidiaries involved in pension and provident funds, property, construction and publishing.*
- **CONTROL:** *Real Africa Holdings 46%, Southern Life 21%.*
- **CHAIRMAN:** *D M J Ncube. MD. W A Jack.*
- **CAPITAL STRUCTURE:** *75,9m ords. Market capitalisation: R1,14bn*
- **SHARE MARKET:** *Price. R11,90. Yields. 2,4% on dividend; 3,5% on earnings; p:e ratio, 28,3; cover, 1,5. 12-month high, R13; low, R5,85. Trading volume last quarter, 1,1m shares.*

Year to March 31	'93	'94	'95	'96
Total asset (Rm)	313	427	554	1 097
Life fund (Rm)	180	228	350	649
Premium income (Rm)	105	168	295	528
Investment income (Rm)	19,8	22,9	33,4	64,4
Taxed profit (Rm)	13,8	17,6	23,3	32,5
Earnings (c)	23	27	34	42
Dividends (c)	14,8	18,0	22,4	28,0

the period or the 76% by the similar, though larger, black economic empowerment vehicle Metropolitan Life.

Key figures outstrip the compound average for the past nine years. For instance, recurring premiums are up 52% (compound average 40%) to R308m and total assets by 98% (32%). Selling expenses, though, of R95m are up by 41%, well within the 79% growth of premium income and 55% in new business.

These figures extend the rapid expansion of recent years and would normally raise questions about the adequacy of the capital base, a question raised by the *FM* in the past.

This time, CE Bill Jack has the answer in advance. During the year, Aflife raised a total of R178,3m, first from selling an 8,8% equity stake to World Bank subsidiary International Finance Corp for R40,7m last July, then by raising R126,6m in a rights issue just before year-end. The remaining R11m came from shares issued to staff.

There's also the continuing comfort of three strong shareholders, willing to accept the scrip dividends which Aflife has been offering in lieu of cash dividends.

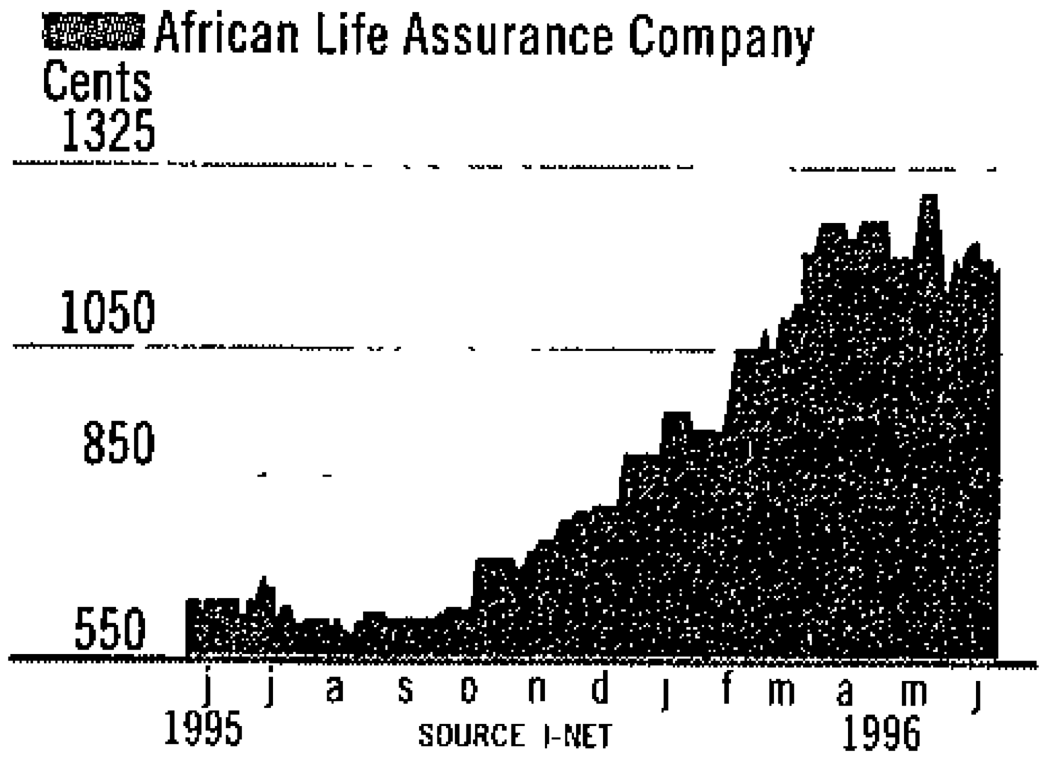
Can this pace be maintained? Probably for a year or two given Aflife's growing presence in the largely black market, certainly the current growth area.


Bill Jack

A year ago, Jack forecast a 25% rise in recurring premiums, against 52% actual, and higher market share This year, he says "I will simply repeat these forecasts and am certain they will be achieved." Stripping out his conservatism and barring an economic crash, recurring premiums are more likely to grow by 35%-40%.

Aflife is also positioning itself as a broader financial services group. An employee benefits division has been set up and a majority stake taken in stockbroker G O' Flaherty & Co.

Acquisitions of 17% of Botswana Insurance Holdings for R16,3m and 10% of Lesotho National Insurance (including 40% of subsidiary Lesotho National Life) for R5,1m extend the business beyond the borders. A 70% share in RMS Syfrets



Property Development, renamed Aflife Properties, for R5,7m enlarges the presence in the property market.

Diversification such as this will help maintain earnings growth. But assurance remains the core, highlighted by new disclosure in the annual report.

Aflife has one of the industry's highest ratios of free assets to liabilities. Jack says after the R178,3m new capital raised, there was an actuarial surplus of R92,7m for shareholders: R11,3m from the investment return on free assets and R81,4m from business operations.

He says Aflife aims to increase this surplus from business operations at a "superior rate." The importance of this is that it effectively uses free reserves as working capital for life business rather than earning returns on a passive investment portfolio like many life offices.

The share is starting to look fully priced after the gains of the past year, with a dividend yield of 2,4% just off the 2,2% average for the sector. But in the short to medium term, Aflife seems well placed to continue to gain market share and provide superior premium growth

Together with a healthy actuarial surplus of R486m, this should translate into better-than-average share price performance *Shaun Harris*

AUTOPAGE

WHERE'S THE RABBIT?

The company has returned to profitability but the awkward question — still unanswered — is whether the effort is worth the candle.

Autopage, last of the Venter stable to

- **ACTIVITIES:** *Supplies mobile paging, cellular telephone and trunked radio equipment.*
- **CONTROL:** *Altech 71%.*
- **CHAIRMAN:** *C G Venter.*
- **CAPITAL STRUCTURE:** *36,4m ords. Market capitalisation· R120m*
- **SHARE MARKET:** *Price: 330c. Yields. 0,6% on dividend; 1,9% on earnings; p:e ratio, 52; cover, 3,2. 12-month high, 460c; low, 270c. Trading volume last quarter, 567 000 shares.*

Year to end February	'93	'94	'95	'96
ST debt (Rm)	nil	1,0	20,8	0,001
LT debt (Rm)	1,1	0,8	0,2	0,2
Debt:equity ratio	nil	nil	0,35	nil
Shareholders' interest	0,50	0,50	0,42	0,54
Int & leasing cover	n/a	n/a	n/a	116
Return on cap (%)	37,4	27,3	n/a	7,9
Turnover (Rm)	39,8	43,2	122,7	209,3
Pre-int profit (Rm)	12,0	10,3	(1,4)	5,6
Pre-int margin (%)	30,2	23,9	n/a	2,7
Earnings (c)	24,0	23,6	(3,1)	6,4
Dividends (c)	9	9	nil	2
Tangible NAV (c)	58	104	84	105

be reviewed, had a mixed year punctuated by a triumphant escape from red ink Given that many competitors report continuing difficulty — in Teljoy's case, huge persistent losses — this is no mean achievement and shareholders will naturally be hoping that 1997 will bring a return to the heady days of high margins and comfortable pickings.

The past is worth remembering, if only briefly. In 1992, for example, turnover of a modest R36,7m produced operating profit of R10,2m, a margin of 27,8%. A year later, the increased margin of 30% produced an operating profit of R12m.

Since then, turnover has increased sharply It is now R209m — five times greater than 1993's R39,8m. But the mar-

Sun Multi Serve calls another march

BD 5/7/96 (58)

Lukanyo Mnyanda

PYRAMID scheme Sun Multi Serve called another march on the Reserve Bank yesterday to force the release of its investors' funds.

The call coincided with the Bank's confirmation that all investors in the scheme would definitely lose some of their funds as there was not enough to cover all claims. Investors had paid about R46m into the scheme prior to its closure by the Bank in December.

The scheme's technical adviser David Mogashoe said the Bank, which agreed a truce with Sun Multi Serve in April, was taking too long to verify claims. The process proposed by the Bank would be completed only in September, way off their agreed date of payment on June 28.

Deputy Registrar of Banks Andre Bezuidenhout said the proposed march was "an attempt to hide their own incompetence. They are to blame for the delays. We received their investors' lists only two weeks ago."

'Poor performers' to be targeted

Govt threatens banks over low-cost loans

BD 5/7/96 (58)

Robyn Chalmers

GOVERNMENT may impose sanctions on the banks which performed worst against the 50 000 low-cost home loans target set for the year to June.

Sources close to government said yesterday measures under consideration included withdrawing the insurance mechanism — the Mortgage Indemnity Fund — and withdrawing its backing for attempts to solve illegal occupation of repossessed houses.

The 50 000-loan target, set in a 1994 record of understanding, is a key pillar in the low-cost housing drive. Government has viewed the target as a measure of the banks' support for the housing programme. However, it became clear early last month that the banks would not meet the target. In terms of the record of understanding, government can withdraw fund cover if the target is missed.

Sources said an industry-wide sanction — affecting roughly 135 000 performing mortgages and 13 500 illegally occupied homes — was unlikely as it would derail the process. Government would focus on the poorest performers.

None of the 16 banks involved in the record of understanding reached their individual targets. By the end of April fewer than 17 000 mortgages had been granted in the subsidised low-cost housing market.

Council of SA Banks housing spokesman Lance Edmunds said the banks reached between 2% and 68% of their individual targets. He warned that a government decision to pull cover across the board would lead to the banks abandoning the low-cost housing market. He said the banks had not received enough applications to meet the target, "and at the end of the day, the banking sector cannot meet its obligations when the building industry is not prepared to build homes in the subsidised market".

Indemnity fund MD Nkululeko Sowazi said talks were being held with the banks to find out why they had not met their targets.

"Any decision about whether government will back up the record of understanding will have to be taken at a political level. The housing ministry and its department are being kept appraised of the situation," he said.

The banks party to the target include Standard Bank, First National Bank, Nedcor, Absa, Saambou, NBS, Investec, Mercantile Bank, African Bank, Boland Bank, Future Bank, Citizen Bank and Community Bank.

Standard Bank, FNB, Nedcor and Absa were each required to extend 10 000 mortgage loans into the low-cost market and NBS and Saambou 2 500. The remainder was split between the others.

Boland Bank tentatively spreads its wings

M+G (BM) 5-11/7/96 (58)

Lynda Loxton

BOLAND BANK, based in Paarl, has been transformed over the last year from a relatively small, mostly Western Cape bank into a more sophisticated market player serving the country as a whole.

Not surprisingly, the process has placed some strain on management and revealed weaknesses in bad-debt control, which it is working hard to remedy.

In the bank's annual report, managing director Michiel le Roux admitted that the bigger spread of activities had highlighted a lack of training and managerial depth, while spending on information technology had to be increased to match the service provided by other banks.

Of particular concern was improving the quality of advances. In the year to March 31 1996, the bank's attributable income amounted to R62,9-million, while R49,1-million was provided for specific bad debts. This was over and above the R38,2-million set aside as a general provision to provide a buffer against unexpected occurrences.

"These figures illustrate a substantial improvement on the previous year when our defaulting clients were R3,3-million better off than our shareholders!" Le Roux said.

"However, our provisions are still far too high — 0,98% of advances. Our aim is to make provision for no more than 0,75% in a normal year and even that is probably still twice as much as we should eventually be losing per year."

Attention was therefore being paid to non-performing assets and doubtful and bad debts.

"Purging our loan book through active management will cause losses during the 1997 financial year, but will reward us with lower write-offs in future years," Le Roux said.

"Realising non-performing assets quicker may also result in capital losses, but does have the advantage that the part recovered becomes available for interest-bearing finance again. This year's normal provisions will be less than 0,75% of advances, but these corrective actions will probably see the total write-off rate remain at a high level."

Another aspect needing attention was better communication and training, the best tools against bad debts.

He said the largest debts occurred when, in a bid to avoid losses, additional loans were granted to clients who were already in trouble. This called for quick decision-making and short communication lines and he admitted "we do not spend enough on training. Our aim is to have fewer, but better trained people."

Steps had also been taken to ensure that all staff took responsibility for their actions by being "much closer to the coal face" and they had, for the first time, been asked to nominate a director to serve on the board of Boland Bank.

'We are undertaking a fundamental analysis of all the bank's activities: what we do, how we do it, where we do it, who does it and what it costs," Le Roux said.

In these days when most banks complain endlessly about margins (hence their recent interest rate hikes), that seems to be the way to go in banking.

● Chairman Christo Wiese said in the annual report that the most significant development in the bank's history had been its restructuring last year to create a holding company, Boland Bank Holdings Limited, and to recapitalise the bank through a R383-million rights issue.

The rights issue, together with a further issue of secondary capital in the operating company, raised the group's capital from R289-million to more than R1-billion by the end of the year.

The bank also syndicated a general purpose loan of $60-million on the international capital market, which not only made funds available for a wide range of corporate finance projects, but also further introduced the bank to the international banking world. This had already started with its link up with Malaysia's Landmarks Berhad, but any extra exposure helped.

Locally, Boland Bank has established a joint project with Seeff Holdings, known as Seeff Home Loans, to provide a one-stop service for prospective house buyers. It has also taken up a 50% stake in brokerage firm SMK Securities. It also took a 60% stake in Boland Financial Services, a specialist merchant and investment banking service.

Life assurers under pressure

(58) ARG 6/7/96

'Adapt or die' as consumers, competition gain ground

BRUCE CAMERON

SIMPLER and cheaper life assurance is on the way with the multi-billion rand life assurance industry about to be revolutionised.

Already some of the country's life assurance companies, the main repository of the nation's savings, are adopting new strategies to keep themselves competitive and in business.

Peter Wilkinson, general manager of the strategic risk management unit of the country's biggest life reinsurance company, Mercantile & General Reinsurance, which reinsures the risk taken by many of the country's life assurance companies, has warned that those companies which did not adapt to changes could fall by the way side.

Wilkinson said four factors were driving the change. These were the globalisation of the financial services industry; the increasing power of consumers; improved protective legislation for consumers; and technology.

If South African companies did not change to meet the real needs of consumers at competitive prices foreign competitors and non-traditional companies would step in, threatening the future existence of local assurers.

Technology now made it possible to reach consumers directly which reduced costs.

The findings of Mercantile and General have been supported by extensive research undertaken by Norwich Life and international trends.

In Britain, non-traditional companies are moving into the financial services industry and snatching away lucrative business. New players include Richard Branson, better known as the founder of cut-price Virgin Airlines and Virgin Records, retailer Marks and Spencer and even German car manufacturer Volkswagen.

Branson's financial services company, Virgin Direct, which recently opened its life assurance arm, is threatening to go international as soon as it has established itself on its home base – and this includes South Africa, according to a Virgin spokesperson.

The reasons for the success of the new operators includes the use of hi-tech, direct marketing, cutting out expensive sales forces and keeping products simple.

Branson has also separated out investment business from life assurance. One of his main sales lines is telling consumers that "we refuse to have anything to do with salesmen and their outrageous commissions" and is appealing directly to consumers through advertising.

Mike Brewis, newly appointed managing director of Norwich Life, said Norwich's research had shown there was still complacency in the local life assurance industry with many companies still believing they could escape international trends.

He said Norwich was "in business to serve a customer" and as the company had the same customer as the intermediary, it would only deal with those intermediaries who had a "focus of putting the policy-holder first".

This would ensure policy-holders were sold the right product at the right time, that they got good value for money, and were serviced correctly at all times.

The proposals in the Norwich strategy include: separating out risk (life and disability assurance) from investment products and making them simpler; limiting the commission paid to salespeople on pure investment to 15 years; encouraging intermediaries to accept level commissions and not paying all the commission over the first two years of a policy; introducing a cooling-off period to give policy-holders time to rethink a decision to buy a policy; refusing to accept business from salespeople with a questionable record; and introducing a standard and proper investigation into the financial needs of the individual policyholder.

Brewis said success had bred complacency in the life assurance industry. Expenses were too high; competition from other financial services was being ignored; companies tended to be product and sales orientated rather than customer driven; and consumerism was often underestimated as were moves to greater consumer protection.

Brewis said the company believed that the trends that had occurred in Britain were about to happen here.

A major driving force would be the legal entrenchment of consumer rights which would include: the right to be properly informed by being given the facts needed to make an informed choice while being protected against misleading or dishonest advertising; the right to choose; the right to consumer education; the right to be heard; and the right to redress.

Wilkinson said the days of "claiming ownership of customers is long past".

The only way companies would ensure loyalty was by making customers feel good about dealing with them.

Customers wanted three things: customised policies, service and value for money.

Brewis said another factor that would put pressure on local companies was lower inflation. Inflation had resulted in companies continually being able to sell more products so that policy-holders could keep up with devaluing money. When inflation slowed this pressure fell away.

Investors still awaiting payout

(58) Sowetan 8/7/96

By Charity Bhengu

SUN Multi Serve investors' money estimated at R46 million, which was frozen by the Reserve bank, will only be released in September, a Reserve bank spokesman said at the weekend.

The announcement could be a huge blow to the more than 53 000 members who had expected their money to be deposited into their stokvel accounts by last week.

Reserve Bank deputy registrar Mr Andre Bezuidenhout said: "The delay was caused by the SMS representatives who only submitted the list of the investors' names on June 9 instead of April."

SMS National Investors Committee adviser Mr Nick Neniels said R46 million was frozen by the Reserve bank.

Bezuidenhout said: "The money is insufficient and won't cover the original deposits. The total sum of money will be divided among all the investors with interest irrespective of amounts initially deposited. They may be paid 50c for every rand," he said.

Meanwhile, SMS investors have announced they would launch mass protest action from today to demand the return of their money.

Bezuidenhout said: "This action will affect the economy of the country and will achieve nothing. We need more time to resolve the problem."

Neniels rejected the request and said his members had waited seven months already.

"Some of our members' houses have been repossessed by the banks because they could not meet their obligations."

Wiese expects Boland Bank Holdings to reap restructuring benefits

(58) CT (MR) 8/7/96

By Marc Hasenfuss

CAPE EDITOR

Cape Town — Boland Bank Holdings, whose restructuring has forged a powerful new corporate identity, is expecting to be buoyed in the year ahead by its sharper focus, the contribution of new business activities and better credit management.

Christo Wiese, the chairman, said in his annual review that the banking group was handling a far larger volume of business than in the past.

"We are continually unlocking value in new areas as a result of our alliances formed locally and abroad, all the while strengthening our international role," he wrote in the review, which was released last week.

Wiese believes the restructuring of Boland Bank into Boland Bank Holdings was the most significant development in the organisation's history.

Boland's capital base had been increased from R289 million to more than R1 billion through a rights issue and a further issue of secondary capital.

The bank was also successful in obtaining a syndicated and general-purpose loan of $60 million (about R220 million at the time of the deal) on international capital markets at favourable rates. Wiese said this was the first loan "of such magnitude" to be granted to Boland Bank.

"Since the loan is a general-purpose facility, there are no restrictions on how the money can be used and we are focusing on applying it in the local corporate financing sector."

The loan had resulted in Boland becoming more widely known in international banking circles, with arranging banks approaching other banks to share the risk as syndication members.

These developments, he said, had enabled Boland to develop from an almost regional player with a strong rural bias into a substantial player in the local banking sector.

"We have extended the range of services beyond the traditional commercial services to serve the broad community of South Africans."

A sectoral analysis of Boland's business shows individual clients comprise the bulk of transactions with 39 percent. The agricultural sector constitutes 9 percent while financial services make up 13 percent, wholesale 10 percent, manufacturing 7 percent, transport 3 percent, construction 3 percent and other services 16 percent.

Wiese said that while Boland's focus in the commercial sector was on small to medium corporate clients in urban and semi-urban areas, the extended capital base allowed the bank to play a greater role in the wider financial services sector.

"Establishing new relationships across a broad front with selected specialists has enabled Boland to enhance its global representation."

The major diversification of Boland's traditional operating base came with the acquisition of stockbroking firm Senekal Mouton Kitshoff Securities (SMK) and a 60 percent stake in newly established Boland Financial Services (BFS).

Wiese said Boland's holding in SMK had given the firm access to the capital required for growth and to the numerous profit possibilities opened up by the deregulation of the JSE.

BFS expects to double its transaction business to at least R2 billion by the end of the financial year. Wiese expects offshore deals to make up half of this subsidiary's total business within three years.

Michiel le Roux, Boland's managing director, said the bank would purge its loan book next year. The move was likely to cause losses in the financial year ahead but would reward the bank with lower write-offs in future years.

Le Roux conceded that realising non-performing assets could also see capital losses, but said the portion recovered became available for interest-bearing finance again.

Expert Ramos a 'welcome selection' as D-G of finance

By Karin Schimke
Political Staff

Maria Ramos, new director-general of finance, is respected and acknowledged, even internationally, as an expert in her field, Gauteng MEC Jabu Moleketi said after her appointment.

Speaking passionately about the "welcome selection" of 37-year-old Ramos, Moleketi said he was convinced of her capabilities not only because of his own experience with her, but because she was spoken of highly by many people.

"She is unique in that, unlike others usually appointed to that kind of position, she has had links not only with the private sector, but also with the developmental sector of the country.

"She has been deeply involved in economic and developmental debates in South Africa since before the 1994 elections and has come face to face with South Africa's economic challenges.

"She does not deal simply with issues from an abstract position, but is concerned about meeting the basic needs of people."

Ramos is the first woman to hold the position of finance director-general, following the early retirement of Estian Calitz at the end of May.

Earlier this year, her name came up as a possible replacements for Alec Erwin as deputy finance minister.

The post was ultimately filled by ANC executive Gill Marcus. Moleketi said this was a clear political statement that finance was not just "an old boys' club" and added that it was a challenge to the private sector.

The ANC has commended the Cabinet on the decision to appoint Ramos saying it gave South Africa "access to the talents of a very skilled and competent person".

Ramos was born in Lisbon in 1959 and holds an MSc in economics from the University of London. She also holds other degrees and has lectured in economics at Unisa and the University of the Witwatersrand.

She held various positions in the private sector before joining the civil service. Before her appointment last week, Ramos was deputy director-general in the finance department, responsible for financial planning.

Star 9/7/96 (58) ( )

Business elated by banks' move

Sowetan 9/7/96 (58)

Lower bank rates and new Govt's economic policy boost confidence

By Mzimkulu Malunga

THE BANKS' DECISION to reduce lending rates, the stability of the rand and the Government's economic policy have contributed to the renewed upbeat mood among captains of industry.

The South African Chamber of Business yesterday said its monthly Business Confidence Index had risen by two percentage points to 118,9 for the first time in six months.

A peaceful local government election in KwaZulu-Natal contributed to the renewed optimism among business people, said Sacob.

Key components of the Government's macro-economic strategy, such as reforms of the tariff levels, tax incentives for investors, the restructuring of public assets, flexible labour markets and a social accord between labour and business, were also encouraging.

However, Sacob said it had doubts whether the three social partners – Government, labour and business – were prepared to accept the full implications of the framework.

Other positive factors which influenced the nominal rise for the June BCI included the decline in the number of people who registered as unemployed and a decrease in the rate of individuals and partnerships going bankrupt.

Eight of the 13 indicators which are assessed to gauge business mood were positive. The negative factors included the rise in the general price level, the decline in exports and a lower gold price.

Sacob said although there had been improvements in business confidence, it did not mean the slowing down of the economy had ended.

Economists say the South African economy has entered a cyclical phase of slowdown which will continue into 1997.

Sacob said apart from purely economic factors which determine the business mood, issues such as a growing number of skilled people leaving the country and the auditor general's warnings that public administration could collapse would impact on confidence levels.

The levelling off of economic growth meant that South Africa's economy would be vulnerable to factors such as droughts and economic performances of other countries.

Experience gained from high performing economies of Asia and Latin America showed that the Government framework could bring higher growth rates needed to make a serious dent on unemployment.

IN-ON THE RIGHT ACT

(68) FM 12/7/96

If the Sun Multiserve pyramid scheme is a gambling activity, then it should be registered under the Gambling Act, says Alliance of Microlending Development Practitioners chairman Sizwe Tati.

"Sun must identify itself either as a gambling institution or a deposit-taking institution which has to invest clients' money in a prudent way."

It has little chance of achieving the latter, if the policy of leaving its entire R50m fund in a noninterest-bearing account is maintained.

The format of the pyramid scheme is familiar to gamblers. Sun's white investors have probably heard of the "aeroplane game," while township residents are familiar with a number of schemes like the "push-push."

Sun's clients — by no means all of them defenceless and trusting pensioners — feel they are entitled to take their chances. "Somebody of average literacy should understand what he's letting himself in for," says Tati. "I think they know there's a risk. Whether they know the extent of it, I don't know."

The bottom line: "Is it government's duty to intervene, or is it the individual's constitutional right to get ripped off?"

The answer is both, and the only way to resolve this dilemma is for Sun to decide on the appropriate legal framework and comply with the relevant requirements.

The agreement entered into in April between the Registrar of Banks, Sun Multiserve and Sun's self regulatory body, the National Investors' Committee, requires Sun to reconstitute itself into legally recognised stokvels.

If it succeeds, the Bank will pay out the frozen funds into those stokvels. If it fails, money will be returned to the investors themselves.

But the transformation of a pyramid into stokvels will take far more than a simple scaling down. There are much more fundamental differences

A pyramid's returns depend entirely on growth in numbers, while a stokvel's membership is limited and a pool of money circulates between a fixed number of people. The new units will have to change their entire operating procedure in order to behave like stokvels.

The question is whether Sun's management has the resources — or the grasp of the issues — to make the transition.

A conference hosted by the Bank in August will be a vehicle for creating better understanding, but the Bank faces a daunting communication gap.

For example, the committee's Nick Neniels maintains Sun is, and always has been, a stokvel, and still "totally disagrees" that anybody could have lost money on the scheme. He also rejects the term "interest rates" as not relevant to the stokvel concept.

But whether or not discussion at the conference creates a common understanding, the "march" on the Bank this week suggests the Bank's team faces increasing time pressure. ■

AMALGAMATED BANKS OF SA (58)

AT LAST, PUBLIC APPROVAL

FM 12/7/96

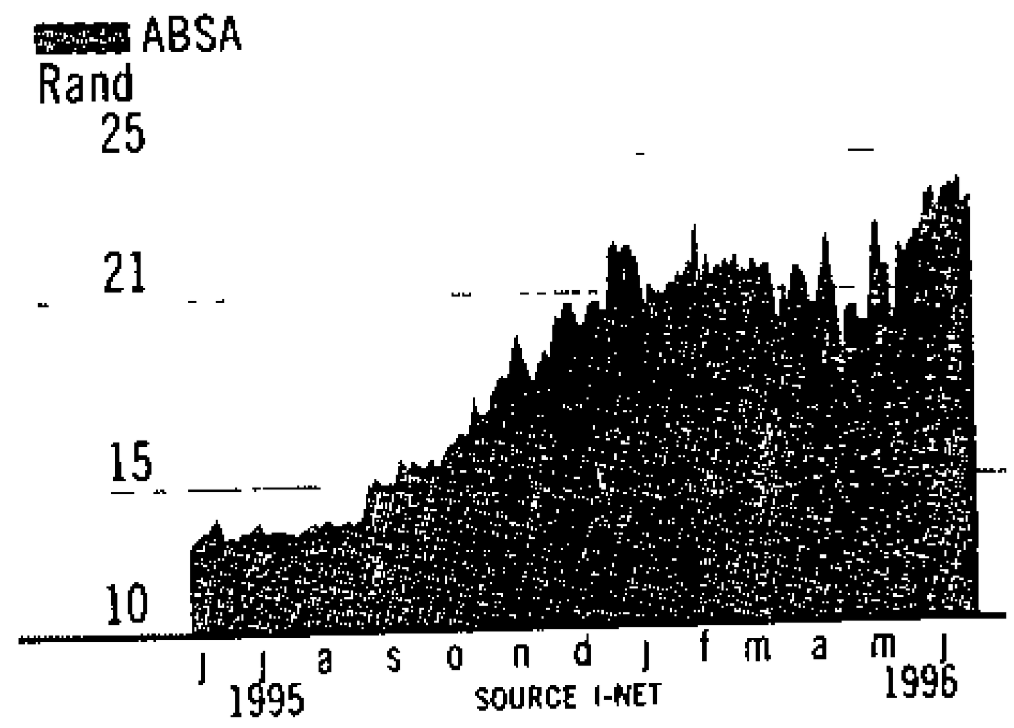
Banking is largely about perception. Just as a bank must retain its clients' confidence, so perceptions of its share can be influenced by factors far outside the numbers provided in the annual accounts.

On this score, Amalgamated Banks of SA (Absa)'s decision last month to steal a march on competitors and lower prime and mortgage rates by 1% was a public relations coup. Following the strong public reaction to the earlier increase in lending rates, Absa could only be seen as the good guys in leading the other banks and turning the cycle.

- **ACTIVITIES:** *Banking, insurance and financial services*
- **CONTROL:** *Universa 25,1%; Sanlam 25,0%.*
- **CHAIRMAN:** *D C Brink. MD: D C Cronjé*
- **CAPITAL STRUCTURE:** *585m ords. Market capitalisation. R13,6bn.*
- **SHARE MARKET:** *Price. R23,25 Yields· 2,5% on dividend, 7,7% on earnings, p:e ratio, 13,1; cover, 3,0. 12-month high, R24,40, low, R13,75 Trading volume last quarter, 14,3m shares.*

Year to March 31	'93	'94	'95	'96
Total assets (Rbn)	82,5	86,0	100,0	115,1
Advances (Rbn)	64,4	69,3	82,7	96,2
ROA (%)†	0,87	0,82	0,86	0,97
ROE (%)	14,7	12,9	13,5	15,4
Attributable (Rm)	717	619	754	1 130
Headline earnings (Rm)	684	666	774	1 026
Earnings (c)	127	109	133	196
Headline earnings (c)	121	118	137	178
Dividends (c)	43,5	43,5	49,0	59,0
Tangible NAV (c)	872	958	1 076	1 238

† Excluding acceptances.



Executive director Alwyn Noëth lists three reasons for Absa's decision: expectations of a further softening of money market conditions; a more stable rand; the favourable reception from local and international parties to government's economic policy document.

But while winning goodwill from consumers, the financial implications could be harsh. By comparison with international norms, SA banks are uncompetitive in some key areas, but there's little doubt interest margins were under considerable pressure this year.


Danie Cronjé

The reduction in interest rates reintroduces a squeeze on interest margins which will affect profitability in the short term. It will also have a more far-reaching impact unless banks can increase revenue from other sources and, most importantly, reduce operating costs.

For Absa, these two areas have a particular importance. CE Danie Cronjé says Absa will close the gap on competitors through superior earnings growth. This will bring both its returns on assets and equity to ratios in line with the industry.

But with nearly R50bn of advances of R96bn coming from mortgages, it seems the only way Absa will be able to grow earnings at a faster rate than the industry is from noninterest sources of income and by lowering costs.

On the first count, there's some scope for improvement. As the largest bank in SA, Absa is relatively underrepresented in instalment finance (20,5% of total advances) and overdrafts and credit cards (13,5% of advances).

All four retail banks, as well as vehicle finance provider Bankfin, had a good year, together raising contributions to headline earnings by 25% to make up 64,5% of the total R1,03bn.

Cross-selling, so far, has largely been an unrealised buzzword in the banking industry. However, Absa has a clear advantage in its huge retail client base, which Cronjé believes could support rapid growth of instalment finance, overdrafts and credit cards off a low base.

Lowering costs will be more difficult, but to attract comparable ratings, Absa will have to get its cost-to-income ratio down.

At least the trend is going the right way. Operating costs, as a percentage of operating income, declined from 71,1% in 1995 to 70,5% last year.

Absa uses its latest annual report to lay to rest some ghosts. It says the Reserve Bank lifeboat to Bankorp, which together with an aid package from Sanlam totalled R1,6bn, was brought to account in the price paid by Absa.

The bank says it was legally precluded from disclosing these details until subpoenaed under the Tollgate inquiry. "Accordingly, we are pleased that we may now disclose the factual position surrounding the aid packages, and particularly the fact that these were pre-acquisition transactions which have had no effect on Absa's earnings."

Since year-end Absa sold about 52% of its interest in the J D Group, realising a net surplus of R128m, which it says will be accounted for this year.

Now that Absa has public goodwill on its side, it's imperative to show strong earnings growth to convince the investment community it's capable of closing the ratings gap.

Chances of doing this seem fair. The *FM* believes the share, trading at R23,25 earlier this week, is worth about R26-R27 in the short term. Longer term, share price appreciation should outstrip the other banks if management keeps earnings growth on track. *Shaun Harris*

Sun Multi Serve ready to make payouts

By Melanie-Ann Feris

The Sun Multi Serve investment scheme has announced that it is ready to make payouts to investors, but a warning has been issued that the scheme might not have enough money to pay out all the claims.

The scheme operators yesterday placed an advert in the national press indicating it intended to begin with the repayment of investor funds.

Tim Stores, a partner in the Deloitte and Touche chartered accountants firm who had been called in to administer the agreement with the Reserve Bank, warned that there would not be enough money in the scheme's account to cover all the claims.

"The way the scheme works, they cannot pay what has been claimed," said Stores.

Sun Multi Serve investors' funds totalling R50-million had been frozen under a court order since December last year.

The scheme was shut down after a decision was reached by the Registrar of Banks, Christo Wiese, that it contravened the law and had breached legislation on the R9,9-million ceiling placed on informal saving schemes.

Wiese claimed the fund had operated as a pyramid and that in paying its promised returns the fund could never have enough cash to pay out its estimated 50 000 investors in full.

In April an agreement was reached between the Reserve Bank and Sun Multi Serve allowing the company to operate in a new structure, as 28 stokvels, and the scheme's funds were unblocked.

But several weeks later the money had still not been paid out to investors and the Reserve Bank indicated that the money would be released only in September. Last week, however, agreement was reached between Sun Multi Serve and the Reserve Bank that the scheme could begin with repayment of investor funds.

Lists of names of investors who have opted for payouts were made available at the scheme's offices yesterday.

(58) Star 16/7/96

Sun Multi Serve investors try again

BD 16/7/96 (58)

Lukanyo Mnyanda

PYRAMID scheme Sun Multi Serve investors had largely decided that their money should be reinvested in new, small and legal stokvels, fund manager Tim Store said yesterday.

Store, who had been appointed to oversee the scheme's closure, said provisional member lists had been sent to Sun Multi Serve branches. Investors, who have been waiting since December, could now claim their share of the R46m frozen by the Reserve Bank.

Members had until August 1 to lodge claims and complaints about the lists and repayment would eventually start about two weeks later. Investors were again warned to expect shortfalls as large payments had been made before Sun Multi Serve was closed down by banks registrar Christo Wiese.

"Amounts paid out will be made strictly pro rata to the frozen funds available," investors were told in a newspaper advertisement yesterday.

Store said he had about 1 000 pages with investors' names and their amounts, which ranged from R1 000 to R35 000. Most investors had invested between R1 000 and R5 000, he said.

Meanwhile, the Office for Serious Economic Offences said yesterday it was continuing its investigation into activities by the scheme's former management. A spokesman said findings would be handed over to the justice ministry and attorney-general's office.

Insurers say police refuse to disclose information on recovered vehicles

(58) BD 16/7/96

Ingrid Salgado

THE insurance industry does not know the whereabouts of thousands of stolen motor vehicles that the police claim to have recovered, saying the industry's average 15% recovery rate is way below the 50% claimed by police.

SA Insurance Association CE Barry Scott said yesterday police would not give the industry access to information on recovered vehicles, rendering it unable to compare police statistics to the industry's. Police expected the industry to buy the information "at a high cost" from a private company which managed certain police information.

"We don't know where these (allegedly recovered) vehicles are going to. Hundreds of millions of rands are disappearing. Until police open up their information systems, we won't know what is being lost and how it is being lost," Scott said.

Vehicle theft cost the industry about R1bn a year while about 115 000 insured and uninsured vehicles valued at R2bn-R3bn were stolen a year.

Police figures released last week showed that over the past two years the SAPS had received nearly 600 civilian claims worth more than R11m relating to damages and loss of property in safekeeping with police. Damage to and theft of vehicles in police pounds made up a "substantial portion" of these claims, police spokesman Supt Andrew Lesch said. The highest number of claims was in the Witwatersrand area — 299 claims worth R6,7m.

Scott, also chairman of a Business Against Crime transport working group, said vehicle damage and theft from police pounds was minor compared to the insurance industry's total cost arising from theft. "Pounds are a problem, but border posts are an even bigger problem."

The working group, which hopes to have tangible anti-theft projects on the table at the end of next month, had identified problem areas that contributed to theft. The most pressing was the difficulty police had in identifying recovered vehicles.

Other problems included the lack of a national database for vehicle identification, insufficient control at border posts — especially SA's borders with Zimbabwe and Mozambique — and theft at police pounds.

SA needed to beef up border post security by alleviating staff shortages and ensuring there was on-line access to information at the posts, Scott said. Only one out of every 100 containers — many of which contained stolen vehicles — were inspected at posts while vehicles already reported stolen could slip through undetected.

Reform of financial services proposed

(58) BD 16/7/96

Linda Ensor

CAPE TOWN — The Reserve Bank is proposing widespread reform of the financial services sector, yesterday unveiling regulatory recommendations that stop just short of the onerous regime introduced in the UK industry.

The Bank's policy board for financial services and regulation, tabling recommendations for public comment, said the retail investment services industry must be prepared to fully disclose information on products and sellers to investors. The industry would have to fund the cost of its regulation, which would be administered by a new registrar of investment services.

Proposed instruments include codes of conduct and mechanisms for outlawing undesirable products. A business practices committee would investigate investment service providers.

The recommendations follow a long investigation into investor protection, partly driven by high-profile collapses such as Masterbond's. But the plans are less radical than those in the UK, where the regulatory drive has forced an exodus of players from the market.

The board said the cost of such a supervisory system was too high — compliance would be monitored instead by investors registering complaints. It also decided against forcing intermediaries to disclose commissions.

The proposals were broadly welcomed by the Life Offices' Association and Institute of Life and Pension Advisers. The LOA supported the proposed inclusion of the whole spectrum of financial services. Executive director Jurie Wessels said marketing in some financial service industries was "more or less totally unregulated".

The association supported a complaints-based rather than regulatory system of compliance. "Much of what is being proposed has already been put in place in the life assurance industry on a self-regulatory basis," he said.

Ilpa national president Christopher Bean said some requirements, such as keeping records, could prove onerous.

Financial institutions were clearly responsible for their own agents, but there was no clarity over responsibility for independent brokers, he said.

See Page 20

'Excellent news' for insurance industry

(58) CT (BR) 17/7/96

By Jon Beverley

Durban — The Policy Board for Financial Services and Regulation's report on insurance intermediaries and financial service providers has raised questions about disciplinary measures and funding, Christopher Bean, the president of the Institute of Life and Pensions Advisers, said yesterday.

But, he said, the proposals were, in general terms, excellent for consumers and for the insurance industry. Any fellow of the institute who was bound by its code of conduct would be able to comply with the proposals.

The insurance industry, other financial service providers and the public have until August 19 to respond to the document, which after further discussion will be incorporated into a White Paper.

Bean said there were proposals that required some sort of industry body — which did not yet exist — to discipline its members.

The regulatory system would be complaints driven and not as complex as British methods

The regulatory system would be complaints driven and not as complex as the British control methods, he said.

There were about 30 000 life industry intermediaries, of which about 20 percent were represented by the Life Underwriters Association of South Africa. The Independent Brokers Council represented about 1 500 intermediaries, and the SA Insurance Brokers Association about 13 000, he said.

There was no industry-wide body, and employers would not take happily to being told who they could, or could not, employ.

The institute was not happy with the proposals for funding the new regulatory system, which appeared to propose that each intermediary would pay a levy on commissions. He said a fairer system would be for a levy to be imposed on the life office.

In any event, the costs of providing extra safety would, in the end, be paid by policyholders .

The provisions mean that fees and commissions will be disclosed. Bean said the Life Offices Association had proposed a simple system to give policyholders the minimum cash value of discontinued policies. In other words, the difference between what had been paid in and the minimum cash value would be identified as commission, administration and other charges.

The industry had to avoid the situation where the client was bombarded with information.

For example, the Australian insurance industry provided a 28 page document, but it was doubtful whether anyone would read that amount of detail.

Bean said a recent survey from the association had shown that policyholders did not rate the issue of commission charges highly.

Merger mooted for Community Bank

(58)

Amanda Vermeulen

BD 17/7/96

COMMUNITY Bank curator Stewart Patterson had recommended to Finance Minister Trevor Manuel that the troubled bank merge with a local unnamed institution, bank sources said yesterday.

Patterson said yesterday he had submitted proposals — which he declined to detail — to Manuel two weeks ago, and awaited a response. Manuel's office said he had not yet considered the recommendations.

Sources said, however, that a local partner had already been lined up, and that a merger was recommended as the best route forward. One source said that an announcement was imminent.

It is understood, though, that Community Bank's senior management have not been told of Patterson's proposals. Sources close to the negotiations said last month that Patterson had held talks with two overseas institutions.

Community Bank, aimed largely at the low-income housing market, was put under curatorship in May, after a liquidity crunch exacerbated by its original funders freezing R70m committed to the bank.

The bank — which had sustained a R54m loss in its first two years — had also been hit by delays in the housing programme and the launch of the National Housing Finance Corporation, which could have channelled funds into the institution.

Efforts to raise financing via the market were stymied by the negative perceptions in the banking community after last year's collapse of African Bank.

The bank's problems emerged earlier this year when the Development Bank of SA, one of a host of lenders which capitalised the bank when it was launched in 1994, refused to release further funding.

In April the Reserve Bank threw Community Bank a lifeline by relaxing its liquidity requirements, giving the bank a R1,35m breather. DBSA advanced R11,2m as an emergency package, which was to be repaid immediately the bank found a rescue partner.

Insurance brokers oppose additional regulation fees

(68) BD 17/7/96

Linda Ensor

CAPE TOWN — Insurance brokers had come out strongly against paying additional fees to fund the regulation policy proposed by the Policy Board for Financial Services and Regulation, industry spokesman Doug Tunbridge said yesterday.

The proposed regulation policy would be administered by a registrar, the advisory committee of the investment services, the ombudsmen and the investment services business practices committee.

Tunbridge, who is president of the SA Insurance Brokers' Association and the Financial Intermediaries Federation of SA, said the administration and regulation of the financial services industry should be rationalised in order to limit the fees brokers had to pay.

Reacting to the board's consultative paper on the regulation of retail investment services in SA, Tunbridge said brokers' commission income had already been tapped to pay VAT and they also had to pay a fee on their annual premium income to finance the Financial Services Board.

The policy board suggested the administration of the proposed policy be funded directly by means of a licence to operate as an investment service provider.

Alternatively, it could be funded though the financial product suppliers who would be required to withhold a specified proportion of contract prices, or commissions or any other fees paid to investment service providers.

Tunbridge said that while supporting the proposals, brokers would resist having their commissions cut to pay yet another fee.

He said brokers' commissions were already under threat by the short-term insurance industry which was demanding the earlier payment of premiums.

Not only would this affect brokers' investment income, Tunbridge said, but also would involve the costly outlay on administrative systems.

"We would support one payment for the FSB as the regulatory body for the industry," Tunbridge said.

"The system must be rationalised so that all administration and regulation is under one institution."

Third party cover may be phased out

White Paper proposal to streamline MMF may hit motorists' protection

(58) ARG 17/7/96

ANDREW SMITH
Staff Reporter

MOTORISTS beware. The Multilateral Motor Vehicle Accidents Fund (MMF), which relieves motorists of the burden of third party insurance, may soon be a thing of the past.

According to a White Paper drafted by the Department of Transport, the MMF is to be streamlined, possibly resulting in motorists having to insure themselves against damages claims resulting from accidents.

Under the MMF Act, all drivers are indemnified from personal liability should they be involved in an accident. The fund, financed by a levy on the petrol price, pays out all damages, including the loss of future income as well as pain and suffering of injured parties. According to the White Paper, the fund is vastly overdrawn. A combination of excessive and fraudulent claims, as well as pressure to keep down the petrol price, left the fund R4,5 billion in arrears at the end of 1995.

The paper proposes limitations to what may be claimed. Claims over a loss of income and support could be limited to R2 500 and R1 875 a month respectively.

Unlike the present MMF Act, the White Paper proposes that fault on the part of the wrongdoer need not be proven. All that needs to be proved is that there was a car accident.

"This will streamline the process as the scene of the accident need not be reconstructed. Nor will degrees of fault need to be proven," said MMF chief executive officer Willem Swanepoel.

The Department of Transport has left open to public debate the question of whether or not the common law right to recover more than the fund offers should be revoked.

Mr Swanepoel said that if this right was not revoked motorists would have to take out huge personal policies to protect themselves from liability previously covered by the MMF.

"Policies of up to R5 million or R10 million may not suffice," said Mr Swanepoel. "It will depend on the size of the claim."

Mr Swanepoel argued that if the right was revoked all an individual would need, should he be involved in an accident, was an insurance policy to supplement his income above the possible R2 500 monthly payout. "It is a matter of buying one small policy or having to take out an extra huge policy in case you get sued."

David Bekker, president of the Bloemfontein Law Society, said the White Paper would facilitate claims paralleling those under the Workman's Compensation Act.

The payments would be so low that a serious victim would be rendered a welfare case. He said the removal of a person's right to recovery over and above the capped amount was wrong as it "takes away a right which the constitution guarantees".

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Third party (68) plan slated

ANDREW SMITH
Staff Reporter

A STORM has erupted over the government's proposed cuts to third party motor vehicle fund benefits for accident victims.

The proposed curtailment of the Multilateral Motor Vehicle Accident Fund (MMF,) which is heavily in the red, is being criticised by lawyers, who challenge the constitutionality and fairness of the proposed reduction of the right to claim full damages for loss of income and support after a car accident.

The Law Society of the Cape of Good Hope said worst-hit would be the poor.

"Such claimants can presently claim full damages from the MMF, subject to only to the measure of fault which can be proved on the part of the motorist who caused the accident.

"According to the government White Paper policy document, which contains the proposals, many injured parties will become a burden to the state if their claims are not met."

John Kirkpatrick of Cape Town attorneys Silberbauers said law firms would also be hit hard if the right of full recovery was curtailed. "Many law firms, especially those acting in the less advantaged communities, rely heavily on motor vehicle accident claims," he said.

He added that even though the government could not support a fund as strained as the MMF, a compromise would have to be made, as little justice would be done if people were so poorly remunerated.

The law society said that the Constitutional Court could find the removal of a common law right to be unconstitutional. It seemed the authors of the white paper were side-stepping the issue by proposing the question be left to the general public.

The law society suggests a judicial commission of inquiry, proper statistical analysis and the canvassing of relevant views.

Insurance issue mars stolen vehicle recovery rate

Ingrid Salgado (58)

BD 18/7/96

THE insurance industry's 15% recovery rate of stolen vehicles was substantially lower than the 50% rate claimed by police because the majority of stolen vehicles were uninsured, police said yesterday.

Only 21% of SA vehicles were insured, police spokesman Supt Sharon Schutte said.

Earlier this week the SA Insurance Association alleged it did not know the whereabouts of thousands of vehicles that the police claimed to have recovered, saying the SAPS would not give the industry access to information on recovered vehicles. Police expected the industry to buy the information from a private company, association CE Barry Scott said.

Schutte said the company, Unicode, was awarded a 10-year contract last year to manage information on vehicles because police did not have the advanced technological capability to collate the data.

The insurance industry could purchase the information it needed from Unicode. The SAPS stopped rendering this service itself because information on stolen vehicles was not secure and had led to misuse of data. The insurance industry was not entitled to make use of all information because only a fifth of vehicles were insured. Police had been willing to help the association install a similar system but the association "never came back to us".

Lawyers 'enraged' over White Paper

Accident fund plans 'infringe constitution'

(58) CT(BR) 18/9/96

By Françoise Botha

Cape Town — The far-reaching proposals in the recently released draft White Paper on the Multilateral Motor Vehicle Accidents Fund (MMF) have enraged the legal fraternity as infringements of the public's constitutional rights.

They point particularly to the proposals to abolish the public's right to launch general damages claims and the provision for guilty parties to be compensated.

Legal sources said yesterday that no Green Paper had been issued and the White Paper, which was in draft form, was not being given adequate discussion.

"They are trying to rush the proposals through, without giving due consideration to the constitutional rights of the public or the impact on injured parties or those that have lost a breadwinner," a source said.

The paper, released by the transport ministry, proposes that the public's right to launch general damages claims above stipulated capped limits be abolished and that no provision be made for claims under common law.

The suggested cappings would apply to loss of earnings claims, with a limit of R2 500 a month for up to 18 months following injury. Loss of support would be compensated up to maximum of R1 875 a month and a fixed funeral benefit of R3 000 would be made available.

Public comment has been sought by the department, which claims that "it remains an unresolved issue whether the victim's right to proceed at common law against a guilty driver in respect of the excess loss above the cap should remain intact or be abolished by law."

Susan Aird, a spokesman for the Cape Law Society, said that the Association of Law Societies, which covers the legal profession countrywide, was preparing a paper in response. "There is a strong sense that these proposals are not necessarily the best proposals," she said.

The proposals do not bode well for the legal profession, which does much business dealing with general damages claims.

George Maluleke, the chairman of the Black Lawyers Association's legal education centre's board of trustees, said that the White Paper was, in many parts, ill-conceived and misguided and was intended to marginalise lawyers.

If the proposed changes take place, it is possible that a no-fault system, which would put both innocent and guilty parties on a par, would result in guilty parties being able to claim compensation. No distinction has been made between passenger claims or any other claim.

"This would probably deprive innocent parties of much of their compensation," said Maluleke.

Recommendations also appear to have made little provision for South African conditions. The proposals have been based on the system used in the state of Victoria in Australia where social conditions include a 99 percent literacy rate, a low accident rate and a sophisticated social welfare system.

Illiterate South African victims would be required to lay their own claims to the fund and seek their own legal representation, something that was automatically provided in the past.

Central control for donated organ use

CT 19/7/96 (58)

ANEEZ SALIE
HEALTH WRITER

THE USE of donated organs would soon be centrally controlled, which should eliminate the current stiff competition over the scarce resource, the health department said yesterday.

The setting up of a central registry for donors and recipients was awaiting only the appointment of ministerial committees, said Dr L Mathews of the chief directorate of academic health centres and hospital development.

Such a national database was called for yesterday by Cape Town's leading private heart transplant specialist, Dr Susan Vosloo.

It was long overdue, and required urgent attention at the highest level, said Vosloo, who on Tuesday morning completed a seven-hour heart transplant on the former Deputy Minister of Defence, Mr Wynand Breytenbach, 61, at City Park Hospital.

If a central register of prospective recipients and of donors was independently run, was autonomous and able to function through funding not aligned to any sector of the medical service, the present competitive nature of organ transplanting would cease, Vosloo said.

Mathews said yesterday that after wide consultation, the health department had compiled and distributed a document on policy guidelines on organ transplantation in January this year. It proposed a central registry for recipients.

Leaders in the banking world are all too aware of how fortunes can change overnight

NBS guarding its premier position within the JSE's banking sector

(58) CT (BR) 22/4/96

John Sherrocks

Durban — NBS Holdings came in at R3 when it listed on the JSE nine years ago. On that day Absa's shares closed at R5,30 and some of its executives privately took delight in deriding the newcomer.

The tables have turned. NBS shares are priced at about R66, Absa's are in the region of R22,50, said a stockbroker who drew the comparison.

NBS's top men are all too aware of how fortunes in the banking world can change overnight.

NBS is aware of the competitors breathing down its neck to challenge its premier place within the JSE's banking sector. But instead of glancing behind, NBS is looking ahead.

"The other banks are trying to close the gap but we are going to run ahead of them," says Tony Norton, the chief executive.

The banking group has produced a five-year strategy after months of examining global and national banking trends. It is also putting the final touches to a three-year business plan.

"You don't have to be ill to get better," says Norton.

Neither, it seems, does improvement require too much change.

There will be a greater focus on core banking, accompanied by the discarding of peripheral activities such as unit trusts. But in the main, it will be business as usual.

"We decided the following: we are not going to merge with anyone nor are we going to develop any major financial services arm. We are going to focus on our core products and diversify our product range through outsourcing."

'We will focus on our core products and diversify our range through outsourcing'

There was speculation that NBS was about to establish its own unit trusts when it sold its interest in NBS equity and NBS income unit trusts to Marriott Holdings earlier this year. If there ever was such a plan, it has been ruled out.

"We don't have the asset management competence. RMB (Rand Merchant Bank) and Norwich are first-rate asset managers. We will continue to use their products on a best advice basis," says Norton.

There is similar thinking behind the NBS's decision not to set up life assurance or short-term insurance on any significant scale.

"We don't have the critical mass or the core competence to take our present involvement any further."

About 60 percent of the group's earnings are sourced from NBS Bank, with NBS Holdings placed second with 10 percent.

About 80 percent of NBS Bank's advances are asset-based and 55 percent of its advances are on home loans.

NBS's 22,1 percent return on average equity is among the best in the banking sector. The 1,6 percent return on average assets is also comfortable.

"Home loans have climbed from R6,1 billion in 1992 to R11,3 billion last year. Corporate loans climbed from R1,1 billion to R3,9 billion over the period — that book is growing fast," says Norton.

NBS's success of the past comes from careful management of the cost-income ratio. Earnings a share have shown a compound growth of 14 percent a year in real terms since 1987.

The challenge is to increase market share without proportionally increasing costs. In 1988 NBS's costs as a percentage of income stood at 73 percent. This year it was down to 56 percent.

"Our nearest competitor is at 64 percent with other major banks as high as 70 percent. That is a huge advantage, which we want to retain and improve."

The cost-income target set by the strategic plan is 54 percent. The business plan sets its sights on 50 percent.

John Smale, the managing director NBS Bank, puts the challenge in perspective.

"The cost-income ratio is what banking is all about, but you have to beware of corporate anorexia.

"Our strategy is to increase the focus on income while keeping the pressure on costs.

"Over the past 18 months we have begun to refocus our abiding passion for cutting costs to extend to growing the income. The clients for life campaign is going to be the basis of this growth."

The campaign focuses on generating a database to provide the bank with client information.

John Maxwell, the executive director heading up marketing, information technology, business support and strategic planning, defines the campaign's goal as finding a way to increase revenue but limit costs.

'The challenge is to increase market share without proportionally lifting costs'

"World-wide marketing and technology are growing closer … the cheapness, efficiency and speed of computing capability allows the manipulation of information which gives the user an edge on gauging customers needs and preferences.

"The big difficulty in financial services is building relationships. The use of technology and marketing in combination provides the leverage to enhance the perception of a personal relationship.

"There is always a trade-off between ultimate client service and profitability. That is where the business support component comes in. It determines what level of service excellence you can provide at what price."

Norton says that quality is critical in the quest to cut costs or retain top ratings.

"We could do some paper shuffling deals, we have very highly rated paper, and a bit of whiz-kid earnings per share engineering, drag out our reserves and show off, but that is not quality business."

Smale concedes that the competition is tough.

"It's vigorous and the margins are getting narrower. Collusion be damned. We are all out there fighting. Yes, we are showing good profits, but all our profits are under threat.

"Having said that, there are opportunities for someone like us to grow. The big guys are under a lot more pressure, because they dominate the market."

Reaffirming that NBS is comfortable with its niche status, Smale says the bank will continue to cherry pick the most profitable segments.

"We have no plans to go into cheque or credit accounts. We feel that the costs would not benefit us and we couldn't take enough away from the majors to justify the move," says Smale.

He says the corporate division will offer good growth potential.

"It has had its problems but right now it is a very vigorous and vital part of the group. We operate only on the higher ground, which is a great advantage for us because we don't have to be in every town like certain of our competitors."

Other growth areas are the property finance and development arm, and the treasury division, which handles more than R10 billion.

Smale is confident that the interest NBS has in African Bank will produce dividends.

"It was under curatorship and in desperate need of banking skills and new systems. We have stabilised the situation and now we have to start growing the revenue. It is still very early days in a long haul but we have absolutely no regrets."

He is bullish about the banking sector, despite expecting a gradual drop in interest rates and increased competition from the entrance of the world's big banks into South Africa.

But continued success will be hard work.

"I was going to say it is no longer fun. What I should have said it is no longer easy. There was a time when having a banking licence was like having a licence to print money. Nowdays it is very technical — not just from the point of the business itself but also from the multitude of external factors."

Before bashing the ban

THE SPIRA INTERVIEW

BY JOHN SPIRA

A widely held contention is that SA margins are among the highest in the world

Bank bashing is acceptable as a national sport, but bashing stemming from ignorance of how the system operates triggers the ire of Mike Vosloo, the chief executive of Standard Bank Investment Corporation.

If you wish to really raise Vosloo's hackles, place before him the widely held contention that South African banking margins are among the highest in the world.

"Our corporate margins are as tight as you'll find anywhere. Bankers' Trust works on a 1 percent margin and so do we."

When it comes to the retail side of banking, Vosloo maintains two major factors are involved in the margin equation — a bank's float and the large number of accounts it runs on which it cannot possibly make money.

Float is a term used to describe the money that washes around the banking system from the time it is injected into the system till the time it is converted into cleared value.

Vosloo says float is used by banks around the world as a significant element of revenue. The longer the float time, the greater the revenue.

'When the heat comes up from the kitchen, all suffer in the same way'

In South Africa, however, by arrangement, float times are short, depriving the banks of a revenue element upon which a great many international banks rely.

On the banks' loss-making accounts, Vosloo applies a yardstick whereby the total assets of a bank are divided by the total number of accounts.

"Our average account value calculated on this basis is exceptionally low, by any developed world standard. The vast majority of our accounts wouldn't be acceptable to a developed country's banks.

"I'm talking here of the sort of account on which there is one credit a month and a debit the next day for the same amount. There's no money in that. In fact, these accounts lose money for the bank. So there's an element of social service provided by every single major bank in South Africa. This squeezes our margins immensely.

"The point is these factors all add to our costs. The transparent margin is the difference between interest paid and interest received. But it ignores the cost base, which forces our banks to operate a fatter transparent margin."

Vosloo interprets this phenomenon as the prospective Achilles heel of South Africa's banking system.

"If an overseas bank decided to have a go at us on our turf, it's not going to take on those loss-making accounts.

"If outsourcing in South Africa grows more sophisticated (and there's every likelihood that it will), then foreign banks are going to come and sell their intellectual capital here.

"And they have substantial intellectual capital, to which South African banks might not have an answer. We could fight it, but in doing so we'd squeeze ourselves so tightly that we would need to rid ourselves of our unprofitable accounts. Then we'd no longer be Mr Nice Guy," says Vosloo.

Collusion is another burning issue on which Vosloo (obviously) has strong views.

"You're talking here of a law of nature," he wryly observes. "Banks may only collude when interest rates go up; may not collude when interest rates come down!"

He emphasises that the degree of difference between any one bank and another is never so great that they won't feel the pressure of events that take place in the market just about simultaneously.

"You cannot differentiate yourself to a degree not to feel the pressure. So when the heat comes up from the kitchen, everyone has to suffer in the same kind of way.

"Take the day we put interest rates up. Assume the funding structures of that day and assume that the entire bank was funded at these new rates.

'South Africa cannot afford to politicise interest rates to the extent that it has done'

"In other words, however you've structured your funding, the rate structures that applied on that day applied across the bank — that the margin had become the average. Then assume that the margin applies for the next 30, 60 or 90 days.

"On those assumptions, the bank would run at a crippling loss.

"An example is the 17,5 percent capped retail home-loan rate that can float downwards. With this product, we have created a relatively stable price — which is needed in the retail market.

"But behind that product is a skittish derivative market. It is the skills involved in managing that situation — connecting the volatile market to the stable rate — which get rewarded."

If, Vosloo emphasises, the country wants (as it should) a stable, well thought of banking system where people feel comfortable with their savings, "then you have to allow banks to function in a way which promotes that stability".

"It's not good societal news to have banks losing pots of money. I accept that banks are open to criticism; but don't do it to the degree of destabilising them, because then society will pay. A stable, competent banking system is a societal asset. So kick it, but don't kick it so hard that you destabilise it."

South Africa cannot, maintains Vosloo, afford to politicise interest rates to the extent that it has.

"Think about the standards by which banks are run, anywhere in the world. The commonalities are far greater than the differences by virtue of being different countries. The banker here is thinking of the same things as the person running a High Street bank in the UK.

"Yet when you face up to local pressures, these issues are not related to performance but about your interface with society, which boils down to the politicisation of rates, which, in turn translates into misconceptions over the degree of influence that a bank has. We're not as influential as many believe. We really are the messengers.

"Rates move because of the size of fiscal deficits, whether in terms of borrowing, balance of payments or monetary policy. This whole issue of banks being all-powerful with hidden agendas is grossly misplaced when it comes to a business as geared as we are.

"I'm not making a plea to love the bankers. But banks do face a particularly difficult situation in which there's a limited understanding of how the banks function; of how the whole financial system functions," he says.

The banking system, he says, is a national asset. "Don't mess with it. You have a financial system that's measurable in world terms.

k, get the facts straight

(58) CT (BR) 22/7/96

STRAIGHT TALK *Mike Vosloo, the chief executive of Standard Bank Investment Corporation*

This clearly is something we should protect."

Why have the banks not delivered on the 50 000 home loans targeted?

"We would love to have done them were the stands available and the houses available in the right category. They just were not there. There were deficiencies in terms of the sub-structures at municipal level, appropriate availability of land, and so on.

"This is, I think, understood in some quarters, but the process of placing blame on the banks is seen to be an acceptable exercise."

Since bashing the banks is in vogue, why are there no black bankers of note?

"To start with, at entry levels we've got to get the racial mix right," says Vosloo.

"More than 60 percent of our entry level recruits are black. We've been successful at the supervisory levels, where 37 percent of our complement is black.

"A layer above that, one in three leave us and as soon as the person starts edging into middle management, we lose practically all the people we have brought through.

"We often discuss career paths with our junior people — paths based on highly sophisticated techniques. The frequent response by up and coming black managers is that it would take too long to reach a senior position in the group.

"The reality is that as black people move into our management ranks, their external opportunities and shorter time frames are more attractive than we are prepared to accommodate."

Vosloo acknowledges that part of the problem is cultural.

"Standard, historically, is white, male South African English — whatever those things mean. It's often a difficult culture to which to adapt if you haven't grown up with it. It isn't visible up front, but it's internally very strong. The difficulty we encounter in trying to change it is that it's been highly successful. We're approved of in the international arena — an approval related to our style of thinking and how we set about things.

"Nevertheless, we have been a large force in the black empowerment field, though this has probably not been recognised," he says.

'At the heart of these pressures is a desire to facilitate some form of empowerment'

Vosloo believes a conundrum for a lot of businesses is how they are perceived by South African blacks, who are often critical of white businesspeople for not understanding, for example, the real ebb and flow of industrial relations.

Vosloo admits finding it difficult to interface with an environment in which interest rates are politicised.

"One thing is certain, though, I'm going to work at it. I'm constantly striving to achieve some sort of a balance between what drives this business and this society of ours. At the heart of these pressures is a desire to facilitate some form of empowerment.

"It's difficult to marry this concept with the way in which we've always managed this bank — a tough, no-nonsense, somewhat puritan approach."

Is Vosloo concerned about the increasing foreign competition South African banks are experiencing?

"They're mostly into the corporate market, where they're very competitive, though they haven't changed the essential nature of the game. They're adding an additional competitive flavour. It's unfortunate that they've taken some of our top people, but you have to bat against the world nowadays.'

Foreign banks have not, says Vosloo, made any noticeable inroads into Standard's currency trading activities.

"Our currency trading desk is big. We've been doing 35 percent-plus of the market for a long time. We're very big onshore and despite that we're very big offshore. It's an 18 to 20 hour a day desk."

On balance, Vosloo is pleased rather than not with foreign competition.

"During the isolation years we missed the pressure of international competition. Our re-emergence into world markets has made us sharper and more in touch with the understanding of how international banks operate."

He says South African banking margins in the retail market are, on the face of it, attractive to foreign banks but he points out that to enter the retail market in South Africa you have to create an infrastructure.

"The degree to which you can outsource is an infallible indicator of sophistication.

"In South Africa you couldn't outsource all retail banking functions. So to come into that market you'd need at least R1 billion on the table. Nobody is pressing to invest R1 billion into South Africa right now. So there are barriers to entry for the time being," he says.

NY NEWS

Low rates see SA Eagle's income fall 56%

(58) CT (PR) 22/7/96

By Sean Feely
FINANCIAL SERVICES EDITOR

Johannesburg — South African Eagle Insurance said at the weekend that its attributable income in the six months to June 30 fell 56 percent, even though it registered an underwriting profit, compared with a loss in the same period last year.

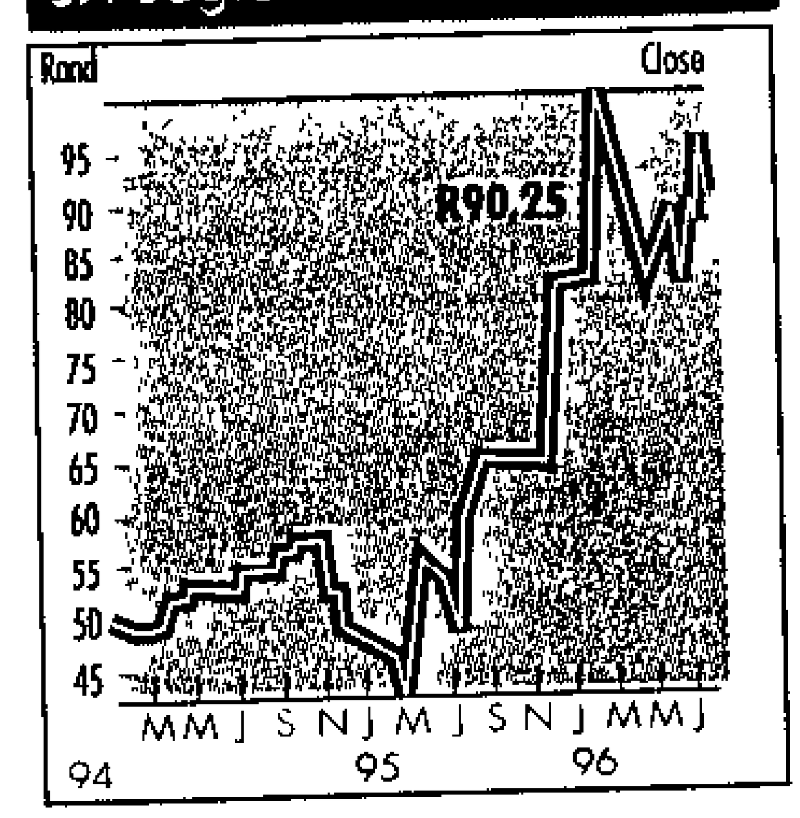
Attributable income was R51,8 million, or 425c a share, down from R117,9 million, or 968c a share, a year ago.

Last year, the short-term insurer benefited from a profit on the sale of certain investments.

The company said it would pay shareholders an interim dividend of 100c a share, up from 80c at the same time last year.

On Friday, before the release of its interim results, its stock closed 25c up at R90,50.

SA Eagle Insurance



This reflects a 10,37 percent gain this year, compared with a 19,37 percent increase in the JSE's insurance index.

The company reported gross written premiums of R794,5 million, a 7,4 percent increase from last year's R739,9 million.

Investment income rose 22,5 percent to R56,1 million from R45,8 million last year.

A levelling off of crime rates, particularly vehicle theft, and the cancellation of unprofitable business enabled the insurer to achieve an underwriting profit of R2 million, compared with a loss of R22,5 million a year ago.

"The underwriting account has returned to profit despite the severe weather in the first quarter of 1996 that gave rise to claims, after reinsurance recoveries, in excess of R25 million," the company said.

It said, however, that the fire account continued to be a problem because rates were inadequate.

It was also concerned about underinsurance with regard to fire-related incidents.

"Further underwriting action is being taken on this account and business is being declined where premium rates are clearly uneconomic," the company said.

NRB to spread income sources

(58)

Nicola Jenvey

BD 22/7/96

DURBAN — New Republic Bank would use the funds raised following its takeover by Malaysian businessman Samsudin Abu Hassan to spread its income sources, Samsudin, now chairman, said in the bank's annual report.

Samsudin's British Virgin Islands-based company Redbridge Assets bought control of NRB from Merhold earlier this year. The interest is held through a 74,9% stake in SMG Holdings (formerly Cutrite Investments) which holds 66,6% in NRB.

NRB and SMG both called rights issues for at least R100m earlier this month.

Samsudin said NRB's current assets and liabilities structure unduly exposed it to adverse economic and interest rate cycles. Future strategy would spread interest and non-interest income sources and broaden geographic and industry exposure.

The establishment of the insurance broking arm NRB Financial Services had been the initial step to expanding the bank's financial services.

Samsudin said NRB had the potential to expand operations and return to acceptable profitability levels, despite its "disappointing" results for the year to March.

Attributable income halved to R6m for the year as rationalisation and restrained asset growth took their toll. Share earnings dropped to 20,6c from 46c and the final dividend was waived, leaving the total at 7c (1995: 19c). Net interest income fell 13,4% to R52,8m.

Contenders line up for Protea after UK merger

(58) BD 22/7/96

Val Pienaar

POSSIBLE contenders to buy Protea Assurance include Board of Executors, Boland Financial Services and the Fedsure group, market sources say.

Protea's future remains uncertain following the merger of UK stakeholder Sun Alliance with Royal Insurance, which owns a share in Mutual & Federal.

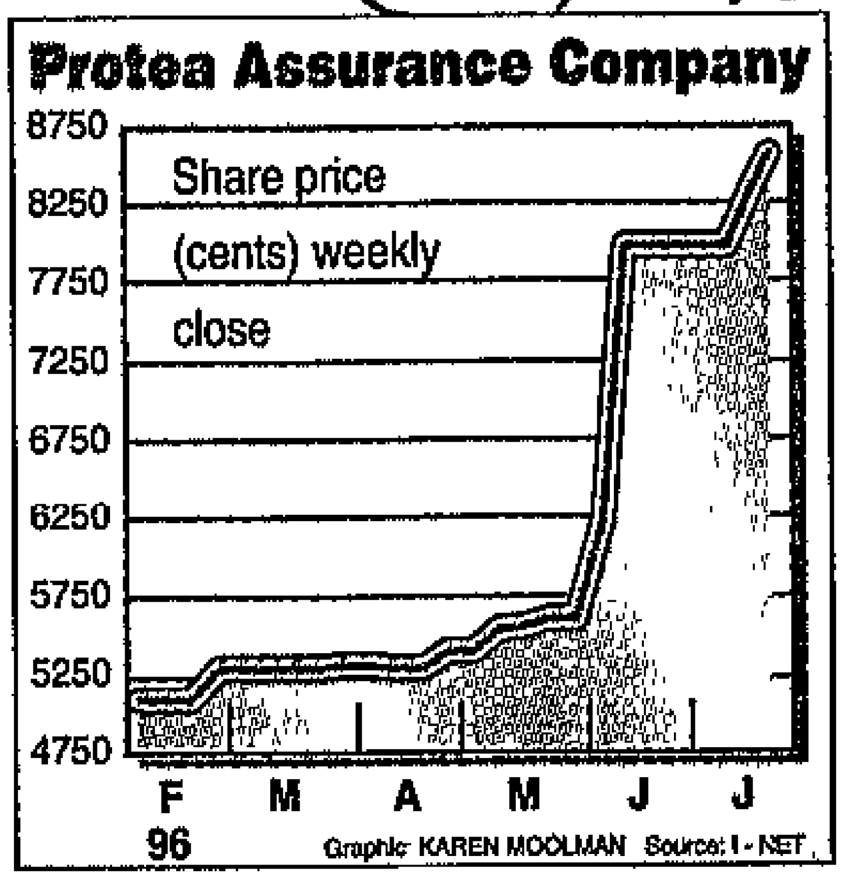
Sun has already issued three cautionaries about Protea, the latest today.

The newly formed Royal and Sun Alliance Insurance holds 80% of Protea — worth R540m on the JSE on Friday — and 38,5% of Mutual & Federal, worth R2,14bn on the JSE.

Protea has a number of appealing features: a successful short-term operation; a life assurance division which — at a balance sheet evaluation of R33m — seems greatly undervalued; a sophisticated telephonic direct selling set-up which was to have been launched this month; and a financial insurance licence.

The obvious assumption would be for Mutual & Federal and Old Mutual to absorb Protea. So far, however, no moves seem to have been made in this direction.

Sources said Mutual & Federal — SA's largest short term insurer — would gain little from such a move. At a slight push it could grow its market share by the equivalent of 50% of Protea's market share in one year, without the difficulties and costs which go with an acquisition.



Board of Executors group MD Philip Biden, whose company owns AA Life, has confirmed an "interest" in Protea, and Boland Financial Services, whose chairman Christo Wiese was reported earlier this year saying he would own a life office by the end of 1996, is also believed to be looking.

Sources said another possible buyer could be Fedsure, which is on the takeover trail.

Protea's short-term business would more than double the size of its operation, giving it badly needed critical mass. It could tuck the life leg into its own life business, and the financial insurance licence and the direct marketing operation could suit its entrepreneurial style.

Hollard Life, launched six weeks ago as a sister company to a successful short-term operation, could take a major jump by acquiring Protea's life business.

Imperial group subsidiaries Regent Insurance and Regent Life could also show an interest in the life division, while German-owned Allianz Insurance could find the short-term operation a valuable source of critical mass in SA.

A Royal and Sun Alliance spokesman confirmed there had been "considerable" interest from SA groups — some of them UK-controlled — but no firm offers had been received.

The decision to sell had not yet been finalised, he added.

He would not say why the holding in Protea seemed more likely to go to the market than was its less dominant share in Mutual & Federal. "It would be impossible to retain shares in two companies competing in the same market," he said.

One possible scenario could be for Protea to unbundle its operations. If it unloaded the short-term business the conflict with Mutual & Federal would be resolved.

SA Eagle's figures dive

(58) BD 22/7/96

Amanda Vermeulen

INSURANCE company SA Eagle's net attributable income fell more than half to R51,8m for the six months to June.

Share earnings fell to 425,1c (967,9c) but the dividend increased 25% to 100c.

MD Peter Martin said the previous interim results had been distorted by the realised surplus of R105,8m on the disposal of equity investments in the first six months of the 1995 year.

"If the surplus is stripped out, the pre-tax earnings amount to R56,6m against R22,1m for the 1995 period." The net realised surplus for the first six months of 1996 was R13,8m.

Gross premium income rose to R794,5m (R739,9m) while the underwriting account showed a profit of R2m against a loss of R22,5m in the previous period.

Martin said the return to profit had been despite a large loss on the fire account due to severe weather in the first quarter of 1996 which had led to claims, after reinsurance recoveries, in excess of R25m. He said the total industry fire account losses for claims of R250 000 and over during the six month period stood at R661m against R216m for the same period last year.

"Rates generally on the fire account are inadequate to cater for this level of loss," Martin said.

The motor account returned a reasonable profit due to correct rating, and the decline in theft and hijacking incidents following efforts by the police, and by owners to secure their vehicles.

Martin said the rand's depreciation could affect vehicle and spares costs, leading to inflationary increases in motor premiums over the next six to nine months.

The company's other classes of business produced satisfactory results, Martin said, contributing to the R2m underwriting profit.

Investment income rose 23% to R56,1m due to higher interest rates and income from selling equity investments during 1995.

Community Bank spent low-cost housing funds

(58) BD 23/7/96

Amanda Vermeulen

NEARLY R4m deposited with Community Bank for low-cost housing has been spent on the bank's operating expenses, putting the development of hundreds of houses on hold.

Curator Stewart Patterson said yesterday the Gauteng and Western Cape housing boards had deposited the cash since June last year, but it had been channelled into the bank's operating account instead of a trust account.

Patterson has asked Finance Minister Trevor Manuel for funds to cover the R4m. Manuel has still to respond.

Sources said the money, channelled through the housing boards from the RDP capital subsidy fund, should have been released to pay bond deposits and other expenses for about 400 houses.

The bank's funds and subsidies were frozen when it went into curatorship in May. Prospective home owners applied for bonds from other institutions, after which Community Bank was to transfer funds to those banks or back to housing boards for reallocation.

Patterson had asked Manuel for R12m to repay the R4m, and to fund housing already under construction and operating costs. But finance guaranteed only R8m, leaving the curator without R4m to repay the subsidies.

Community Bank has been mired in a cash squeeze since earlier this year when the Development Bank of SA and other funders refused to release R70m of the original R200m capitalisation funds. Sources said at the time a main concern was the bank's management.

The Development Bank and Reserve Bank threw the institution a R12,5m lifeline in April, which Patterson said was absorbed into its operational budget. Patterson has since passed his recommendation that the bank merge, apparently with government institutions, to Manuel. The finance department said yesterday the recommendations had been passed on to registrar of banks Christo Wiese.

Ownership could affect bank's expansion plans

(58) BD 24/7/96

Samantha Sharpe

CAPE TOWN — Boland Bank could be forced to abandon its expansion plans into Asia following the change in Malaysian group Landmarks Berhad's interest in the bank, chairman Christo Wiese warned yesterday.

Landmarks exchanged all its SA interests, including its stake in Boland, for Malaysian businessman Dato Samsudin Abu Hassan's 25% share in Landmarks. Samsudin previously represented Landmark's SA interests.

Wiese said the recent change in ownership could affect Boland's targeted expansion into the East — one of the bank's objectives. "But, its a big world out there and there are possibilities beyond south east Asia. In any case the situation might only be temporary."

He said talks had to be held with Samsudin on a possible conflict of interests resulting from Samsudin's personal stake in Boland Bank and his recently acquired interest in New Republic Bank (NRB).

Samsudin had gained a major interest in NRB through British Virgin Islands registered company Redbridge.

"There may well be a conflict of interests here, but this something that the two of us will have to sit down and talk about. Dato' Samsudin has kept me informed at all times about what he was doing during the asset exchange."

However, Samsudin said yesterday that there was no conflict of interests arising out of the share holdings in Boland and NRB.

An announcement would follow within the next two weeks setting out how his share in Samgro, Boland's holding company, would be managed.

A Reserve Bank banking supervision spokesman declined to comment on whether the Bank had approved Samsudin's large individual share holding in NRB.

In terms of the Banks Act a company planning to control a bank had to apply to the Banks Registrar, with the share holding in the bank's holding company also specifically investigated.

However, Samsudin said he had already gained approval from the Bank in terms of his dealings with both NRB and Boland. "I would not be doing business if they had not approved."

Boland Bank posted a surge in attributable profit to R62,94m in the year to March from a previous R41,9m with earnings a share on a diluted basis 29% higher at 210,9c.

Govt probes alleged breaches by NBS

(58)

Amanda Vermeulen

BD 24/7/96

THE trade and industry department has investigated NBS for alleged breaches of the Usury Act and is poised to hand its findings to the Natal attorney-general.

Department sources said yesterday the probe had taken six months and they were waiting for NBS, SA's fifth largest bank, to state its position. NBS CE Tony Norton said the probe stemmed from a dispute over a technical interpretation of the Usury Act.

It also emerged yesterday that the department's Usury Act administrator, Herman le Roux, is to be suspended following complaints by bankers. Le Roux was suspended for six months in 1993 after complaints from Norton, then Council of SA Banks head. The department has banned Le Roux from speaking to the media but Norton does not believe the probe is linked to complaints he once made against Le Roux.

Norton said the attorney-general's office had just dropped fraud charges against four men at its Stanger branch. The bank was "very disappointed".

Board chief to be grilled

By Waghied Misbach (58)
Political Reporter

COMPETITION Board chairman Mr Pierre Brooks is expected to be grilled by the Portfolio Committee on Trade and Industry in Pretoria today over the alleged collusion of the country's commercial banks in raising interest rates earlier this year.

Brooks had cleared South Africa's leading banks in his investigation into the alleged anti-competitive behaviour of the banks. Sowetan 25/7/96

All the banks had raised their interests rates from 19,5 percent to 20,5 percent within hours of each other on May 17. This was done despite the Reserve Bank, which lends money to commercial banks, not raising its interest rates.

Last month the banks reduced their interests rates although they all denied that it was because of pressure from consumer groups and the Congress of SA Trade Unions.

Brooks is expected to give evidence today into how he had come to the conclusion that the banks had not colluded in raising interest rates.

The two-day hearing, which started yesterday, is led by Portfolio Committee chairwoman Mrs Edna Sethema-Molena. She is coordinating the investigation which includes the Finance and Housing ministries.

Cosatu is also expected to give evidence on the second day of the hearings. Others expected to give evidence today include the Free Market Foundation and the South African Consumer Council.

Yesterday the committee heard evidence from the Council of South African Banks which had earlier criticised the Government for trying to "run the business of the banks".

The committee also heard evidence from the Afrikaanse Handelsinstituut, Nafcoc, Lawyers for Human Rights, the Small Business Project, the Black Lawyers Association and the South African Chamber of Business.

MPs grill banks on price collusion

CT (BR) 25/7/96 (58)

By Sean Feely
FINANCIAL SERVICES EDITOR

Pretoria — Parliament's trade and industry portfolio committee thoroughly grilled the four large commercial banks yesterday on their decision to raise interest rates on May 17 by the same 1 percentage point and for not waiting for the Reserve Bank's traditional lead.

The board concluded that it could find no evidence of bank collusion according to prevailing competition laws.

Members of the parliamentary committee were concerned that the banks might have colluded in setting their prime lending rates on that Friday two months ago.

These rates are benchmarks for their home and overdraft loans. The rate hike followed an industry body meeting and discussions with Chris Stals, the Reserve Bank governor, on the preceding Wednesday and Thursday.

Ben Turok, an ANC MP, said that the banks, represented by the industry's Council of South African Banks at the hearings in Pretoria yesterday, could be guilty of tacit collusion, which did not require specific evidence of communication on a particular topic or decision between the parties.

"It would strain someone's imagination," he said, "that you (the banks) wouldn't talk about" raising rates on the same day.

But the council delegation denied this, saying the banks were all reacting to similar market conditions.

"It would be naive to say the problems of the market place aren't being discussed by the banks," said Viv Bartlett, First National Bank's chief financial officer. "Is that tacit collusion? I'm extremely dubious that it is."

Danie Cronje, Absa's chief executive, said it had become costly for banks to raise funds in April and May because of rising money-market rates that had been spurred by the high money-market shortage as capital left the country.

Banks, responding separately to the same market conditions, then sought to offset part of this cost by raising their rates, he said.

Standard Bank led the country's other commercial banks in lifting prime rates by 1 percentage point to 20,5 percent in May.

The bank said its profit margins were hurt by a sustained high money-market shortage after April 29's equivalent rate increase to 19,5 percent. But in April, the commercial banks raised rates after the Reserve Bank's increase in its key rate at which it lends money overnight to banks to 16 from 15 percent. The May rise in rates was the first time during Stals's seven years as the central bank governor that the commercial banks moved without waiting for him to act first.

The Competition Board conducted an investigation into possible collusion.

Thebe plans merger to set up new bank

(58) BD 25/7/96

Amanda Vermeulen

THEBE Investments is planning to merge its Citizen Bank subsidiary with Future Bank and Boputhatswana Building Society, creating SA's largest black-owned bank, in which First National Bank will have a large stake.

The company said yesterday the venture — which would have an asset base of R1,2bn — was talking to other institutions which could boost its size.

FNB senior GM Johan Meiring said FNB would provide "liquidity support" as the venture established itself.

Thebe subsidiary Msele Financial Holdings would hold 35% of the bank, while FNB, which owned 49% of Futurebank, would hold 25%.

The Foundation for African Business and Consumer Services, which owned 51% of Future Bank, would also have a stake.

Thebe chairman Vusi Khanyile said the deal brought Citizen and Bophuthatswana Building Society's strength in home loans together to the black community, and Future Bank's involvement in loans to small- and medium-sized business.

"In the past these businesses would have been considered risky," he said, "but both Msele and FNB through this new venture are firmly saying this is a large market worth penetrating."

Meiring said the deal would cut risks incurred by the three banks. "The addition of FNB as a banking partner will enhance the prospects of the proposed banking group." FNB would be a shareholder for at least five years.

In terms of the deal Citizen would buy Future Bank and Bohuthatswana Building Society with cash and/or new shares. Thebe said Citizen was valued at R77m, and would pay R28m for Future Bank and R61m for Bophuthatswana. Citizen was valued at R60,2m on the JSE yesterday.

Citizen Bank's Msele Corporate & Merchant Bank would expand and strengthen its role as a merchant and

Continued on Page 2

Banks

Continued from Page 1

investment banker, and would create a trading and treasury division to support the enlarged bank, creating a base to access wholesale finance on a national level.

The move represents a second attempt by Thebe to build a banking group. Thebe and FirstCorp jointly bought 48% of Citizen in 1994 for R18,7m. In June last year Thebe said Citizen would merge with Bank of Transkei, Transkei National Building Society and Bophuthatswana Building Society. Its plans were scuppered by delays in legislative changes after the incorporation of the TBVC states into SA, and the collapse of negotiations with Transkei National. The Bank of Transkei deal fell through in May.

The collapse of the deals was partly responsible for Citizen suffering an 84,3% drop in attributable income to R6,4m for the year to March.

Banks deny rate hike collusion

(58) BD 25/7/96

Lukanyo Mnyanda

SA's major banks yesterday denied charges of colluding with each other before announcing identical interest rate hikes in May, saying they had acted responsibly "bearing in mind the financial crises" that had occurred at the time.

Council of SA Banks CE Norman Axten told a parliamentary subcommittee hearing on alleged collusion in Pretoria that no bank could afford to be out of line with market rates. Hence other banks followed Standard's lead when it increased its rates.

SA's major banks, Absa, Nedcor, Standard and FNB, all raised their prime rate 1 percentage point to 20,5% on May 17, sparking a Competition Board investigation which was later withdrawn due to lack of evidence.

Cosatu and the SA National Civic Organisation (Sanco) also accused the banks of collusion and announced a number of demonstrations in protest.

Axten said money market shortage had jumped to R10,9bn on April 30, from R3bn in mid-February, and had averaged about R8bn throughout May.

The banks had been forced to borrow in excess of R3bn during the first three weeks of May, in an attempt to reduce the money market shortage.

The banks, therefore, did not act in collusion when they raised their prime rates, but were acting in response to market forces. Caxton also warned that "unfounded criticisms of the banks' actions could be detrimental to a sector vital to SA's growth prospects".

In his submission, Standard Corporate and Merchant Bank director (treasury) John Lloyd said: "Forces at work in the markets created a currency and liquidity problem of crisis proportions, the like of which had not been seen since the mid-1980s."

The Afrikaans Handels Instituut (AHI) came out in support of the banks saying collusion was unlikely as competition in the banking industry was "very stiff".

Vice-president Theo van Wyk said it was not surprising that other banks followed suit when Standard raised its rates because "the conduct of one bank influences the behaviour of the other banks".

Cosatu, Sanco and Competition Board chairman Pierre Brooks will make their submissions on the matter when the hearing continues today.

Attending the parliamentary subcommittee hearing on interest rates were Absa group CE Danie Cronje, right, with Business SA representative Rudolf Gouws in the background, committee chairman Edna Malewa, top left, and Standard Bank treasury division director John Lloyd, bottom left.

Pictures: TREVOR SAMSON

MONEYLENDING (58)

BURGEONING BUSINESS

A new breed of moneylender is emerging. They have fixed business premises, fax numbers and computers — and they advertise openly. Annual turnover is estimated at R2,5bn.

And they are really taking off. A report by P G du Plessis, professor of business management at Stellenbosch, shows that, of 86 lenders polled, 85 had been operating for12 months or less.

The procedure is simple. The applicant brings three months' salary slips, as proof of employment; three bank statements, as proof of an open account; and an identity document

FM 26/7/96

The usual loan is R300-R500, limited to half the client's salary, usually repayable in the same month. Interest is normally between 30%-50% a month

Clients hand in their bank cards, together with their personal identification number (Pin), and walk out with their money The whole transaction usually takes about 15-20 minutes.

On payday, the lender withdraws the agreed-on amount

Obviously, clients are putting themselves at the mercy of the lenders. But it's not worth the lenders' while to abuse their trust As 30% a month translates into 2 230% a year and most borrowers are low earners, it's far better business sense to keep them coming back.

Moneylending falls outside the Banks Act as lenders don't take deposits The Usury Act applies, but it exempts loans under R6 000, so any interest rate may be charged.

Standard Bank small and medium enterprises division strategic analyst Abbey Mahlalela says: "The interest rates they charge are morally wrong. They're exploiting people, but what can you do? They're serving a need. If you speak to the borrowers, they're saying: 'I don't care what I have to pay, just give me access to credit.' "

Not all consumer distress can be blamed on the moneylenders.

"The problem might lie in the level of consumption credit, the ease of access to it and procedures which retailers employ — or don't employ — to ensure that consumers are not over-extended," says Deloitte and Touche development finance expert Gabriël Davel.

Employers in small towns like Tzaneen observe that chain stores, such as those selling furniture and clothing, are particularly thick on the ground. They aggressively, and often indiscriminately, encourage people to open accounts.

One person bought furniture for R5 000 on a salary of around R800. Monthly payments were R360. A bad decision on her part but, as the banking maxim goes, there are no bad borrowers — only bad lenders. Why was she given so much credit?

Reportedly, if one drives into villages at dawn in some parts of SA, furniture delivery vans are a common sight — not delivering but doing the monthly repossessing.

"They're hiring out furniture They know you're not really buying — but you don't," says Small Enterprise Foundation MD John de Wit. "If it wasn't for the hire purchase people, the lenders would lose a large portion of their market "

Research bears him out — paying accounts is by far the most common reason cited for resorting to high-interest loans

As part of an attempt to clean up their image, the moneylenders have formed the Association of Microlenders All 500 members are registered close corporations and they have a code of conduct dealing with issues such as disclosure, duty to the public and ethical debt collection methods.

The biggest group in the association is the 283 Louhen franchises. The first Louhen started in 1993 in Lebowa. Cofounder Hendrik Smit says franchisees get a software package and link up to a national database supported from Pretoria

In its bid for respectability, the association is seeking membership of the Alliance of Microlending Development Practitioners — to which commercial banks and nongovernmental organisations belong.

"At this stage, we're not keen to associate ourselves with them," says alliance chairman Sizwe Tati. "The alliance has said it won't accept them until they address the morality of taking Pins and bank cards " The banks and the association are working on an alternative.

The moneylenders are filling a gap left by alliance members. If a consumer can't make his monthly payment on a new lounge suite, alliance members can't help because they lend to finance productive activity, not consumption. They promote goals such as enterprise and job creation — in other words, feasible business ventures. They don't lend for activities that won't generate the returns to help borrowers service their debt.

To cover costs, alliance members charge high rates — usually 40%-70% a year — but still far less than the moneylenders.

Tati says: "Their profit margins are hard to justify. They don't need loan officers or vehicles. They're efficient because they're computerised. They could come in a lot cheaper than they do — not far above the banks or at least the other microlenders." Says Rural Finance Facility (an alliance member) MD Chris Höck: "Hopefully, in the long run, competition will trade down the price and improve service."

And competition does seem to be having an effect "When we started, the going rate was 50% a month," says Smit. "We've pushed it down to 30%. Rates vary. For example, in the Mossel Bay-George area they are now lower."

Chartered accountants and people with postgraduate degrees are buying franchises. And a group of doctors' wives in Stellenbosch is allegedly doing it for pocket money. "If the trend continues, the rougher practices could be eroded by competition," says Hock. ■

SA EAGLE (58)

SCOPE FOR RE-RATING

FM 26/7/96

Interims show the short-term underwriting cycle has pulled clear of the crime doldrums. Underwriting profit — R2m — is small, but compares with a loss of R22m a year ago, and R23m at year-end.

Investment income, up 23% to R56m, shows the inherent strength of the short-term industry. But from there downwards Eagle's income statement is distorted by the previous period's net profits on disposal of investments.

The company made a profit from selling equities of R106m a year ago, compared to R14m in the reporting period. That accounts for the apparent decline in earnings though, if stripped out, pre-tax earnings are R57m against the R22m in the previous period, a fairer reflection of the ongoing business.

GROUNDED

Six months to	Jun 30 1995	Dec 31 1995	Jun 30 1996
Gross premiums (Rm)	740	721	795
Operating income (Rm)	128	85	70
Attributable (Rm)	118	66	52
Earnings (c)	968	543	425
Dividends (c)	80	170	100

MD Peter Martin says the designed programme of reducing Eagle's exposure to equities is now largely concluded. Full-year results will still be distorted, but from financial 1997 results will be more comparable to prior periods. "We felt our exposure to equities was too high. It's now more or less within the parameters we want."

Investment income is mostly in interest rather than dividends now, with cash holdings up 12,5% to R449m.

Martin says the motor account, Eagle's drain on profits in the past, has performed well with crime levelling off. The fire account took some knocks, as did those of the industry in general, which will probably see premium increases and the shedding of less profitable business this year.

The full-year looks brighter than it has for some time. Martin says while the industry remains difficult to predict, he is positive Eagle can keep its underwriting result in the black by year-end

Expectation of a return to underwriting profits has seen the share price nearly double over the past year. At R90 50, there is still a discount of about R22 to interim NAV. That probably indicates further scope for rerating, though not as strongly as the past year. *Shaun Harris*

ASSURANCE INDUSTRY

LIVING IN THE SHADOW OF STATUTORY REGULATION

(58) FM 26/7/96

Challenge of sceptical customers

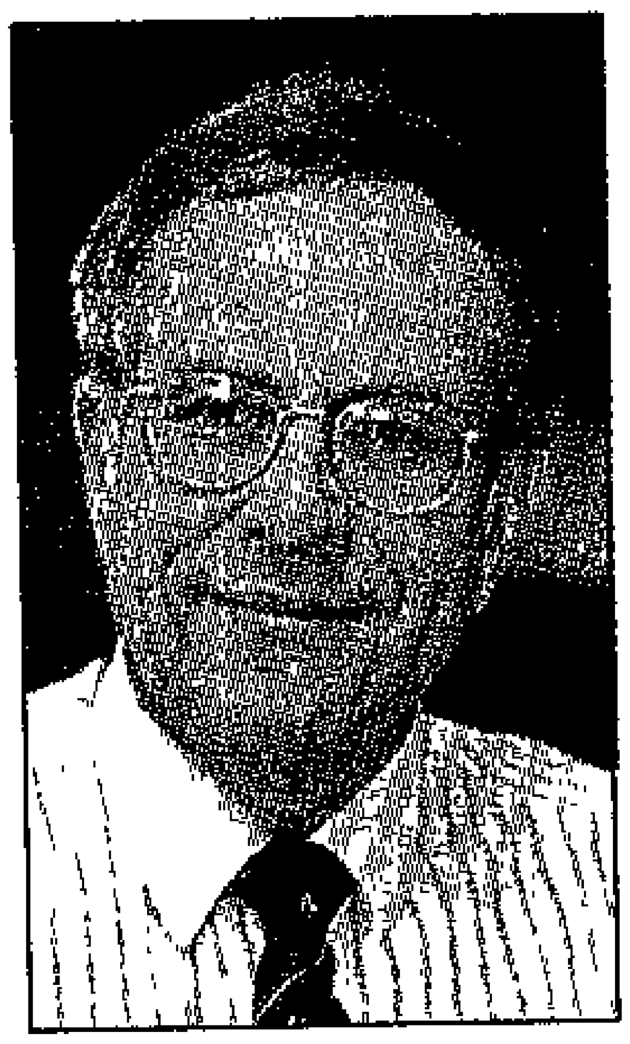
When research conducted for the Life Offices Association (LOA) last year apparently showed consumers were not particularly interested in the amount of commission earned by brokers, an industry commentator drew an apt but unfortunate comparison — why should the purchaser want this information any more than he would query the commission earned by a car salesman?

To some consumers, this is the level to which SA's powerful life industry has sunk — the stereotyped image of the second-hand car shark.

To project this image on the entire industry is unfair; it takes just a few bad policies or unethical salesmen to give the industry a bad name.

The blurring lines between traditional life products and "synthetic investment products" — a hybrid of unit trusts and fixed interest investments — marketed by banks and other financial services companies does not help.

The latter have the characteristics of a life product but fall outside the industry's commission regulations.



Morris Bernstein

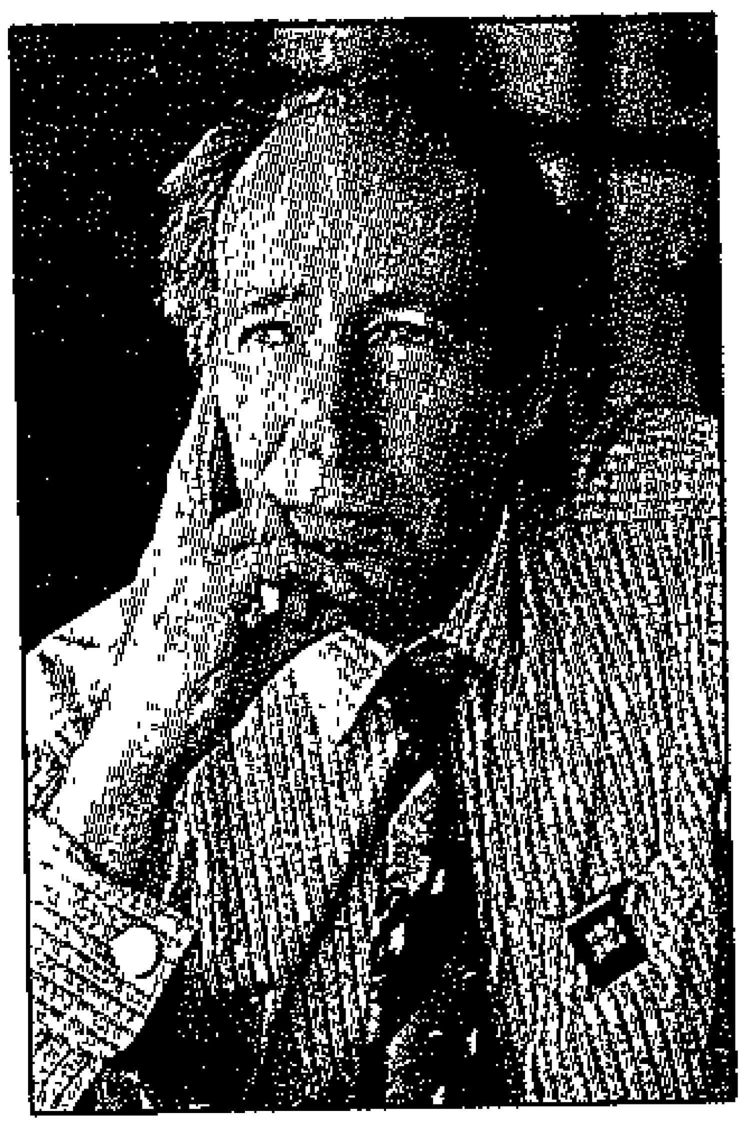
That's one reason draft regulations published last week proposing regulations for the broader financial services industry have been welcomed by the LOA.

Still, the negative image of the life industry persists. The poor perceptions boil down to three issues: inadequate or no disclosure of costs, fees and penalties for early termination of policies; low investment returns relative to other products, and dubious salesmen.

Life offices offer a number of counter-arguments.

"Why should consumers want to know commissions earned?" asks Dorian Wharton-Hood, vice-chairman of Liberty Life and deputy chairman of the LOA "Research has shown that clients are interested only in the end-value of the product."

Fedlife MD Morris Bernstein says a life product is a long-term investment. Surrender values can, therefore, be low if the policy is cancelled early as the company usually recovers its costs in the first few years.



Dorian Wharton-Hood

Moreover, he says, investment performance cannot be fairly compared with other products because of the risk profile and additional benefits like life and disability cover

Largely in response to regulations that have curtailed new premium growth and added to costs in the UK insurance industry, the LOA has been proactive in trying to get its house in order

Three important initiatives, which LOA director Jurie Wessels says will almost certainly be adopted at the body's AGM in November, include: point-of-sale disclosure of surrender values on a yearly basis for the first five years; disclosure of intermediary status (whether the salesman is an agent tied to or employed by a company or an independent broker), and endorsement of the consumer's right to a review, or cooling off, period.

Despite this, there are a number of critics.

Says Vernon Cresswell, a director of financial planning consultancy Fincorp: "I submit that some form of regulation is overdue in SA. For far too long, the life assurance giants have eluded telling all the facts about their products."

The life industry responds by saying there is no disclosure on the "cobbled products" sold by some companies outside the industry, which is why they welcome regulations that will apply to all investment products and give all players a fair chance

The UK experience, which many assurance executives here say has ruined the industry, is clearly weighing heavily on the collective minds of the LOA and spurring the local industry to greater self-regulation.

Briefly, the introduction of legislated disclosure requirements in the UK forced the industry to provide prospective clients with a "key features" document — which details surrender values throughout the life of a policy — and made brokers disclose commission and full expenses Higher levels of training for agents and brokers also had to be instituted

The effects on the UK industry have been dramatic New business premiums have declined sharply, disclosure requirements have added substantially to costs, and intermediaries have been squeezed out.

Wessels says the number of UK intermediaries have declined from 260 000 to about 70 000, with hardly any independent brokers left.

The last thing the SA industry wants is similar regulations to be imposed here, which is why last week's draft regulations, which emphasise complaint-based statutory protection for consumers rather than overt policing, has been quietly welcomed by the LOA.

The LOA, probably one of the most powerful lobbying bodies in SA business, has worked closely with the authors of the draft document over the past two years. Its influence can be detected in the gener-

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ally softer line taken by the Policy Board for Financial Services & Regulation.

But the proposals are only in draft form. The broader financial services industry and the public have been invited to comment before any proposals are finalised and submitted to the Minister of Finance for conversion into statutory law.

It's possible some fierce debate could follow, not least from the unit trust industry, the main competitors for the public savings that flow into life companies.

At last count, the life industry, together with separate pension funds, controlled well in excess of R500bn of savings.

But by the start of this year, the unit trust industry had more than R37bn of funds under management. And overseas examples suggest unit trusts will continue to grow rapidly as an investment vehicle.

There is growing competition between life-based investment products and unit trusts — though also a strong overlap, with most large assurance companies offering unit trusts as well.

Ideas on regulation between the two are not always compatible, no doubt the reason for some assurers believing the unit trust industry is deliberately trying to discredit the life industry.

Justin Hooper

Views on life industry regulations in the UK (but also the US and Australia) are also not uniform.

Fincorp MD Justin Hooper believes the end-result in the UK was beneficial.

"Yes, it was a hard experience, but members of the industry over there say they have emerged better and stronger for it."

Hooper is critical of the undisclosed costs of some life products marketed here, estimating they skim three to four percentage points off the annual return of the investment.

"What I want to know is what is deducted from a premium before the allocation amount, and what will be deducted from the gross return on my investment, before the net allocation amount."

Despite the LOA's assurance that disclosure of surrender values will become the norm, financial advisers are taking matters into their own hands.

The Institute of Life and Pension Advisers recently released the first draft of what it calls *Generally Accepted Planning Practice* for members The document includes a clause calling for full disclosure of premature termination penalties and urging members to "disclose fully (to clients) any negative consequences of premature discontinuation or surrender of an investment "

Vernon Cresswell

The main area of disagreement, though, relates to the licensing or possession of a minimum qualification for a person to act as an agent or broker.

Under present legislation, anybody can become a broker. Cresswell says a person with no qualifications or experience can easily arrange a "licence to sell.

"As long as a person is capable of generating income (with remuneration strongly based on the number of new products sold), it is generally accepted that the business will be good business and will remain on the books."

But this is not the case, resulting in the high number of lapsed and surrendered policies, a figure not willingly disclosed by some companies.

In general, the assurance industry does not want a regulated licensing or qualification system, arguing it would become a political issue and could be perceived as discriminatory

Instead, it believes individual companies should set their own standards.

"A group like Liberty Life has high standards," says Wharton-Hood. "It's difficult to get a job at Liberty without the right qualifications. But we cannot expect those standards to apply across the industry.

"What happens to the young black broker selling funeral policies to the emerging market? If qualifications are regulated, we raise unacceptable barriers to entry," he says.

Hooper disagrees. "This industry is already overpopulated. I don't buy the discrimination argument. The black market is the one that can least afford to lose money..

"If a person is only going to sell funeral policies, let there be a minimum qualification for doing that so the broker at least does the job well "

There is also the seeming contradiction of life offices increasingly diversifying into other financial products such as unit trusts Most large groups have formed independent asset management companies

Traditional products like annuities do not necessarily carry life or other assurance benefits and guaranteed returns are generally low.

In most cases, a consumer would have enjoyed a far greater return by investing the same amount in one of the life companies' general equity unit trust funds for the same period of time.

Yet the company markets both products, though they claim each serves a different need and is aimed at a different market.

"This diversification into unit trusts suggests the life industry has seen the light," says Hooper, "so why does it continue to defend the status quo? Does it really believe its own story or is it simply trying to delay changes and protect a lucrative industry for as long as possible."

One aspect of the assurance industry beyond question is the value it has provided for shareholders.

Traditionally a safe defensive stock during economic downturns, insurance shares confounded market expectations last year by proving to be the eighth best performing sector overall (up 28%).

This year, the Insurance index continues to strongly outperform the market. The Industrial index has lost about 4,5% since January and the All Share index has gained by a similar percentage but listed insurance shares have collectively appreciated by a strong 18% over the same period.

There seems little likelihood of a UK-style blow-out in the industry here. Earnings forecasts for the coming year remain fairly bullish.

But growth in new recurring premiums, widely regarded by the industry as the yardstick for success, slowed down last year.

Could this be a taste of what might happen if the industry does not get in to line with international disclosure standards and satisfy customers who are becoming more sceptical? *Shaun Harris*

GLOBE TROTTING CABINET

BASKING UNDER FOREIGN SKIES AS PROBLEMS BREW AT HOME

President Nelson Mandela is still basking in the adoration from his triumphs in London and Paris. Communications Minister Jay Naidoo has just returned from leading a 12-man delegation abroad to reinforce a declared Telkom policy of monopoly.

Deputy President Thabo Mbeki, having just returned from Cannes and Madrid, is on another triumph in the US, taking in also the Olympic Games.

According to weekend reports, 17 Ministers and Deputy Ministers (40% of the total) have followed in his wake. They have apparently routed scheduled visits to the US via Atlanta to boost Cape Town's chances of winning the 2004 Olympic bid.

Among these Ministers are Transport's Mac Maharaj, who with his family is the guest of the SAA, and Public Enterprises Minister Stella Sigcau, another recipient of an SAA ticket and a former beneficiary of the generosity of the Transkei's George Matanzima.

Apparently these assorted Ministers believe that their presence in their ministerial capacities will foster a nascent sense of national unity.

Assuming it a valid reason, the cost should be carried by their departmental budgets and not the SAA. Their patriotic gesture would, of course, be more convincing had these visits been paid for from their own resources.

There can be no justification whatsoever for the taxpayer paying for the Maharaj family.

The question of free ministerial tickets, with the incipient danger of corruption and abuse, and the role of sport in promoting national unity are separate issues: the latter is not necessarily a justification of the former.

While these Ministers bask in the reflected glow of Olympic victory and the heat of Atlanta, millions of their voters at home are suffering through a particularly cold winter. Those in informal settlements are still able only to dream of the houses promised two years ago.

They can draw comfort from Housing Minister Sankie Mthembi-Mahanyele, fresh from the marriage couch, who told us last week that "for the last 48 years, people have been without homes in winter. For at least another 12 years, that will be the case." She will be remembered for her sensitivity, if not her realism.

But the news at home is not all bleak. Trades union boss Sam Shilowa and his comrades are attacking the ANC's economic policy. They don't yet have a credible substitute — or even an incredible one. But apparently they know what's wrong when they see it.

The confrontation we predicted on June 7 is on the brink. Best to get it over. It could be uncomfortable for government — but in the long term good for business if Mandela sticks to his word and converts the unions, as he claims he did the Nats, to his way of thinking.

As the rand plunged notwithstanding the Mandela triumph, it would not be surprising if it reflected the 17-Minister triumph in the same way.

There is another problem brewing at home. White ratepayers receiving notice of 200% increases in their rates could be on the brink of a tax revolt. Their incomes are to be used to finance services in black townships, where residents refuse to pay for what is provided. White ratepayers are being hit, too, with what is called densification. That means inadequate infrastructure and crowding, which, in turn, will encourage vandalism and crime.

Both the higher rates and the deterioration of the environment amount to a wealth tax by stealth. So whatever progress Mbeki (and the rest of the ministerial horde) may be making gingering up investors abroad, local government is undermining at home.

We would not support a white ratepayers' revolt any more than we would what is happening in black townships. But emotions are high, especially as the crime wave is clearly centred now on white suburbs, where residents will protect themselves.

If it occurs and day-to-day municipal services deteriorate, the flight of skills from the country will become chronic. And if that happens, Sam's trades union members will end up by forcing SA into a deteriorating cycle of crime, authoritarianism and poverty.

Good government at home is more important in the quest for the 2004 Olympics than the dubious presence of ministerial spectators in 1996 Atlanta. ■

GERMANY'S ECONOMY

WELFARE STATE CRUMBLES AND KOHL STUMBLES

Searching for a new promised land

Events in Germany over the past few months have been turbulent. The previously amiable negotiating partners in what was a world-famed consensus decision-making system are now at each other's jugulars.

Employer federations have accused unions of reverting to "graveyard ideology" as they fight Chancellor Helmut Kohl's attempts at introducing austerity.

The opposition Social Democratic Party has taken on the position of guardian of Germany's "good life" as it fights against "the destruction of the Social State."

But the headline-grabbing quixotic battles are less an incisive response to Germany's economic woes than a symptom of the country's dying social market economy model.

Helmut Kohl . . . less than incisive in responding to the crisis

In the past five years, Germany's traditional model began to crumble in the face of globalisation, the unification of Germany and inherent distortions in an increasingly bloated and abused social welfare system.

The result has been the free fall of German industry, the cornerstone of the economy for years — record post-war unemployment, growing public debt and a shrinking economy. But more serious is the unravelling of a way of life that has left Germans less than prepared for the hardships ahead.

While the signs have been there for many years, Kohl — dubbed by *Der Spiegel* as the "do-nothing" Chancellor — was only jerked into action during the past year when one crisis after another washed over Germany

Earlier this year, banner-waving workers dominated headlines as one stellar German organisation after another made shock job-shedding announcements Entire towns were affected as unemployment soared, reaching a record post-war high of 11%.

Then Germany began to overshoot the criteria to enter the European Monetary Union (EMU). It was this, say sceptics, which motivated a Chancellor bent on leading Germany into the European Union.

But Goldmann Sachs economist in Frankfurt Thomas Mayer says: "This is not a bad thing. The government is not noted for its decisive policy-making and, without the catalyst of EMU, we would probably have seen the government deficit growing even more."

But Kohl's actions have been limp-wristed: his latest austerity package, aimed at cutting public spending and marginally liberalising the market, would hardly have dented the *Wohlfarhtstaat* (good life). Yet unions named it a "catalogue of horrors," threatened to take it to the constitutional court if it was passed through the Senate and called some of the largest street demonstrations Germany has seen in decades

The opposition Social Democratic Party (SPD), suffering a recent humiliating defeat at the polls, jumped on the bandwagon, hoping to exploit public antipathy to change. Its leader, Oskar Lafontein, showed solidarity with the masses by leading one union-called march.

Unfortunately, the party's bark had bite: it has a majority in the Senate and was able to block Kohl's package. Kohl pulled a surprise move and called a special sitting of the Bundestag Those anticipating controversy needn't have held their breaths· Kohl used a seldom-used Chancellor majority to push through a very minor reform in the package (to raise the pension age) — hardly stirring stuff.

But the point many in Germany seem to have missed is that change is taking place with or without the posturings of politicians

Germany is at an historical turning point where its social market economy, long since abandoned in other leading economies, no longer works. It worked well before, when world economies were nationally based and Germany could afford to be introspective. Then, the interests of major decision-makers (government, employers and their stakeholders), unions and banks were not too divergent and they could all afford to bow before the German altar of "solidarity."

Socially responsible companies looked after a protected and cosseted work force: until recently, Germans earned the best wages, enjoyed the longest holidays and had the most free time in the world. Together, workers and employers paid for the social welfare net, which reached into and benefited every household. It still provides cradle-to-grave support — not only in times of need, but also for luxuries, such as free education, health and old age care, child subsidies and even spa cures The "watering can" principle meant everyone — regardless of means — benefited.

And political and economic stability was ensured by a complex set of relationships between different interest groups. Unions had seats on management boards; firms and bankers had interlinked shareholdings; and political decisions were made through a tacit understanding that consensus must be reached between the major parties.

The system bred stability — or at least it created a semblance of stability.

But all that has changed. With globali-

ABSA GROUP SURVEY

NuBank empowers the people

(58) Sowetan 31/7/96

Semi-rural communities' financial needs gradually being addressed

One of Absa's NuBank branches that has brought banking closer to semi-rural communities.

THE ABSA GROUP has enhanced its traditional role in the provision of banking services for all South Africans with the advent of a new bank.

Called NuBank, it aims to service the semi-rural areas of South Africa. The initiative was started in November 1994 when Absa, examining its services, decided to extend its banking facilities to the 70 percent of South Africans who had no access to proper banking facilities.

Absa studied several community banking around the world in areas like South-East Asia and South America and thereafter developed its own strategy which is slightly more sophisticated.

The first NuBank branch was opened in Jouberton, near Klerksdorp, in February this year followed by the second in Garankuwa, near Pretoria, in May.

These two branches are part of the pilot phase of the bank's development allowing management to refine the workings of the bank.

Mutle Mogase, Operating Executive of NuBank, says the bank is the first of its kind in the country.

"The typical strategy by most banks has been to garner savings from communities without providing credit, or only providing limited credit facilities. We at NuBank are focussing on providing loans rather than just raking in savings," he says.

NuBank is also unusual in the placement of its branches. The bank aims to service the "unbanked" sector of the population who have probably never been to a bank before.

The branches are situated in semi-rural areas with stable communities that have a dire need for banking facilities.

Mogase says that NuBank is community-orientated. He further explains that before a branch is opened, its establishment is fully negotiated with the community and stake holders. The community also helps NuBank to decide where the branch should be situated.

The majority of the staff is drawn from the local population and has no background in banking. They are encouraged to have a positive attitude towards their clients.

This helpful attitude is sustained in the services NuBank offers. Mogase says they have no sophisticated services and that the clients learn about banks through utilising the branch. He says clients are mainly taught about the responsibility that goes with accepting credit with a financial institution.

NuBank provides members of the local community with loans of up to R6 000 with no collateral. Rather than having to provide security for a loan they have to show that they are stable and have the capacity to work to pay back the money.

Mogase explains that financial references accepted by NuBank are "rather unconventional". For example, if a potential client has been a member of the same stokvel or burial society for the last 10 years then they are probably a good credit risk."

NuBank concentrates on the individual client but often this individual may be self-employed and requires a loan to improve his business. NuBank provides the loan. They are currently attempting to "twin" with development agencies. These agencies may run micro-enterprise training schemes and NuBank would provide participants of these schemes with start-up loans for their own businesses.

NuBank branches are different in appearance, as well as the service provided, to regular commercial banks and use a different computer system which is paper-free.

Mogase says the two existing branches of NuBank have been very well-received by their communities and that they intend expanding further into other semi-rural areas of the new South Africa.

Absa is confident that this new enterprise will benefit both themselves and all the "unbanked" areas of South Africa.

Nubank's Mutle Mogase.

We come a very long way – Snyman

(58) Sowetan 31/7/96

THE year 1991 saw an important moment in the history of South African banking: the formation of the Amalgamated Banks of South Africa Ltd (Absa), the largest banking group on the African continent.

Absa was initially formed through the merger of UBS Holdings, the Allied and Volkskas groups and certain interests of the Sage Group. A year later they were joined by the Bankorp Group.

Dr Piet Snyman, a consultant with the Absa Group Heritage said: "Absa is almost unique in that it is formed of entirely South African institutions. The mergers of 1991 and 1992 brought together entities founded by South Africans for South Africans."

19th century

The group can trace its roots back to the late 19th century. In the early stages of industrial development in the Witwatersrand there was a need for mortgage finance to provide housing for the ever-increasing urban population.

Through this need several building societies were started. These included the Johannesburg Building Society, started in 1888, which was the oldest founding society of the Allied, now a commercial bank owned by Absa.

Another member of the group which can trace its roots back this far is United Bank. This is the direct descendent of the No.1 Terminating Building Society, established in 1889. Four years later it joined three similar societies to form the United Building Society.

But says Snyman: "Absa's origins lie in the banking sector as well as the old building society sector. In the early 1930s the Afrikaner agricultural community were greatly impoverished as a result of the Great Depression and were denied credit by the big imperial banks such as Barclays and Standard. As a rescue measure they created Volkskas as a co-operative."

Volkskas became a commercial bank in 1940 and is now a member of the Absa Group.

By the 1980s these institutions had diversified in a number of ways to form a plethora of financial service facilities and other affiliated businesses had been created.

In 1982 banks entered the mortgage financing field, endangering the continued profitability of building societies. In 1986 legislation was changed so that building societies could become banks. United became the first building society to establish a holding company and had its shares listed on the Johannesburg Stock Exchange (JCE). It was closely followed by Allied in 1987 and very soon all building societies had diversified greatly into the field of banking.

> **'Absa's origins lie in the banking sector as well as the old building society sector'**

Dr Piet Snyman says Absa was created by South Africans for South Africans.

Over-banked

"At that point in South African history the country was very 'over-banked'. There were too many banks competing for business in the market-place," Snyman said.

Another obstacle to continued profitability was that business was limited by local and foreign reaction to the apartheid system. This reaction resulted in sanctions and disinvestment. The socio-political instability in South Africa at that time also had negative effects on the market.

Mergers became a necessity: if banks joined forces then they could reduce the amount they spent on administration and have more money to work with.

In 1990, UBS Holdings, the Volkskas Group, the Allied Group and part of Sage began talking about a merger. This eventually came to pass in 1991 in the form of Absa.

Absa had an extremely succesful entry into the market, the share price increasing by almost 60 percent in less than a year. Absa became market leader in mortgage advances, savings deposits and term deposits. However, in the field of cheque accounts, instalment financing and corporate banking it lagged behind its competitors.

This would always have impeded its position as a provider of comprehensive financial services. Consequently, in 1992 a second merger took place, between Absa and Bankorp Holdings. At the time Bankorp was held by the insurance giant, Sanlam, and had been rescued from financial ruin at the end of the 1980s by Sanlam and the Reserve Bank.

Bankorp included TrustBank, SenBank (a merchant bank) and Bankfin (instalment finance and leasing specialist), institutions which fulfilled the needs of Absa in creating a banking group which catered to all areas of the financial services sector.

Although there were some teething problems following the second merger, Absa is now firmly established as a banking giant, and a successful one. The largest banking group in Africa has a lot to be proud of.

ABSA GROUP SURVEY

White collar blacks affirmed

Sowetan 31/7/96


Bert Griesel ... for qualified blacks

IN April 1993, the Absa Group renewed its efforts to address the fact that the racial make-up of their client base was not reflected in its staff. Absa now has a far-reaching and effective "constructive employment and development" policy.

It does not see its actions in terms of affirmative action, but rather as part of an on-going trend and a very necessary change process.

Bert Griesel, group general manager: human resources, notes that, unless the pool of qualified blacks is increased, then all South African companies will be competing for a limited number of candidates.

Consequently Absa, rather than employing untrained people as "tokens", have instituted grass-roots training schemes in order to increase the number of trained and qualified blacks.

Absa has an implementable programme surrounding their policy. No staff members will lose his or her job on the basis of their race or sex but, as the existing work-force diminishes through natural attrition, new employees are appointed to reflect the demographic make-up of the country.

"In April 1993, 16 percent of the Absa workforce was black. That figure has now risen to 25 percent and will continue to rise as the pool of qualified blacks increases," says Griesel.

There are numerous training initiatives which include a Candidate Bank Technician programme for people with matric but without any financial background. They are trained over a two-and-a-half year period during which time they may be employed permanently by Absa. At any one time there are 650 700 interns on the programme.

The Absa Group is one of the main sponsors of Alberton School which gives students from Standard 8-10 training in financial and business-related subjects.

One of the programmes Absa are most proud of is the training centre in the Africa Growth Network building. This is a walk-in computer training centre for unemployed people with 100 work stations and 250 students present on any given day.

The students undertake an 8 -12 week course during which time they are taught computer literacy and software packages. Forty percent of the students are currently absorbed by the business market.

An innovative new programme involves the training of new tellers via satellite, an interactive television/computer system, whereby they can interact with the trainer from anywhere in the country.

The majority of Absa employees belong to Sasbo, the finance union, which is affiliated to Cosatu. As the union mainly represents white collar workers in the banking industry, the affiliation has been challenging but Denise Mantle, consultant: industrial relations, says that members are positive about change.

Absa supports a philosophy of consultation whereby workers from all levels are encouraged to participate in decision-making process.

Two years ago, Absa instituted a Growth Charter which states the rights of employees. They include the right to "question the way we do things and propose changes which will ensure continuous improvement in your team".

The relationship between the union and management is healthy. Absa's labour policies are fully negotiated with the union and the bank believes that when the new employment equity legislation comes in, many of Absa's policies and practices will support the aims of the legislation.

In fact the only cloud on the labour relations horizon appears to be the issue of corporate clothing to women employees in the commercial banks while male employees do not have such a benefit. Judging by their other successes the company shouldn't have too much problem in sorting out this particular problem.

BOLAND BANK HOLDINGS

GETTING ITS ACT TOGETHER

FM 26/7/96

(58)

- **ACTIVITIES:** *Banking, property and financial services*
- **CONTROL:** *Samgro Investment Holdings 66,5%. Ultimate control lies with C H Wiese.*
- **CHAIRMAN:** *C H Wiese. MD: M S Le Roux.*
- **CAPITAL STRUCTURE:** *13,5m ords. Market capitalisation· R527m.*
- **SHARE MARKET:** *Price. 3 920c. Yields· 2,0% on dividend; 10,2% on earnings; p:e ratio, 9,8; cover, 2,7. 12-month high, 5 000c; low, 2 650c. Trading volume last quarter, 294 000 shares.*

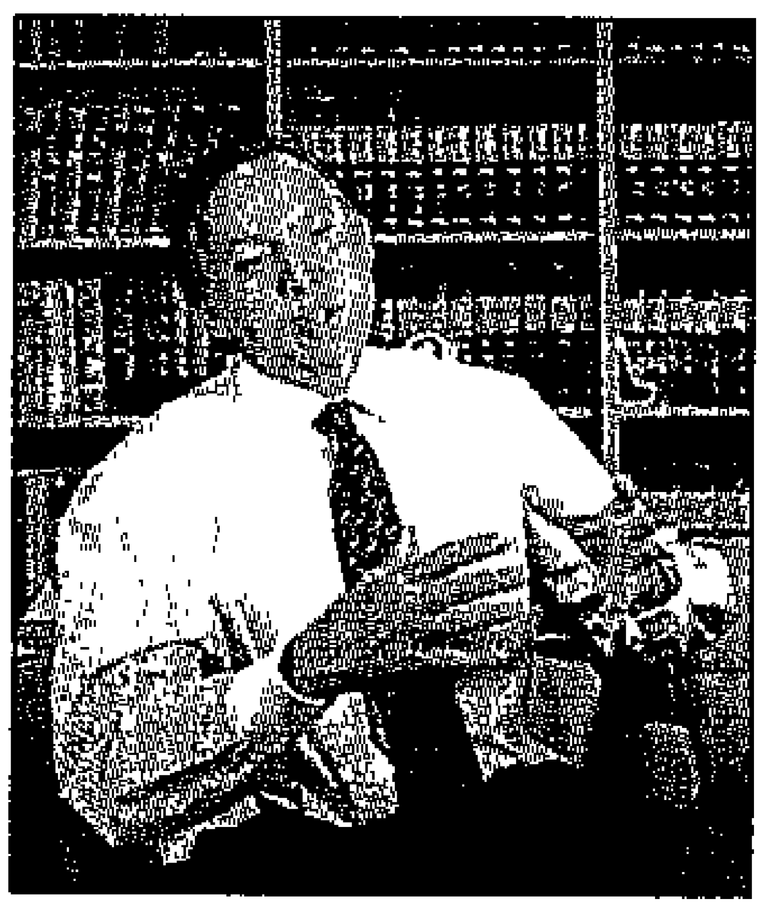
Year to March 31	'93	'94	'95	'96
Advances (Rbn)	2,86	3,07	3,59	5,03
Deposits (Rbn)	3,17	3,46	2,96	4,89
ROA (%)	0,67	0,89	0,99	1,17
Capital ratio (%)	8,9	8,9	8,4	13,6
Total income (Rm)	217	260	297	375
Taxed income (Rm)	24,1	34,2	41,9	62,9
Earnings (c)†	179	134	164	211
Dividends (c)	56	58	66	77,7
Tangible NAV (c)	1 170	1 227	1 403	1 723

† Diluted, including all classes of share capital.

This restructured banking group offers interesting potential. Apart from a clearer focus, the capital base has been dramatically expanded by more than three times, now to more than R1bn, moving Boland a few notches up in the mid-sized banking league.

Problems remain, but these are discussed with remarkable frankness by MD Michiel le Roux in the annual report.

The overall impression is that the old, Cape-based bank (Boland was founded in 1900) with an historical tie to Afrikaans, largely rural business, is making a determined effort to expand into new activities and broader markets. Holdings now consists of three main parts: 60% of Boland Financial Services (management holds the balance), a specialist merchant and investment banking service with an eye on international markets; 50% of stockbroker SMK Securities; and 100% of core operation Boland Bank.



Christo Wiese

The joint ventures are already making what Le Roux says is a "healthy contribution" to profits Nonperforming assets and high operational expenditure remain constraints within the bank, though the end-result, buoyed by the larger capital base and 40% increase in advances, was a solid 29% increase in fully diluted EPS (65% if undiluted, which excludes preference shares and linked units issued during the year)

Since the March year-end the top shareholding structure has changed, with Malaysian company Landmarks Berhad disposing of its 40% interest in top pyramid Samgro, partly, one suspects, because it has now climbed into bed with Durban-based New Republic Bank but also because of a shake-up in the foreign group which saw chairman Dato' Samsudin Abu Hassan resign.

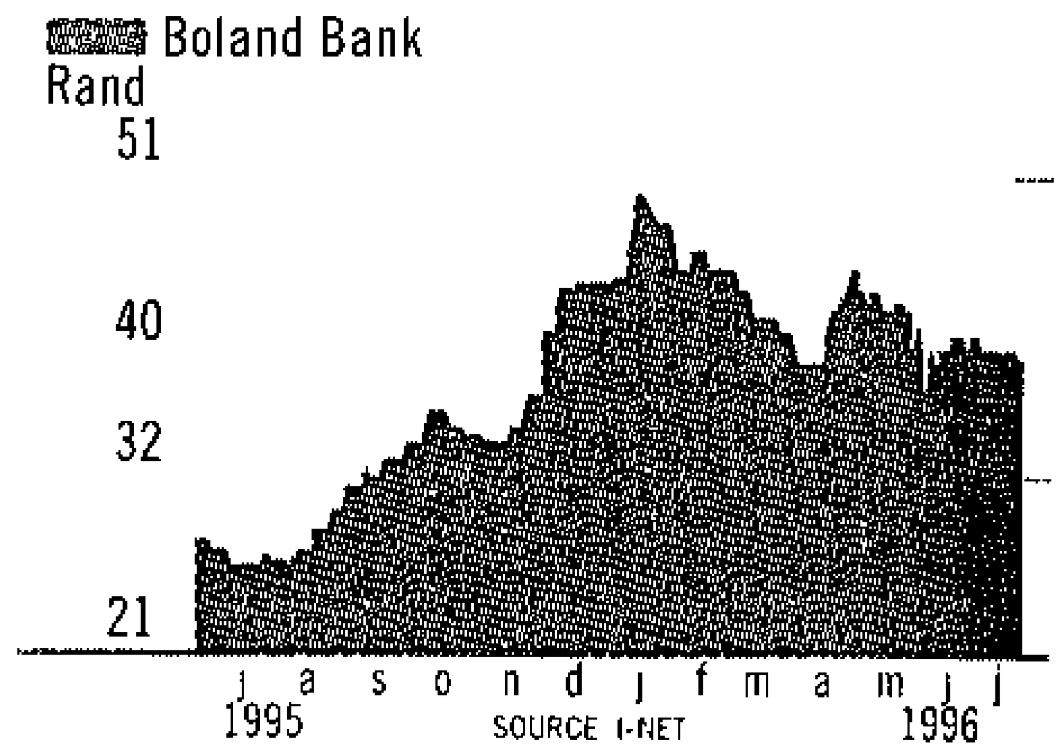
But in terms of control, it makes no difference. That has always been with chairman Christo Wiese, who holds the majority of voting rights in Samgro

Nonperforming advances of R204m have declined as a percentage of total advances, as have specific bad debt provisions (R49,1m).

But Le Roux says both form part of Boland's priority to improve the quality of advances. He wants to get specific bad debts down from the present 0,98% of advances to no more than 0,75%, a level he says is probably "twice as much as we should eventually be losing per year "

How will he do this? By, he says, reducing even further nonperforming assets through responding faster when problems arise and purging the loan book, which will cause losses this year but "will reward us with lower write-offs in future years "

Other objectives are to improve com-



munication and training "Better communication is our most effective tool against bad debts," Le Roux says. He adds that Boland does not spend enough on training The aim is to have fewer, better trained staff at the bank (numbers have decreased by 176 people to 2 467 since September).

The final concern is to strengthen management "Boland Bank has competent managers but needs more managerial depth," he says

Despite the less favourable economic outlook, Boland expects to perform well this year. Operating expenses, up 35% to R245m last year through increased IT spending and a new unit to expand the bank's card business, should decline. If not, this is one area Boland will have to take a hard look at.

It's probably not unrealistic, though, to expect an EPS increase in the mid-20% range

Over the past year the share price has gained 50%, though it has been on the decline since January In an expensive sector, Boland must be offering value to an investor with a medium-term view. Should the price fall further, the share is well worth investigating for rerating potential. *Shaun Harris*

TRANS HEX

SURPRISING POTENTIAL

Trans Hex appears to have concluded that its prime management objective is to enhance the earnings and potential of its diamond assets

The companies have each been in business for about 50 years. Buildmax chairman and CEO Martin Smullen says this new venture is "not a quick-buck arrangement We are planning for sustainable and steady growth."

The synergies are many Rain water tanks and gutter maker S Burde is the dominant supplier in the southern African market, and both East African Timbers and Dave Zick Timbers will gain access to Burde's marketing and distribution network. In turn they contribute a strong presence in niche markets, an international supply network for quality woods and experienced management.

The responsibilities of being a quoted company have also instigated an upgrade in administrative systems and controls as well as manufacturing technology, increasing efficiency and productivity. Though each company will remain a separate operating division, head-office costs will drop.

The three have enough critical mass to go public — combined turnover for 1996 was R75,7m — and this gives them crucial access to new capital. Smullen, who is also the original owner of Burde, says the limitations of private borrowings are holding up quality growth.

Before the preferential placing of 8,4m shares at R2 each, which were snapped up by institutions, business associates and staff, group debt stood at R15,8m to shareholders' equity of R3,2m. After the listing of Buildmax, debt will drop to R3,6m against equity of R18,7m. At 19,4%, gearing will be manageable Operating margins are reasonable at 7% for 1996 and a forecast 8,3% for next year (year-end is March) Burde, which contributed over R53m of total turnover, has had average compound sales growth of 31% over the 21 years that the Smullen family has owned it.

The vendors retain control with 60% of the shares and executive management will hold the majority. Smullen says he is looking at acquisitions and joint ventures. He hopes to use paper to pay for these.

Operating largely in niche markets and without threat from imports, Smullen believes the group can hold its own against competition.

Major clients on the timber side include furniture makers, shopfitters and hotel developers — the Hyatt and Michelangelo hotels sport Buildmax timber interiors. Burde sells to building and plumbing merchants and makes large water storage tanks to order

Smullen expects much of the group's future growth to be driven by demand in the housing market — in all its forms, shopping centres and office blocks, which all use wood, guttering and a wide range of sheet metal products. "Housing will be a mainstay of the country in the long term," says Smullen "It is critical to our long-term survival."

On 1996 EPS of 19,2c, the historical p:e on the offer price of R2 is 10,4, which compares favourably with the building sector average of 12,9. The forecast 1997 p:e is 8,5. With a long and well-documented track record, backed by competent management, the counter is worth a spin. *Margaret-Anne Halse*

THE JSE & JET

CAN'T GO WRONG, GO WRONG

Nothing short of catastrophic is how brokers are labelling this week's breakdown of the Johannesburg Stock Exchange's newly installed Equities Trading System (Jet). It is the second time the system has failed totally.

Monday's disaster meant that virtually no trading took place. Dealers were reportedly ensconced in the bar; telephones were silent.

Approached for comment, most brokers are reluctant to be quoted. Equisec director Ed Hern isn't so retiring. "Once we lose a day's trading, we've lost it forever. There's no way anyone can recover. Meanwhile, the overhead clock continues to tick And it can't be any good for our reputation if international investors aren't able to trade because of our shortcomings." It is reported that brokers cannot claim these losses from the JSE


Roy Andersen

The Jet system was installed by the international division of the Chicago Stock Exchange. The JSE is the seventh buyer of the system for which it paid R16m.

This week's Monday close-down comes hard on the heels of the first major breakdown (on July 1) and only a few days after a sharp case of indigestion late on Friday afternoon, July 12, nearly wrecked the weekend for some administrative staff.

On each occasion, though, the instances of computer failure had different origins. The July 1 difficulty is described by Ryan Lanham, Chicago's project manager in SA, as "an operational problem," whatever that means.

Ten trading days later, at about 3 45 pm on a Friday — just ahead of the close of the week's business — trading information suddenly began to slow down; some screens stubbornly became hung (frozen); in some cases, brokers couldn't rejoin the system (log on).

For a while, it seemed all the fears about Jet were about to come true. And, after the system's first crash on July 1, sceptics had a field day. This is what you get, they said, for R20m, a refrain now repeated with a devotion approaching a mantra.

And it's also worth revisiting the July 1 crash. As trading opened, dealing was brisk: 177 trades were executed in the seven minutes from 9.30 am until Jet froze in its electronic tracks. The resulting confusion left everyone bewildered. Transactions which were first labelled invalid were subsequently declared valid.

In an interview at the time with the *FM*, Andersen said Jet cannot be accident-proof. "We must expect more of these but every time we learn other ways to handle the problems." With hindsight, his words were certainly prophetic.

This week's failure was caused, says Lanham, by an entirely "obscure network bug, difficult to detect under test conditions." The origin lies, it seems, in special coding written specifically to meet the JSE's decentralised trading system which permits trading from other major centres.

Lanham says it took time to diagnose the illness. "Though we could see the symptoms, it was difficult to understand exactly what was wrong. It's probably one of those million-to-one chances," he adds ruefully

Vexatious though the Jet system's early fragility is for brokers and investors, it also appears to be playing a significant role in the JSE's much improved liquidity in recent months.

Daily deals have risen from last year's average 2 622 to the current 5 048 and Jet is expected to be talking to 600 terminals soon, nearly twice the number originally envisaged. *David Gleason & Michelle Joubert*

Shilowa wants lower interest rates to help foster development

Erwin warns against double-tier interest

(58) (~~88~~) CT (BR) 26/7/96

By James Lamont

Johannesburg — Alec Erwin, the trade and industry minister, yesterday warned against creating lower, differential interest rates to foster the development of small- and medium-sized enterprises.

Speaking at the close of the Enterprise Africa exhibition, Erwin said the creation of a double interest rate would result in arbitrage and would be difficult to administer.

However, he said, the introduction of the trade and industry department's Khula Enterprise Finance package would encourage retail banks to lend to the emerging sector of the economy, which is expected to create hundreds of thousands of jobs by the end of the century.

He said retail banks would be asked to evaluate small businesses more closely and the government would underwrite the loans.

He said that would mean that the interest rate offered to small businesses would effectively be below the rate on the ordinary market.

Earlier this week, Sam Shilowa, the general secretary of Cosatu, proposed that a separate interest rate, below ordinary commercial bank rates, should be offered to spur small and medium-sized enterprises and housing development.

Alistair Ruiters, the chief director of the trade and industry department, said the pitfall of offering a interest rate below the Bank rate for small business would be the difficulty in differentiating between money spent for production and money spent for consumption.

'Double interest rates would result in arbitrage and be difficult to administer'

Ruiters said that if subsidised rates were offered, as they are in Japan, Korea and Singapore, they must be targeted at specific programmes such as training and the upgrading of technology.

But, he said, the government should consider ways of expanding credit facilities through the post office and financial non-government organisations, especially in rural areas.

Erwin also recommended that the government review its tender procurement policies to increase market access for small enterprises, especially for tenders below R250 000. He said he wanted government ministries to issue statements of commitment to procurement reform.

"This sector is the most important employment creator in the South African economy," he said. He said the relationship between the state and small businesses was an essential working partnership and without it the government's macroeconomic strategy and reconstruction and development programme would fail.

TARGETING *Alistair Ruiters, the chief director of the trade and industry department, says subsidised interest rates should be directed at education and upgrading technology* PHOTO JOHN WOODROOF

Southern Life joins the march

(58) CT(BR) 26/7/96

By Charlotte Mathews

Southern Life's announcement this week of the launch of **Southern International**, a R1,4 billion asset management company in Luxemburg, represents another step towards the internationalisation of South Africa's relatively large, pent-up contractual savings industry.

This is not the first South African company to run a suite of investment portfolios from a tax-friendly centre in Europe. Other institutions include **Old Mutual**, long established in Guernsey, and **Investec**, which recently established a suite of six funds run from Dublin by **BZW-Wells Fargo** and overseen by **Investec Quantitative Management**, a division of **Investec Asset Management**.

Southern Life's decision to base itself in Luxemburg was taken after deliberation, said Carel de Ridder, the chief executive of the newly created company. Luxemburg is the best-established, reputable, tax-friendly centre in Europe, with about 3 600 funds operating from it.

Luxemburg is popular because it charges no withholding tax on dividends remitted to other countries, because it has a number of double tax treaties. It is also a good centre from which to sell to other countries in Europe.

It had first seemed too expensive a centre from which to operate, but a favourable arrangement was made by the Luxemburg-based bank, **Banque de Gestion Edmond de Rothschild**, which has become Southern International's custodian bank.

Southern Life had secured approval from the Reserve Bank for a series of asset swaps totalling R1,4 billion, representing Southern Life's internal funds. The first asset swap was done last October, but Southern Life kept a lid on the transaction until it was able to announce the whole deal.

Through Southern International, a 100 percent-owned asset management subsidiary, the group has set up a variable capital, open-ended company, **Southern International sicav**. A sicav (societé d'investissement à capital variable) is a structure used in Europe and falls within the European Union's regulations for undertakings that make collective investments in transferable securities.

A sicav was chosen over a mutual fund because it offers Southern International flexibility, De Ridder said. He said it had to be an enduring structure to meet immediate needs and to allow the group to link domestic products to these portfolios. At a later stage, the company must be able to use the structure to expand its distribution and marketing elsewhere.

Funds offered by Southern International and its fund managers

Fund	Manager
Global funds	
Global equities	Scudder, Stevens & Clarke
Global bonds	Paribas Asset Management
Global money market	Paribas Asset Management
Regional funds	
US equities	Still to be announced
European equities	Putnam Europe
Far East equities	Yamaichi International (excluding Japan)
Japan equities	JP Morgan, London
Funds aimed at non-South Africans	
South African equities	Southern Index Managers
South African bonds	Southern Index Managers

Southern Life set up its own independent company because there were advantages over a strategic alliance with one or several foreign groups, De Ridder said.

It has contracted fund management to six different foreign investment managers. The structure means that if a contracted fund manager fails to perform, it will be replaced, Other fund managers can be added if the pool of funds grows.

Another option would have been to buy into publicly available funds, but that would have been more costly. De Ridder said the long-term objective would be for Southern International to manage its own offshore portfolios.

Southern International will at first offer nine private funds (see table), managed by six different fund managers. Seven of the funds are aimed at Southern Life's institutional clients. The other two are South African funds available to offshore investors. Both will be based on indices, the JSE all share index and the JSE all bond index.

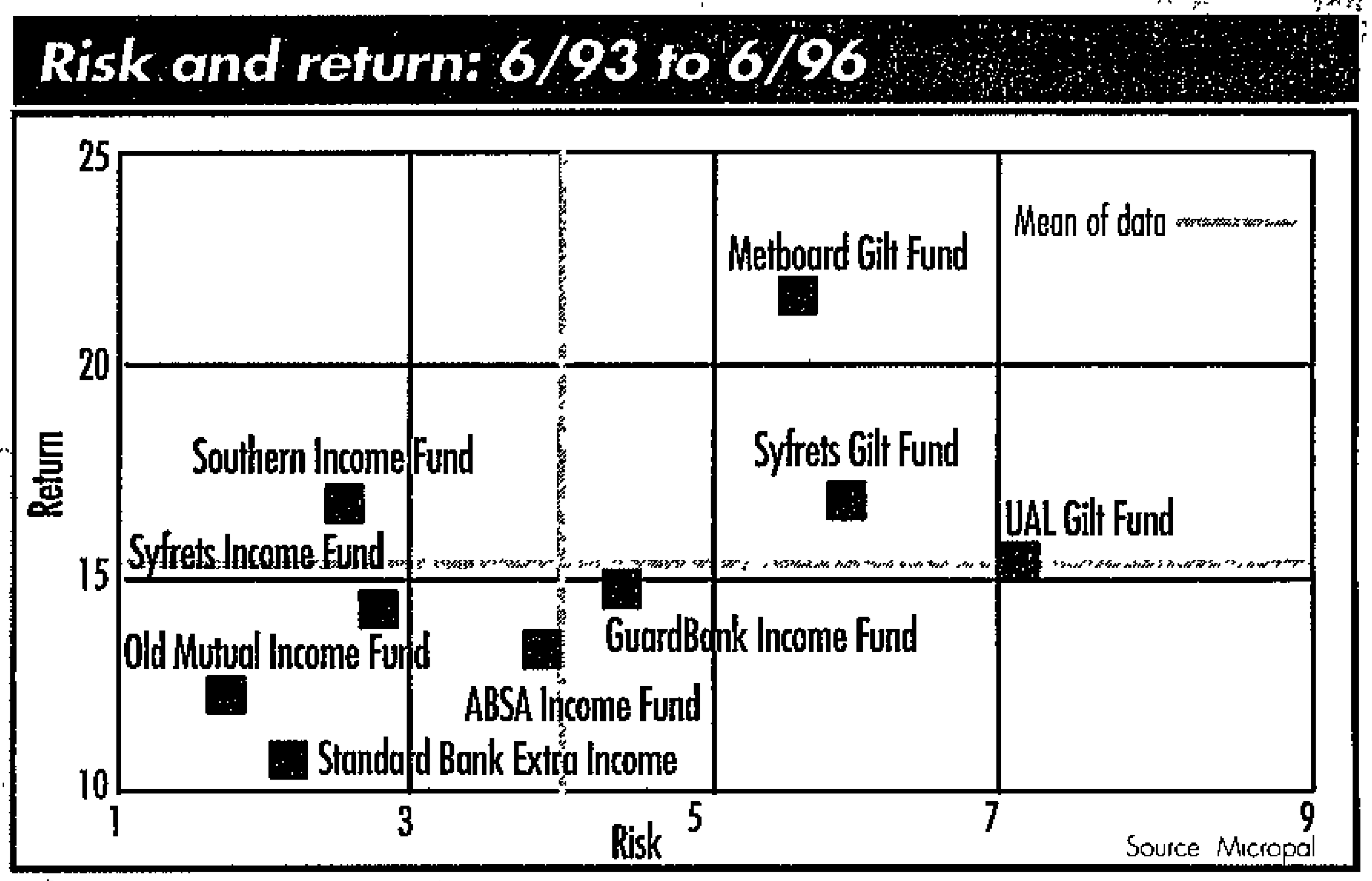
European foreign-exchange and regulatory controls, and administration costs, make it impractical to offer the Southern International funds to retail clients. They will be available only to Southern Life's shareholders, policyholders, pension fund and unit trust clients. The group owns an offshore investment products company, **Hansard International Trust**, in the Isle of Man, with an asset management arm based in London.

De Ridder said Hansard was a different market. It sold retail products to UK and European expatriates. In the long term, the two Southern Life companies in Europe could work together.

De Ridder said the ideal client for the South African funds would be a foreign investor who was too small to buy the individual counters.

The largest hurdle would be marketing its funds overseas, but De Ridder said his priority would be marketing them to South Africans.

The three gilt funds in existence for the three years to June this year show higher risk and higher returns than the six income funds in existence for the same period, according to this week's graph.



Two funds in the graph provide an interesting contrast. Southern income fund and Syfrets gilt fund show an almost identical return in the three years, for very different levels of risk. Syfrets Gilt Fund is well above the mean in its risk profile, but Southern Income Fund is well below the mean. The risk measurement reflects the volatility of returns of each fund.

Income funds invest in carefully selected fixed-income investments to generate the most income combined with capital stability, but gilt funds invest in the capital or money markets to maximise the total return, not just income.

Kevin Dewar, Syfrets gilt fund's portfolio manager, says some income funds have a wide mandate, which enables them to buy long-dated gilts in a bull market.

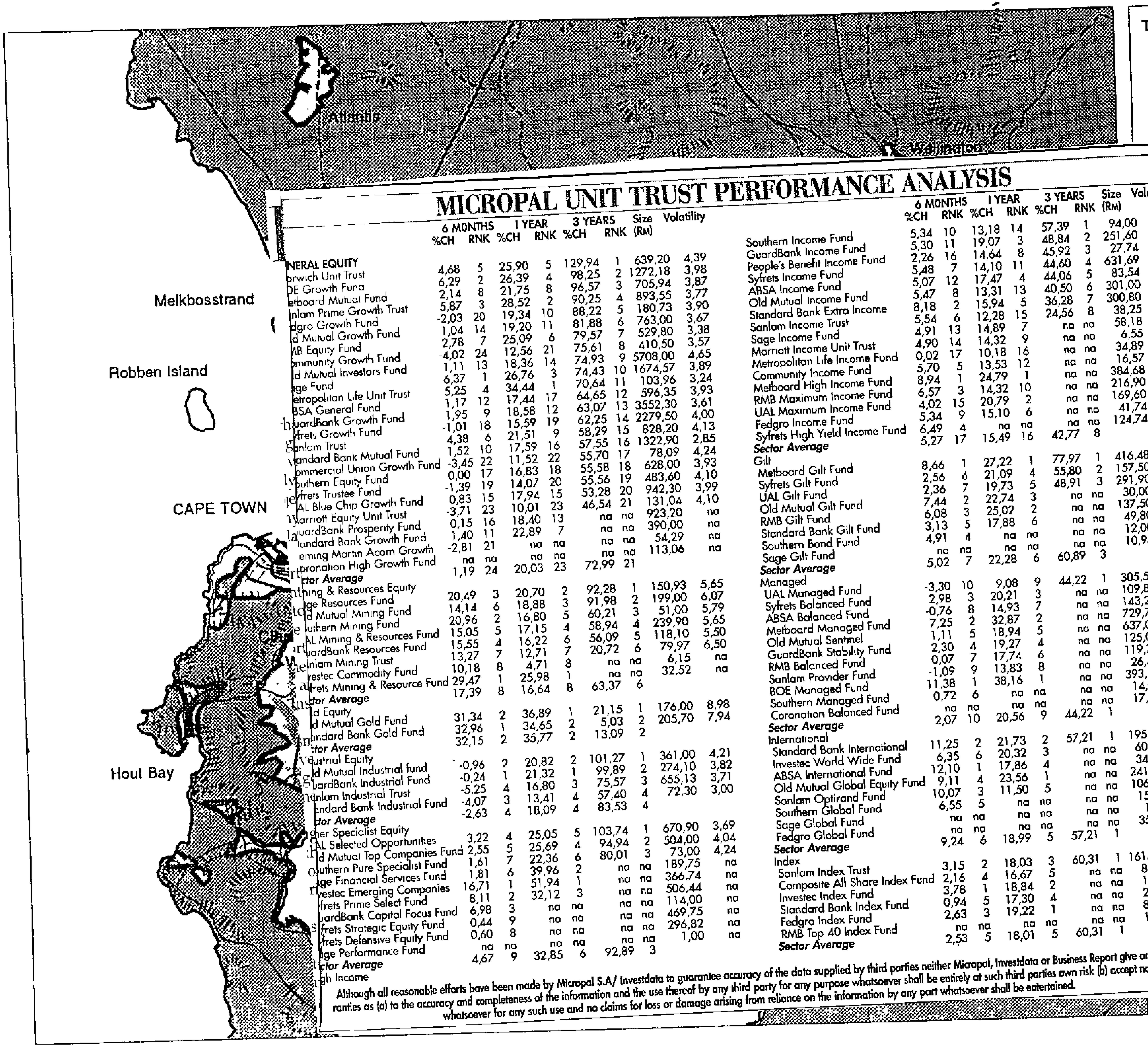
Other income funds have a narrow mandate to invest only in securities with a limited duration.

The Syfrets gilt fund can invest anywhere along the yield curve, depending on its view of the market. The volatility of the Syfrets gilt fund in this period shows its exposure to the longer end of the market. But since gilt funds generally have a wider investment mandate than income funds, greater volatility is to be expected.

Bill Parker, Southern income fund's portfolio manager, says the reason for the fund's low volatility is that it had initially been run as a combined income and gilt fund.

At the end of September last year, its character moved closer towards the definition of a money- market fund, when Southern Life launched the Southern bond fund. That has reduced the volatility of the Southern income fund compared with the bond fund.

The fund's high liquidity flattened its risk profile in the three years to June. It remains invested in extremely short-dated instruments such as negotiable certificates of deposit and other money-market instruments, though it is permitted to invest in securities with up to three year maturities.



MICROPAL UNIT TRUST PERFORMANCE ANALYSIS

Fund	6 MONTHS %CH	6 MONTHS RNK	1 YEAR %CH	1 YEAR RNK	3 YEARS %CH	3 YEARS RNK	Size (Rm)	Volatility
[GE]NERAL EQUITY								
[No]rwich Unit Trust	4,68	5	25,90	5	129,94	1	639,20	4,39
[BO]E Growth Fund	6,29	2	26,39	4	98,25	2	1272,18	3,98
[Me]tboard Mutual Fund	2,14	8	21,75	8	96,57	3	705,94	3,87
[Sa]nlam Prime Growth Trust	5,87	3	28,52	2	90,25	4	893,55	3,77
[Fe]dgro Growth Fund	-2,03	20	19,34	10	88,22	5	180,73	3,90
[Ol]d Mutual Growth Fund	1,04	14	19,20	11	81,88	6	763,00	3,67
[RM]B Equity Fund	2,78	7	25,09	6	79,57	7	529,80	3,38
[Co]mmunity Growth Fund	-4,02	24	12,56	21	75,61	8	410,50	3,57
[Ol]d Mutual Investors Fund	1,11	13	18,36	14	74,93	9	5708,00	4,65
[Sa]ge Fund	6,37	1	26,76	3	74,43	10	1674,57	3,89
[M]etropolitan Life Unit Trust	5,25	4	34,44	1	70,64	11	103,96	3,24
[AB]SA General Fund	1,17	12	17,44	17	64,65	12	596,35	3,93
[G]uardBank Growth Fund	1,95	9	18,58	12	63,07	13	3552,30	3,61
[Sy]frets Growth Fund	-1,01	18	15,59	19	62,25	14	2279,50	4,00
[Sa]nlam Trust	4,38	6	21,51	9	58,29	15	828,20	4,13
[St]andard Bank Mutual Fund	1,52	10	17,59	16	57,55	16	1322,90	2,85
[Co]mmercial Union Growth Fund	-3,45	22	11,52	22	55,70	17	78,09	4,24
[So]uthern Equity Fund	0,00	17	16,83	18	55,58	18	628,00	3,93
[Sy]frets Trustee Fund	-1,39	19	14,07	20	55,56	19	483,60	4,10
[UA]L Blue Chip Growth Fund	0,83	15	17,94	15	53,28	20	942,30	3,99
[M]arriott Equity Unit Trust	-3,71	23	10,01	23	46,54	21	131,04	4,10
[G]uardBank Prosperity Fund	0,15	16	18,40	13	na	na	923,20	na
[St]andard Bank Growth Fund	1,40	11	22,89	7	na	na	390,00	na
[Fl]eming Martin Acorn Growth	-2,81	21	na	na	na	na	54,29	na
[Co]ronation High Growth Fund	na	na	na	na	na	na	113,06	na
[Sec]tor Average	1,19	24	20,03	23	72,99	21		
[Mi]ning & Resources Equity								
[Sa]ge Resources Fund	20,49	3	20,70	2	92,28	1	150,93	5,65
[Ol]d Mutual Mining Fund	14,14	6	18,88	3	91,98	2	199,00	6,07
[So]uthern Mining Fund	20,96	2	16,80	5	60,21	3	51,00	5,79
[UA]L Mining & Resources Fund	15,05	5	17,15	4	58,94	4	239,90	5,65
[G]uardBank Resources Fund	15,55	4	16,22	6	56,09	5	118,10	5,50
[Sa]nlam Mining Trust	13,27	7	12,71	7	20,72	6	79,97	6,50
[Inv]estec Commodity Fund	10,18	8	4,71	8	na	na	6,15	na
[Sy]frets Mining & Resource Fund	29,47	1	25,98	1	na	na	32,52	na
[Sec]tor Average	17,39	8	16,64	8	63,37	6		
[Gol]d Equity								
[Ol]d Mutual Gold Fund	31,34	2	36,89	1	21,15	1	176,00	8,98
[Sta]ndard Bank Gold Fund	32,96	1	34,65	2	5,03	2	205,70	7,94
[Sec]tor Average	32,15	2	35,77	2	13,09	2		
[In]dustrial Equity								
[Ol]d Mutual Industrial fund	-0,96	2	20,82	2	101,27	1	361,00	4,21
[G]uardBank Industrial Fund	-0,24	1	21,32	1	99,89	2	274,10	3,82
[Sa]nlam Industrial Trust	-5,25	4	16,80	3	75,57	3	655,13	3,71
[Sta]ndard Bank Industrial Fund	-4,07	3	13,41	4	57,40	4	72,30	3,00
[Sec]tor Average	-2,63	4	18,09	4	83,53	4		
[Ot]her Specialist Equity								
[UA]L Selected Opportunities	3,22	4	25,05	5	103,74	1	670,90	3,69
[Ol]d Mutual Top Companies Fund	2,55	5	25,69	4	94,94	2	504,00	4,04
[So]uthern Pure Specialist Fund	1,61	7	22,36	6	80,01	3	73,00	4,24
[Sa]ge Financial Services Fund	1,81	6	39,96	2	na	na	189,75	na
[Inv]estec Emerging Companies	16,71	1	51,94	1	na	na	366,74	na
[Sy]frets Prime Select Fund	8,11	2	32,12	3	na	na	506,44	na
[Gu]ardBank Capital Focus Fund	6,98	3	na	na	na	na	114,00	na
[Sy]frets Strategic Equity Fund	0,44	9	na	na	na	na	469,75	na
[Sy]frets Defensive Equity Fund	0,60	8	na	na	na	na	296,82	na
[Sa]ge Performance Fund	na	na	na	na	na	na	1,00	na
[Sec]tor Average	4,67	9	32,85	6	92,89	3		
[Hig]h Income								
Southern Income Fund	5,34	10	13,18	14	57,39	1	94,00	0,71
GuardBank Income Fund	5,30	11	19,07	3	48,84	2	251,60	1,25
People's Benefit Income Fund	2,26	16	14,64	8	45,92	3	27,74	0,99
Syfrets Income Fund	5,48	7	14,10	11	44,60	4	631,69	0,65
ABSA Income Fund	5,07	12	17,47	4	44,06	5	83,54	1,10
Old Mutual Income Fund	5,47	8	13,31	13	40,50	6	301,00	0,49
Standard Bank Extra Income	8,18	2	15,94	5	36,28	7	300,80	0,62
Sanlam Income Trust	5,54	6	12,28	15	24,56	8	38,25	2,29
Sage Income Fund	4,91	13	14,89	7	na	na	58,18	na
Marriott Income Unit Trust	4,90	14	14,32	9	na	na	6,55	na
Metropolitan Life Income Fund	0,02	17	10,18	16	na	na	34,89	na
Community Income Fund	5,70	5	13,53	12	na	na	16,57	na
Metboard High Income Fund	8,94	1	24,79	1	na	na	384,68	na
RMB Maximum Income Fund	6,57	3	14,32	10	na	na	216,90	na
UAL Maximum Income Fund	4,02	15	20,79	2	na	na	169,60	na
Fedgro Income Fund	5,34	9	15,10	6	na	na	41,74	na
Syfrets High Yield Income Fund	6,49	4	na	na	na	na	124,74	na
Sector Average	5,27	17	15,49	16	42,77	8		
Gilt								
Metboard Gilt Fund	8,66	1	27,22	1	77,97	1	416,48	1,58
Syfrets Gilt Fund	2,56	6	21,09	4	55,80	2	157,50	1,69
UAL Gilt Fund	2,36	7	19,73	5	48,91	3	291,90	2,05
Old Mutual Gilt Fund	7,44	2	22,74	3	na	na	30,00	na
RMB Gilt Fund	6,08	3	25,07	2	na	na	137,50	na
Standard Bank Gilt Fund	3,13	5	17,88	6	na	na	49,80	na
Southern Bond Fund	4,91	4	na	na	na	na	12,00	na
Sage Gilt Fund	na	na	na	na	na	na	10,94	na
Sector Average	5,02	7	22,28	6	60,89	3		
Managed								
UAL Managed Fund	-3,30	10	9,08	9	44,22	1	305,50	3,03
Syfrets Balanced Fund	2,98	3	20,21	3	na	na	109,80	na
ABSA Balanced Fund	-0,76	8	14,93	7	na	na	143,26	na
Metboard Managed Fund	7,25	2	32,87	2	na	na	729,75	na
Old Mutual Sentinel	1,11	5	18,94	5	na	na	637,00	na
GuardBank Stability Fund	2,30	4	19,27	4	na	na	125,00	na
RMB Balanced Fund	0,07	7	17,74	6	na	na	119,70	na
Sanlam Provider Fund	-1,09	9	13,83	8	na	na	26,48	na
BOE Managed Fund	11,38	1	38,16	1	na	na	393,37	na
Southern Managed Fund	0,72	6	na	na	na	na	14,00	na
Coronation Balanced Fund	na	na	na	na	na	na	17,44	na
Sector Average	2,07	10	20,56	9	44,22	1		
International								
Standard Bank International	11,25	2	21,73	2	57,21	1	195,50	3,82
Investec World Wide Fund	6,35	6	20,32	3	na	na	60,45	na
ABSA International Fund	12,10	1	17,86	4	na	na	34,18	na
Old Mutual Global Equity Fund	9,11	4	23,56	1	na	na	241,00	na
Sanlam Optirand Fund	10,07	3	11,50	5	na	na	106,58	na
Southern Global Fund	6,55	5	na	na	na	na	15,00	na
Sage Global Fund	na	na	na	na	na	na	1,04	na
Fedgro Global Fund	na	na	na	na	na	na	35,79	na
Sector Average	9,24	6	18,99	5	57,21	1		
Index								
Sanlam Index Trust	3,15	2	18,03	3	60,31	1	1614,58	4,10
Composite All Share Index Fund	2,16	4	16,67	5	na	na	83,33	na
Investec Index Fund	3,78	1	18,84	2	na	na	12,83	na
Standard Bank Index Fund	0,94	5	17,30	4	na	na	27,20	na
Fedgro Index Fund	2,63	3	19,22	1	na	na	86,63	na
RMB Top 40 Index Fund	na	na	na	na	na	na	15,30	na
Sector Average	2,53	5	18,01	5	60,31	1		

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TITLE

MOSS AND URBAN EDGE

[M]etropolitan Open Space

[D]eparture point for identification [o]f the Urban Edge

[Urba]n Edge and MOSS as shown [are n]ot fixed. Rather, they are the [de]parture from which local and [metropoli]tan analysis, using the [procedures] provided in section 5.2 and [shoul]d proceed. Depending on local [conditions] the edge will eventually be [defined as] a line (i.e. strong [phys]ical feature) or as a zone (i.e. [ru]ral transition area).

Figure 5.10

41

Cosatu accuses Bank of racism at collusion hearing

CT(BR)26/7/96 (58)

By Nancy Myburgh

Pretoria — The Reserve Bank was opposed to affirmative action and the reconstruction and devlopment programme because they threatened white job security, the Congress of South African Trade Unions (Cosatu) yesterday quoted a British report as saying.

The report was written by Mary Davis, an international economist at CS First Boston, the international investment bank.

Cosatu spoke at the final day of public hearings into alleged collusion among banks over their increase of the prime rate on May 17, but most of the day's submissions decried the high interest rates without specifically addressing the collusion allegations.

"Unofficially, the Reserve Bank is strongly opposed to income redistribution and affirmative action ... largely because this represents a threat to the status quo," the Davis report said. Davis visited South Africa in March.

"Bank officials would prefer business as usual and they fear that job security of the white community is threatened," she said.

The report was used to help justify Cosatu's opposition to the independence of the central bank, said Neil Coleman, the head of Cosatu's parliamentary office.

The federation yesterday called for new legislation to regulate the Bank more heavily. It also called for the Bank's board to be reconstituted to include trade unionists and other members of civil society.

But Davis, reacting last night to the public release of her report, appeared to retract some of her statements. She said she had supported Reserve Bank policies and its independence in subsequent reports, written after further conversations with Bank officials.

"I believe the Reserve Bank has been acting in the best interests of the economy at all times ... It is absolutely and utterly crucial that the Bank has the freedom to operate independently."

Davis said the lack of black employees at the Bank "in a way is understandable. The skills base there is not something one can reproduce overnight."

She said the Bank was working "strenuously" to employ more blacks, but the Bank must "sustain low inflationary growth. That is its job. It doesn't matter who the personnel are."

Cosatu and the South African National Civic Organisation called for legislation to force commercial banks and the central bank to lower interest rates further.

But Davis said that recent interest rate increases "have not fully offset the devaluation of the rand. Money supply and credit growth figures ... show that consumption is still extremely strong. If anything, there is a risk inflation is going to really take off." Those figures justify a further rise in interest rates, rather than a fall, she said.

Sanco spells out collusion charges

BD 26/7/96 (58)

Lukanyo Mnyanda

SA's major banks came under attack from the SA National Civic Organisation and Cosatu, who accused them of colluding when they increased their lending rates on the same day in May.

The two bodies, appearing before the parliamentary subcommittee investigating alleged collusion in Pretoria, yesterday called for tighter government regulation of the banking industry to prevent what Sanco termed as "ad hoc price increases".

Sanco national housing and services head Sandi Mgidlana called on the Competition Board to take a tougher line on "even the informal collusion" that had led to the rates increase of May.

"The banks admitted they followed the leader (Standard Bank) by raising their rates 1%, even though each of them had different cost considerations and were not affected in the same way by underlying economic conditions."

Government should put pressure on the banks to ensure that they provide lower interest rates for housing-related loans. "Banks should be regulated in keeping with the RDP," he said.

He also attacked government for abandoning the RDP and called for a community reinvestment Act, following the "failure" of the record of understanding which was reached without the organisation's participation.

He also attacked the Competition Board for its handling of the controversy and called for its restructuring into a more representative structure.

"One way to wake up the board is replace the non-representative members with those of us from civil society who actually feel the pain of monopoly pricing."

Cosatu parliamentary office head Neil Coleman said the fact that interest rates hike came only a day after a Council of SA Banks meeting provided factual backing for an "inference" that the banks had negotiated an "agreement, arrangement or understanding".

The increase had not been preceded by a Reserve Bank increase and this strengthened suspicions that the banks had colluded.

"These events are clear indication of collussion and it would be disingenuous to suggest that they could be assumed to be the result of coincidence," he said.

High interest rates were having a negative effect on growth prospects and their presence suggested "a breakdown in the relationship between the financial sector and SA's broader economic development objectives".

He called for a change in the legislation regulating the Reserve Bank and said its Board of Directors had to be reconstituted to include representatives of trade unions and other organisations.

Parliament should form a commission to investigate the viability of continuing along the path of "separate or independent" monetary policy which he said was increasingly tending towards deregulation and fragmentation.

It would be charged with investigating the possible creation of a financial ombudsman to protect consumers against exploitation by financial institutions.

Competition Board chairman Pierre Brooks, also appearing in front of the committee, defended his decision to drop the investigation against the banks and said parties who believed there was a clear case against the banks could press charges independently.

A BIGGER PICTURE: Bob Tucker, general manager of mass markets at Standard Bank, is enthusiastic about E Bank Picture: CATHY PINNOCK

Standard embraces E Bank's fortune

(58) ST (BT) 28/7/96

By ZILLA EFRAT

MASS market retail bank E Bank is to be integrated into the heart of Standard Bank following its success in addressing the needs of small savers and transactors profitably.

E Bank, which opened its doors at the beginning of last year, has 200 000 customers and 33 branches around the country. It is currently attracting 20 000 new accounts a month — the same amount as the entire Standard Bank network.

E Bank is targeted at small savers and transactors and those unfamiliar with the complexities of banking and ATMs.

E Bank has functioned as a division of Standard Bank. But Standard Bank's general manager of mass markets, Bob Tucker, says: "It has been decided that E Bank is a powerful tool which should become an integral part of Standard Bank."

As a result, E Bank will disappear as a separate entity over the next few months and all its outlets will become AutoBank E outlets. E Bank's product, E Plan, will become the product Standard Bank offers to its small savers and transactors.

Tucker says this means that existing E Bank customers will have access to all Standard Bank's facilities. In addition, Standard Bank clients will have the choice of using the assisted AutoBank E or the more hi-tech, unassisted AutoBanks. Where needed, they may use bank tellers but will be charged a fee for this service.

Depending on the concentration of small savers and transactors in an area, Standard Bank will either establish an AutoBank or AutoBank E centre. E Bank Homeloan centres will become Standard Bank Homeloan centres but personal advice will continue to be provided.

E Bank currently operates from stand-alone outlets, as well as next to or in existing Standard Bank branches and inside retail stores like OK Bazaars and Shoprite Checkers.

An E Plan account takes five minutes to open and consists of a savings and cash purse in a single account where interest is earned on the total. Customers get free life assurance — R1 500 from September— and benefit from a monthly cash draw and discount shopping vouchers.

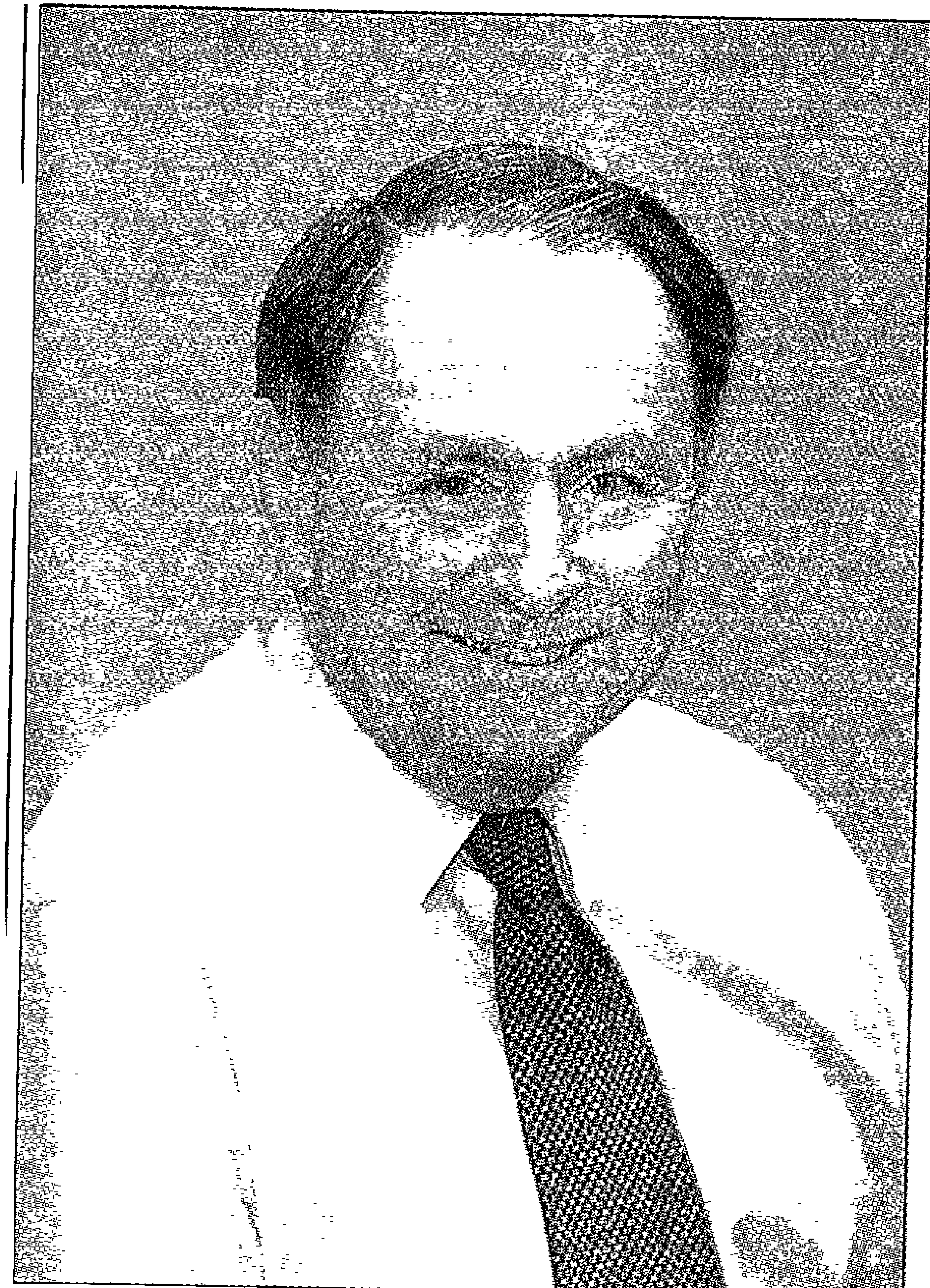
Through E Bank, Standard Bank has become the world's first bank to use biometrics, which combines finger print and face identification. This technology, which has been tested over the past eight months in two E Bank branches, allows customers to access their accounts by using their fingerprints or a pin number.

The customer's photograph is stored on the card and the bank's network, providing for additional security when assistance is requested. The photograph appears on the screen when an account is accessed.

MPs say banks colluded on rate

(58) ST (BT) 28/7/96

By THABO KOBOKOANE



NORMAN AXTON: Banks innocent Picture: JULANI VAN DER WESTHUIZEN

AFTER two days of intensive hearings, the parliamentary committee investigating alleged collusion by banks has indicated there is strong "prima facie" evidence that banks colluded when they increased rates by the same percentage.

"There is a feeling among the committee members that there has been prima facie collusion," said Edna Sethema-Molewa, chairperson of the parliamentary committee.

She said the committee's report could be tabled in Parliament next month.

It would be up to Parliament to decide how to proceed with the investigation, Sethema-Molewa said. She indicated, though, that a formal commission of inquiry into bank collusion could be established.

At a news conference on Friday the banks reiterated their rejection of the allegations raised by the inquiry.

Norman Axten, chief executive of the Council of SA Banks, said it was "impossible" to collude on interest rates and that the identical rate increases were a response to market conditions. Banks had been "squeezed" owing to a shortage on the money market, he said.

"No bank could afford to be out of line with market interest rates and developments," he said.

In May, Standard Bank increased its prime and mortgage lending rates by 1% without waiting for the customary increase in the Reserve Bank's bank rate, which normally precedes rate changes.

Within hours Absa, FNB and others followed with the same rate of increase.

The parliamentary investigation proceeded although the banks were absolved by the Competition Board of any price collusion.

Sethema-Molewa said she found it "suspicious" that the banks, with different cost structures, could raise their interest rates by the same percentage margin within hours of each other.

John Lloyd, director of Standard Bank's treasury division, said the banks had hoped for a three percentage point hike in the bank rate to offset the "severe pressure on margins" the banks were facing.

"When we (Standard) decided to increase the prime and mortgage rate, we had no doubt that other banks would follow since we were in the same crisis and had thought the Reserve Bank would offer us a larger lead to follow," Lloyd said.

The banks said the money market shortage had increased substantially to R10-billion by the end of April from R3-billion in mid-February and had averaged R8-billion throughout May. As a result of the domestic shortage of funds banks had borrowed R3-billion offshore.

Axten insisted that banks had acted "responsibly" given the financial crisis they were facing and that "unfounded" criticism of the banks' actions would be detrimental to a sector vital to the country's growth prospects.

In its submission, Cosatu attacked the Competition Board for failing to launch a formal investigation.

The trade union repeated allegations that the banks' interest rate increases amounted to "restrictive practice".

"Such an inference springs from the fact that the increase was (for the first time) not preceded by a rise in the bank rate and the fact that Cosab met the day before the increase was announced almost simultaneously," said Neil Coleman from Cosatu's parliamentary office.

FLASH OF TERROR . . . With the crowd still in a relaxed mood, a flash from a large explosion can be seen in this image from a video shot in the Centennial Olympic Park in Atlanta yesterday. ■ Pic: AP

Scheme's R46 m gone (58)

CP 28/7/96

By SIFELANI MLAMBO

FORTY-SIX MILLION rand paid to Sun Multi-Serve by underprivileged South Africans in a get-rich-quick pyramid scheme last year has gone missing.

The Reserve Bank froze funds totalling R50 million in January and asked subscribers to send in their claims for repayment.

So far R96 million in claims have been received.

According to Tim Stores, who is administering the fund, claims are pouring in daily.

He said Multi-Serve had produced a list of investors with investments amounting to about R50 million, but thousands of people not on the list had sent in Multi-Serve receipts.

He said the Office for Serious Economic Offences had been alerted by the Reserve Bank.

He warned that if the millions were not produced investors would only get about half the money they paid to Multi-Serve.

Multi-Serve denied the money had not all been accounted for.

Spokesman Nick Niels said that half the people who were claiming money had issued cheques which had bounced.

He said some investors had borrowed money from the organisation and had not yet paid back the money because the Reserve Bank froze the funds.

But Stores said Multi-Serve had failed to produce either the bounced cheques, or the receipts for the loans.

Niels said Sun-Multi-Serve directors would meet with the Reserve Bank soon to clarify the issue.

The Multi-Serve scheme, promising to pay clients three times their investments in three weeks, swept the country last year.

People formed long queues to invest their money.

A few people were paid out, but, as the scheme was a pyramid – meaning that in order to pay the original investor the company must find two more clients – those investing last lose their money because there is not enough money – or people – to continue.

The Reserve Bank banned the scheme and froze funds that Multi-Serve had in the bank, which amounted to R50 million.

The Bank later agreed to release the funds if Multi-Serve operated as a stokvel, but with the agreement of the investors.

Investors were given the choice of either having their money invested in a stokvel or having their contributions paid back to them with interest.

Nearly all the people have chosen to have their money back.

FLASH OF TERROR . . . With the crowd still in a relaxed mood, a flash from a large explosion can be seen in this image from a video shot in the Centennial Olympic Park in Atlanta yesterday.
■ Pic: AP

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(68)

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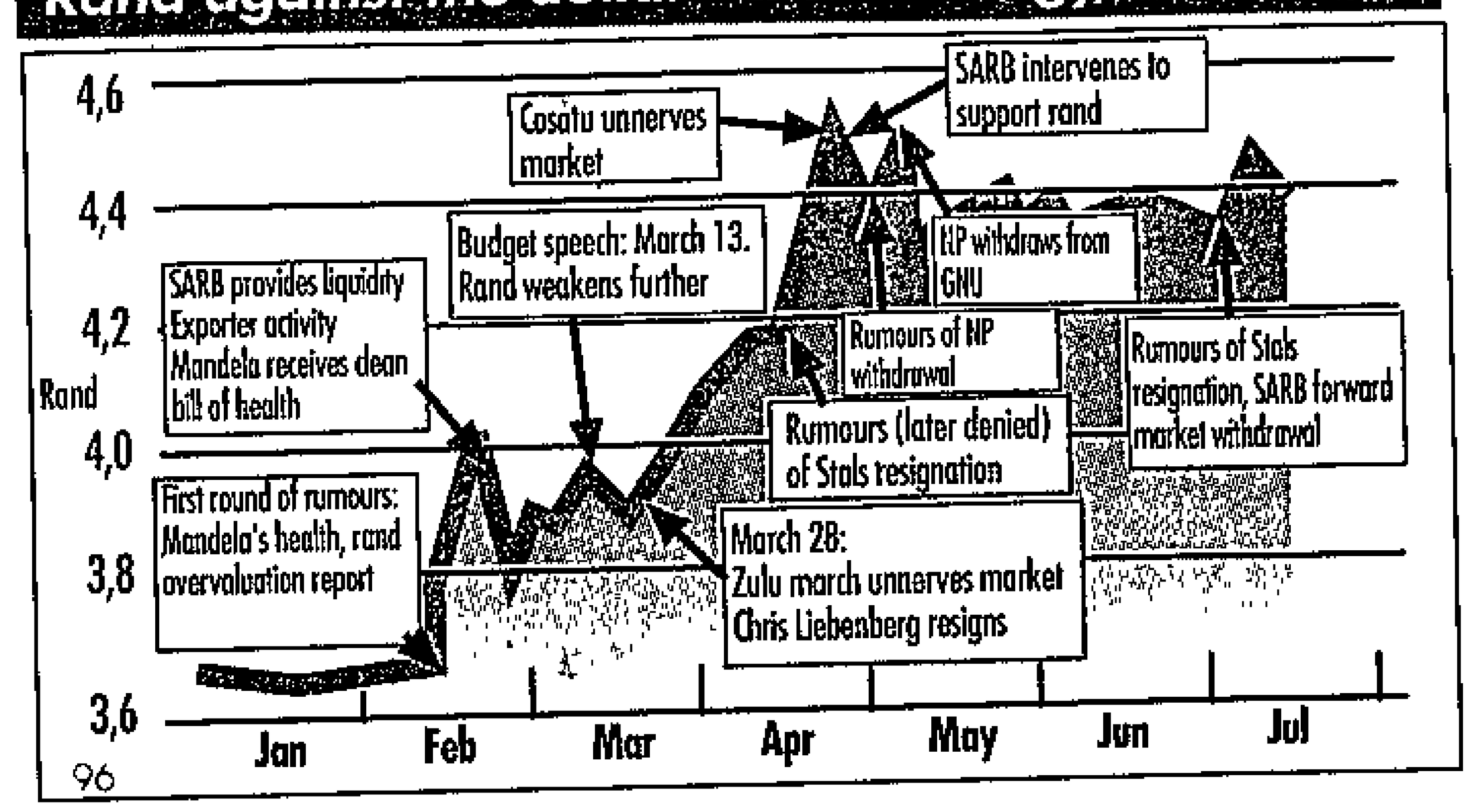
Banks unrepentant after probe

CT (PL) 29/7/96 [redacted] (68)

By Nancy Myburgh
MARKETS CORRESPONDENT

Rand against the dollar - a chronology



Johannesburg — The South African banking industry will make virtually no changes in the way it operates despite the recent furore over alleged collusion between the banks on raising interest rates.

The banks' announcement follows an earlier Competition Board investigation and last week's parliamentary committee inquiry that indicated there was strong prima facie evidence of collusion.

The Council of South African Banks (Cosab), which represents the banking industry, appears unlikely to increase public disclosure of the banks' activities despite the evident concerns of customers and the general public.

On Friday, banking officials again denied the continued accusations of collusion after they raised their prime rates almost simultaneously on May 17. They discounted calls for heavier banking regulation and said none of the accusers had tried to refute the banks' evidence of their innocence.

Norman Axten, the chief executive officer of Cosab, said there would be "very little change" to the banking industry after the recent furore over the alleged collusion.

Last week, a special parliamentary portfolio committee of the trade and industry department conducted hearings on the charges.

Cosab said the rate increase had been a natural reaction to a crisis in the money market.

"Of all the critics who spoke at the hearings, not one mentioned the money market or market conditions that prevailed at the time. They chose to ignore that as an influencing factor," Axten said.

The money market is where banks, large corporations and the government make short-term loans to each other and where banks get much of their cash to balance their books each day.

Rates in that market, which determine much of banks' own costs, had risen dramatically between mid-February and mid-May — the time of the rand's nearly 20 percent devaluation.

The outflow of capital from the country during that time had helped cause the banks' scramble for funds in the money market and the escalating money-market rates, Cosab said.

None of the banks could afford to keep rates down under those conditions, Axten said.

The Congress of South African Trade Unions (Cosatu) charged at the hearings that the Cosab meetings held just before the rate increase were evidence of collusion. Axten said that these had been normally scheduled meetings.

The parliamentary committee will file a report from the hearings and make recommendations to the ministers of trade and industry and finance.

Banks lash out at civic organisation

(58) (232) BD 29/7/96

Adrienne Giliomee

SA banks hit back at critics of their decision to increase prime overdraft rates on the same day, saying the SA National Civic Organisation (Sanco) did not take into account the effect of money market forces.

The Council of SA Banks (Cosab) on Friday called a news briefing following two days of hearings last week before the parliamentary subcommittee, set up to investigate alleged collusion between SA's four major banks.

Cosab CE Norman Axten said the money market shortage had reached R10,9bn on April 30, making it increasingly difficult for banks to balance their books. A sharp decline in reserves, coupled by the continued rise in bank credit, had severely reduced the liquidity base of banks.

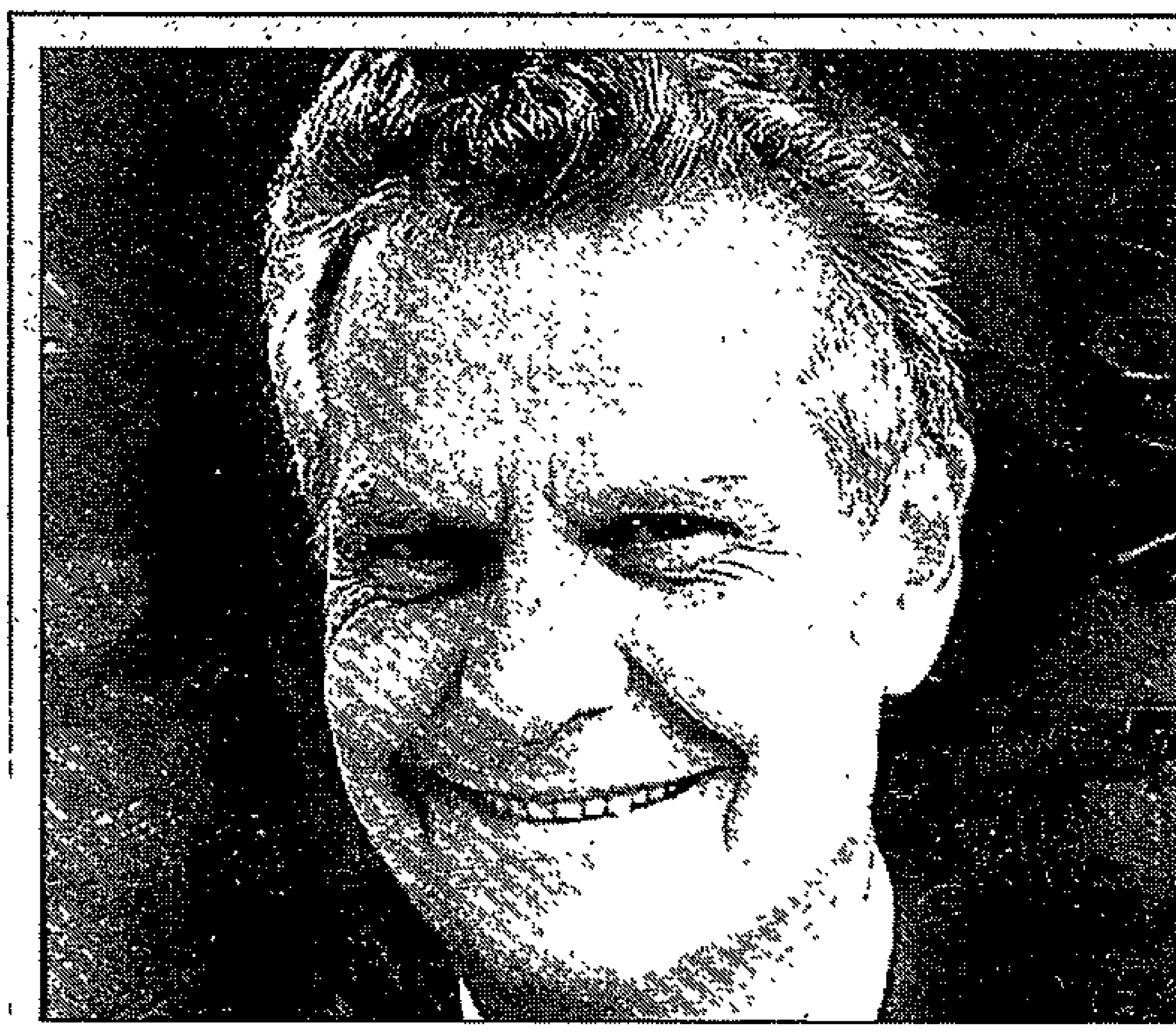
It was then becoming increasingly expensive to borrow from the Reserve Bank due to the introduction of penal borrowing rates.

Standard Corporate and Merchant Bank director John Louw said difficulty in finding cash to balance the books could have resulted in banks defaulting on statutory requirements had it not been for an efficient overnight interbank market.

Axten said banks were not responsible for high interest rates. "Monetary policy determines whether the interest rate is high or low and is set by the Reserve Bank and the finance minister, not the banks."

Banks were mere intermediaries between consumers and the Bank, he said.

Committee chairman Edna Sethema-Molewa said on Friday there seemed to be strong "prima facie" evidence that banks had colluded. The committee's report will be tabled in Parliament next month.



Alwyn Noeth ... Steering Absa to richer shores.

Financial giant well on way to healthy profits

(68) sowetan 31/7/96

THE Amalgamated Banks of South Africa is recovering well from the drop in profits following the mergers of 1991 and 1992. In the last financial year its attributable income rose by an astonishing 49,9 percent from R754 million to R1 130 million, increasing earnings per share by 47,1 percent from 133,3 cents to 196,1 cents.

Frans du Toit... Group Executive

The rationalisation following the mergers has paid off well with staff numbers remaining constant and profits gradually increasing.

Absa planned that it would approach the performance of other South African banks within five years of the merger and that it would break even by the year 2000.

Judging by last year's performance, it is well on track of achieving its ambitious aim.

The return on average assets (ROA) excluding acceptances was 0,90 percent last financial year, up from 0,86 percent in the previous year. This compares well with its peer group which has an average ROA of 1,2 percent.

Similarly the return on equity (ROE) for the Absa group was 15,39 percent, up from 13,45 percent in the previous year, and only 4 percent below the average ROE of its peer group, which includes banks such as Nedcor.

Cost effectiveness

Alwyn Noëth, Group Executive Director of Absa Bank, reports that the group aims to equal its peers in terms of these ratios in two to three years' time.

He says: "Absa believes, and has begun to prove that through our ability to be cost-effective, we can be as profitable as other banks".

The Commercial Banking Division, in which Absa trades under retail brand names of Allied Bank, TrustBank, United Bank and Volkskas Bank, provides the majority of the group's profits and this year increased its contribution to the group's headline earnings from R370 million to R479 million.

The Absa group has a 33,8 percent market share in the area of savings deposits and a 28,7 percent market share of total advances in South Africa.

Noëth comments that people in this country have an unfortunate perception of banks as "fat cats" who make large profits at other people's expense. He is anxious to dispel this myth.

In its pure form, a bank is no more than a financial intermediary. It accepts the public's deposits (that is savings) and lends out these savings in the form of loans. The price difference between deposit rates and lending rates – the "interest margin" – is the money banks receive for this economic function.

From this "interest margin" and other sources of income such as service fees, insurance on housing and life, the banks have to pay all their staff, their administration costs, telecommunications bills, computer costs, rent and maintenance of their branches and so on.

They also have to pay dividends to all their shareholders. Absa has 78 476 shareholders. More than 77 175 of these shareholders are individuals but 80 percent of the value of the total shareholding of the group is held by five corporate bodies. These are Universa, Sanlam, Old Mutual, Standard Bank Nominees and First National Bank.

However, Frans du Toit, Finance Group Executive, points out that many of the investors in these corporate bodies are individuals mostly made up of insurance policy holders with Sanlam.

The group believes strongly in treating all their clients as individuals. It seems that even their shareholding reflects this policy of individualisation.

Rather than being "fat cats" skimming the cream off the South African economy Absa is putting it back in.

Absa believes for banking institutions to contribute effectively to the economy, South Africans should join hands with the Government in the Masakhane campaign and repay their loans.

Absa banking on the future

(58) sowetan 31/7/96

The banking giant plans to open operations in the US and Far East

IN THE AFTERMATH of the merger that resulted in the establishment of Amalgamated Banks of South Africa (Absa) in 1991, the group developed a purpose and mission appropriate to the changing climate of South Africa.

During this process they drew up a mission statement which read: "To be partners in growing South Africa's prosperity (and) by being the leading financial services group serving all our stakeholders."

Dr Danie Cronjé, Group Chief Executive explains: "Whatever happens in South Africa affects Absa, therefore it is in our interest to be partners in the new South Africa."

Absa and its subsidiaries are developing a decentralised structure which will move them closer to communities and allow those communities to have an input in how they would like the banks to respond to their needs.

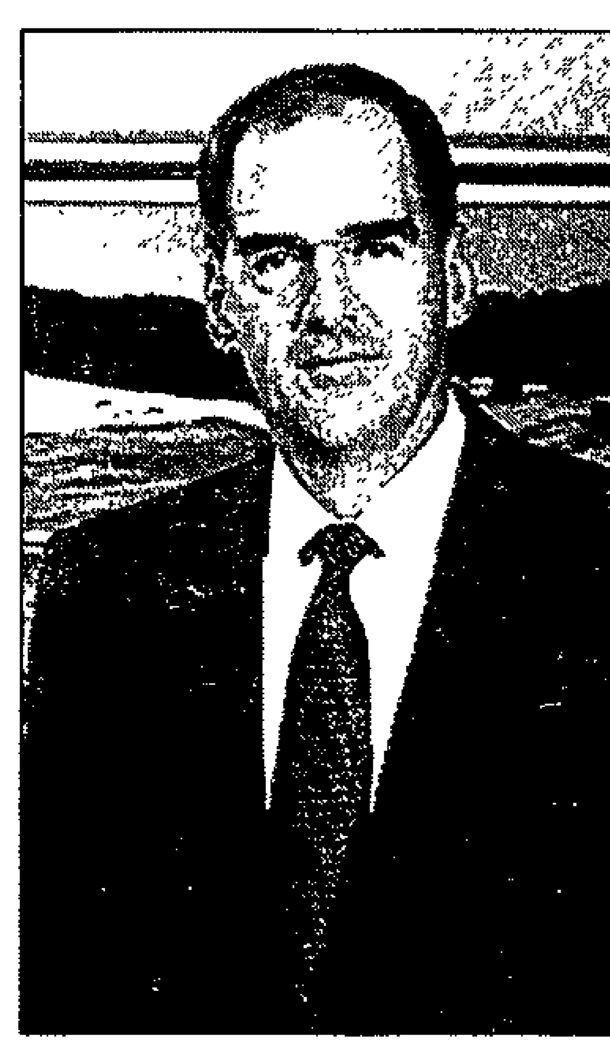
This decentralisation is part of a move towards non-traditional business. Absa's main focus is on communities more than big business and currently 45 percent of its clients are black.

Cronjé said Absa needed to be close to the communities in order to understand their needs.

The individual commercial banks in Absa have traditionally been people-based institutions and they plan to continue that tradition. This means, among other things, that the banking group will be expanding internationally to facilitate its clients' needs in places as diverse as the Far East, the United States and Europe.

Cronjé said Absa believed its contribution to the democratic South Africa should incorporate a development of skills in the population, that it must develop the ability to communicate with and train individuals. It has also instituted numerous training programmes to this end.

However, Cronjé believes that, in order for banks to be able to make an input in South Africa, it is vital that the Masakhane campaign is a success. South Africans have to show that they are willing to co-operate with the banks in areas such as housing loan repayment.



Dr Danie Cronje... all praises for the government's economic policy

This will enable the banks to loan them money, so as to contribute to South Africa's growing economy.

Cronjé said Absa is optimistic about the Government's new economic framework. He was convinced that the economic policy would attract foreign investment and aid the creation of jobs. He admitted, however, that the implementation of this plan may prove to be difficult.

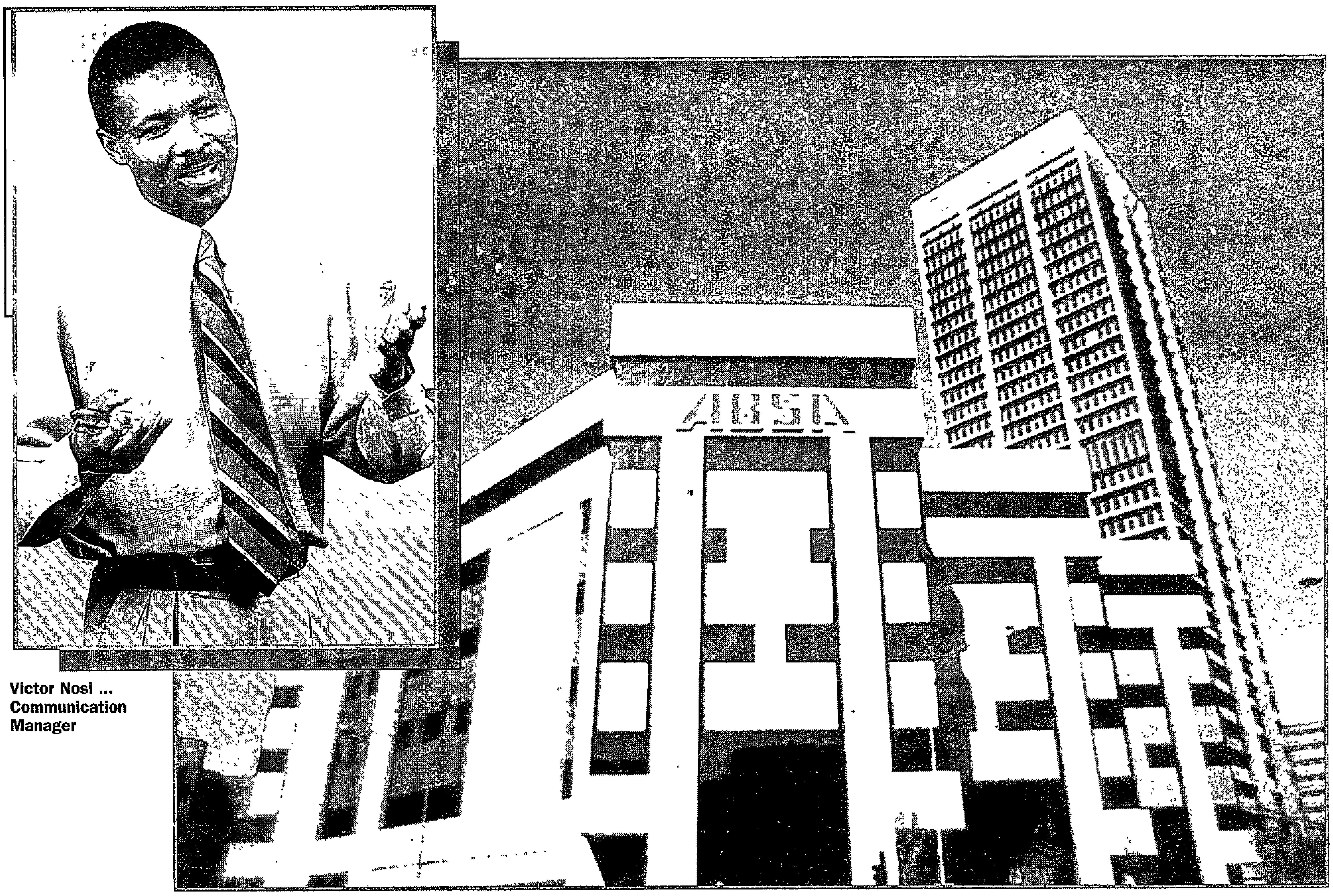
Cronjé believes that economic development was the responsibility not only of the Government but of all other stakeholders. He particularly emphasises the importance of informal business in South Africa.

Absa has a workforce of 38 500 people and Cronje said that factor alone put the group high among the country's major contributors to the South African economy.

Following the creation of Absa in 1991 and the subsequent merger with Bankorp in 1992 it was necessary to rationalise many areas of the company which led to several retrenchments. Cronjé said there would be no further retrenchment programmes, and that staff numbers would remain intact. That principle, Cronje explained, would enable the bank's business to grow more effectively.

On the delicate question of the financial scandals in which the Absa recently became embroiled in, Cronjé said: "In any merger, there is sure to be drama. Problems develop with both staff and clients. We are not alarmed by it, but have managed it effectively."

Absa has a policy of complete transparency when it comes to commercial crime, he explained. Any suspected criminal within the group appears before a disciplinary hearing and, if necessary, the act would be reported to the police and the guilty person would be dismissed. Cronje added that Absa believed in a policy of honesty and integrity amongst all its staff. Cronjé does not foresee any further mergers. As the largest banking group on the African continent, he believed Absa had reached its "critical mass" and that was the size it would remain and work most efficiently in South Africa.



Victor Nosi ... Communication Manager

Absa helps people help themselves

Sowetan 31/7/96

Banking group is aiding poor people in bettering themselves

(58)

THE AMALGAMATED Banks of South Africa's stated purpose is "to be partners in growing South Africa's prosperity".

This, in itself, expresses a strong commitment to social responsibility by helping poor people of South Africa in bettering themselves. Victor Nosi, group communications' general manager, comments: "Our objective is to get involved in the development of the communities in which we do business. After all, a stable community will be very beneficial to our business."

The emphasis of all Absa's social responsibility programmes is on empowerment: it believes people must learn how to do things for themselves.

The Absa Foundation, says Nosi, "is one of the most important portfolios in the Absa Group. We need to reinvest in the community so that it remains stable."

Set up in 1994, the Absa Foundation is totally funded by the Absa Group. Its budget is R6 million a year which amounts to two percent of the annual dividend. It is run by a team of five full-time employees at Absa head office in Johannesburg and uses other people in the nine provinces.

The funds are limited, as Poppie Baloyi, manager of the foundation, explains: "We had to choose the areas we wanted to focus on and these were preferably areas which we believe are in line banks' activities ."

The three areas the foundation concentrates on are:

- Education - covering pre-school education, maths and science;
- Job creation programmes; and
- Primary health care.

The foundation is also involved in crisis response, providing victims of natural disasters with food and shelter. Crises covered so far include the Vaal Reefs disaster and the recent heavy snow falls in the Free State.

An example of a job creation scheme funded by Absa is Arekopaneng, a project run by women in Orange Farm. This project involves brick making, a bakery, a sewing group and a daycare centre for the children of the women involved in the project.

The project was thoroughly discussed with the community before it began and they support it by buying its products.

The bread from the bakery is used in the local school feeding scheme. The project is expected to become self-sustaining in three years.

Absa is also involving its staff in community development. It hase initiated a staff involvement programme called Ziphakamise, a competition which requires each Absa Bank branch to identify a community project in the immediate vicinity which they want to fund. They are then required to raise funds for that project.

National project

Last year money was raised through the sale of scratch-cards and this year they are running a raffle.

Fifty percent of the money raised goes to the foundation which identifies a national project they want to fund. This year that project is the National Childminders Association.

The objective of the organisation is to train day-mothers to care for children from the age of three months to three years.

Ziphakamise aims to bring Absa staff closer to the communities they serve. Says Baloyi: "Without understanding, they cannot properly serve the community."

Another aspect of Absa's social responsibility programme is their RDP funding. About R5 million a year is set aside and divided among the main Absa offices in each province.

The offices then identify with a community project they feel focuses on partnerships and investment. In the Free State, the Tswelelopele project was started to provide assistance to farm schools.

A further initiative is the division of R2 million between every Absa branch in South Africa. The branches are expected to use the money to fund small-scale projects such as the donation of blankets to shelters.

In all, Absa is spending R13 million on social responsibility programmes a year. They are putting their money where their mouths are and helping to create a new South Africa for all.

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