

# Banking, Finance and Insurance

Monday, 15 Feb 2010

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## BANKING IN SHORT

In Banking news this morning, a new study commissioned by private hospitals has cast doubt on the African National Congress's (ANC's) proposals for national health insurance (NHI), raising tough questions about its affordability and feasibility; the controversial issue of pegging the value of the rand is still on the table after Minister in the Presidency Collins Chabane's statement to the media that the "debate is ongoing" and the assertion that Finance Minister Pravin Gordhan would soon pronounce on the matter; and clarity on economic policy rather than key forecasts is likely to grab the limelight when Finance Minister Pravin Gordhan unveils his maiden budget on Wednesday. Looking at business, First National Bank (FNB) has broken its silence on its possible launch of international payment gateway PayPal in South Africa.

NEWS REVIEWS

## NATIONAL ECONOMY

### Rand and dollar report

The rand continued to shrug off an under-pressure euro, and held up against the greenback on Friday afternoon. At 15:37 the rand was bid at R7.667 to the dollar from R7.633. It was bid at R10.424 to the euro from R10.449 and at R11.98 against the sterling from R11.978. The euro was bid at \$1.357 from \$1.368.

BUSINESS DAY (National), Companies & Markets

### Zuma pledges may mean more tax

The State of the Nation address contains some important economic and budget implications, Peter Attard Montalto, emerging markets economist at Nomura International, said on Thursday. Attard Montalto noted that the President Jacob Zuma's address contained a reaffirmation of the government's concentration on jobs, industrial development and education - the African National Congress's (ANC's) developmental state agenda. He noted that there are at least R50 billion of additional spending commitments in the coming budget year from the speech for extra infrastructure build, commitments in expanding education and the provision of support for basic housing loans. "There seems then to be clear upside risks to the budget deficit unless additional tax measures are taken, or additional efficiency savings are found."

FIN24.CO.ZA - FINWEEK

### Markets look to Gordhan for clarity on rand

The controversial issue of pegging the value of the rand is still on the table after Minister in the Presidency Collins Chabane's statement to the media that the "debate is ongoing" and the assertion that Finance Minister Pravin Gordhan would soon pronounce on the matter. Chabane said on Friday that Gordhan and Trade and Industry Minister Rob Davies would soon detail plans to help "stabilise" the rand as part of broader measures to support growth and employment. There is widespread agreement that the currency's sustained strength may undermine South Africa's fragile economic recovery, but it would be difficult to set a level for the unit as it is driven by global trends.

BUSINESS DAY (National)

### Action plan to fund industry, aid job creation

An industrial policy action plan adopted by the Cabinet last week hold the key to President Jacob Zuma's plan of funding specific sectors that will create the jobs he promised. Trade and Industry Minister Rob Davies said at the weekend that measures to facilitate the industrial financing of job creating sectors identified by the state were included in the "high impact" industrial policy action plan. Davies will address the media about the plan on Thursday, when details of the sectors the government wants to promote will be revealed.

BUSINESS DAY (National)

### Business optimistic, not euphoric

South African business leaders have started the new year in their most optimistic mood in the two years since the global financial crisis began. "Business is cautiously optimistic rather than euphoric," says Leonard Brehm, National Chairperson of accounting firm Grant Thornton. "The economy is still a long way from normal but things are starting to look up for business owners," Brehm says. Annually, the firm carries out research on more than 7 400 privately held businesses across 36 economies. Although the economy has not yet stabilised to market conditions prior to the financial crisis, there is still cause for optimism.

BUSINESS DAY (National), Companies & Markets

### National health plan 'may cost extra R244 billion'

A new study commissioned by private hospitals has cast doubt on the African National Congress's (ANC's) proposals for national health insurance (NHI), raising tough questions about its affordability and feasibility. Research by the Econex consultancy group shows the government will have to come up with an extra R165 billion - R244 billion a year, over and above the money it already spends on public health. In the fiscal year 2008-2009, the government's health budget ran to R84 billion. "It's fiscally affordable," said Econex economist Marine Erasmus. "We have a very small tax base, and the demand for healthcare is very high because of our disease burden".

BUSINESS DAY (National) ; BUSINESS REPORT (Star)

### NHI to remain at discussion stage - Deloitte

Tax experts at Deloitte said last week that the National Health Insurance (NHI) was likely to remain at the dialogue stage, as questions around whether it would work had not yet been resolved. A proposed social security system might also not be launched this year, as the government was tied up in terms of expenditure. The NHI, expected to save the country about R9 billion in non-healthcare costs, is to be a universal medical cover for all citizens and would be phased in over a five-year period.

BUSINESS REPORT (Star)

### SA 'may tax foreign investments'

South Africa may join Brazil in imposing a tax on short-term foreign-capital inflows when it delivers its budget this week, in order to prevent dramatic swings in the currency, according to BNP Paribas. Finance Minister Pravin Gordhan may unveil the measures when he delivers his budget speech on Wednesday, Elisabeth Gruie, a London-based emerging-markets currency strategist at BNP, wrote in a client note on Friday. The measures may take the form of a tax on foreign investments in South Africa's bond and equity markets, she said.

BUSINESS DAY (National)

### Mining reliant on world economy

The trajectory of the global economy remained crucial to prospects for the local mining sector, Nedbank Group Economic Unit said on Friday. "Mining activity should recover from a very low base during 2010, supported by the global economic recovery and generally firmer commodity prices," it said after the release of mining production data by Statistics SA last Thursday. The data showed that mining production declined 6.7% year-on-year last year, after falling 5.6% year-on-year in 2008.

BUSINESS DAY (National)

### Treasury bill discount unchanged

The average discount rate for South African three-month Treasury Bills was unchanged from the previous week's level at 7.08%, the Reserve Bank said on Friday. The average yield was also steady at 7.21% and applications for the R3.7 billion of bills on offer totalled R5.35 billion. The average discount rate for six-month bills rose to 7.17% from 7.15%, while the average yield was at 7.44% from 7.41%.

BUSINESS DAY (National)

### Clarity sought amid conflicting signals

Clarity on economic policy rather than key forecasts is likely to grab the limelight when Finance Minister Pravin Gordhan unveils his maiden budget on Wednesday. This year's budget will be one of the most difficult in South Africa's history, given the onerous task of keeping a massive infrastructure spending programme in place and meeting political demands in the face of steep falls in tax revenue. If there are signs that prudent economic policy seen over the past decade is starting to unravel in the face of pressure for more populist spending initiatives, local markets could take a beating. If this is the case, global rating agencies could downgrade SA's hard-won investment grade credit rating, which could put even more pressure on state coffers.

BUSINESS DAY (National)

### Luxury splurge worries insurers

Wealthy consumers continued to spend on expensive items over the festive season, but insurance brokers are concerned about an apparent lack of funds available to commit to the maintenance of luxury assets. A number of luxury goods companies reported increases in revenue over the festive season, signalling a strong appetite for expensive goods such as designer clothing watches and jewellery.

BUSINESS REPORT (Star)

## NATIONAL BUSINESS

### FNB admits PayPal talks

First National Bank (FNB) has broken its silence on its possible launch of international payment gateway PayPal in South Africa. Fin24.com reported last Monday FNB is considering the move, even though the financial services group refused to confirm or deny the rumours. However, in a brief statement on Thursday, head of corporate communications Virginia Magapatona confirmed FNB's interest in PayPal, which has over 300-million users worldwide. When the news broke on Monday, a number of Fin24.com readers expressed great excitement about the possible arrival of this technology. "As a small business owner who trades with individuals along the spectrum of the globe, it would open all sorts of new doors [for me]. It's about time we moved with the rest of the world," one said.

FIN24.CO.ZA - FINWEEK

### Cabinet passes industrial policy

The Cabinet said on Friday that it has approved plans for a three-year industrial policy that will focus on "scaling up" intervention to "alter the structure of the economy". It also agreed to extend the textiles development programme by a year.

BUSINESS DAY (National)

### Call for extension of tax relief to small business

The government should use this week's national budget as a platform to extend relief to small businesses, the South African Institute of Chartered Accountants (Saica) said last week. Muneer Hassan, the project director of tax at Saica, called on Finance Minister Pravin Gordhan to go out of his way to do something for small business, "the backbone of the nation's economy". In particular, Gordhan needed to adjust small business corporations' maximum marginal tax rate for inflation, Hassan said. He added that a small business corporation, as defined in the Income Tax Act, was taxed according to a separate tax table, whereby the maximum marginal tax rate of 28% began at a taxable income of R300 000.

BUSINESS DAY (National), Companies & Markets

## GENERAL NEWS

### Foreigners sell R326 million in bonds

Foreigners were net sellers of R326.48 million of bonds, including repo transactions, on Thursday after net sales of R1.91 billion of local bonds on Wednesday, market statistics show. Nominal cumulative volume was R23.54 billion on Thursday from R39.34 billion on Wednesday.

BUSINESS DAY (National)

### Angolan bank to open in SA

Banco Africano de Investimentos, Angola's biggest bank by deposits, has said it will open an office in South Africa as part of its plan to start offering banking services in the country. The office will open on 1 March, CE Jose de Lima Massano said. The lender plans to start operating a full-service bank in the country in the future, he said.

BUSINESS DAY (National), Companies & Markets

### Africa attracting SA's private equity funds

Private equity funds and companies may have struggled through the financial crisis but they were taking up opportunities in other African markets, said the head of Webber Wentzel's Africa Group, Roddy McKean. The South African industry had more than R800 billion of assets under management last year. Interviewed by telephone from the South African Venture Capital and Private Equity Association (Savca) conference in Cape Town last week, McKean said private equity funds globally had suffered from a lack of funding for their deals over the past recession because banks had tightened up lending criteria.

BUSINESS DAY (National), Companies & Markets

### No proof of reconciliation of fines income

According to an internal audit report, there is no proof of the reconciliation of money received by the eThekweni Municipality in traffic fines and the amounts banked. The disappearance of receipt books means it will be difficult to verify how much was received and banked. The report reveals that the City could be losing out on millions of rands in revenue because of massive problems in the processing of fines by the metro police. The report also revealed that the metro police's cashiers collected between R3.9 million and R6.2 million a month, but there was inadequate control to secure and safeguard manual receipts.

MERCURY

## PROPERTY AND HOUSING

### Many hotels not overpriced

The prices of lodgings during the World Cup soccer tournament are not exorbitant. This is the finding of an independent survey among owners of accommodation by capeinfo.com, which was supported by Cape Town Tourism. According to the survey, in January, 31% of the respondents charged prices for the duration of the tournament equal to their pricing during the peak season. The respondents were from across the country, with the majority in Cape Town and Durban. In February this percentage rose to 57%, while more than three-quarters of the respondents' prices were not more than 20% above those during the high season. It appears that more realistic prices are attracting more bookings, because the number of respondents receiving bookings rose from about 35% in January to 46% in February.

FIN24.CO.ZA - FINWEEK

## RESTRUCTURING AND APPOINTMENTS

### Absa appointed new finance director

David Hodnett has been appointed Director of Absa Group and Absa Bank. He succeeds Jacques Shindehutte, who will leave the group on 28 February. Hodnett, the group risk officer, will also join the Absa Group and Absa Bank boards as an executive director from 1 March.

BUSINESS DAY (National), Companies & Markets ; CITIZEN, Citi Business

## INTERNATIONAL ECONOMY & BUSINESS

### Barclays buys Citigroup's Italian credit card

Barclays is buying Citigroup's Italian credit card business as the UK bank continues to snap up assets for sale in the wake of the financial crisis. The Citigroup business comprises 197 000 credit card accounts and gross assets of about €234 million (£204 million). Barclays, which did not disclose the price it will pay, will combine the business with its Italian retail banking operation, which includes credit cards and more than 200 branches. The bank has made a string of small acquisitions to expand in retail banking and buy up businesses no longer wanted by their owners. Barclays bought a Portuguese credit card business from Citigroup, the stricken US giant, and Standard Life's UK banking operations late last year.

TELEGRAPH.CO.UK

### Barclays in UK and Irish equity review

Companies whose shares may have unusual price changes in UK and Irish markets today include Barclays Plc. Stock symbols are in parentheses and prices are from the last market close. The benchmark FTSE 100 Index gained 29.49, or 0.6 percent, to 5,161.48. The FTSE All-Share Index advanced 0.6 percent, and Ireland's ISEQ Index declined 0.9 percent. Barclays Plc (BARC LN): The British lender will spread the UK's bank-bonus tax across its global workforce and operations, the Wall Street Journal reported, citing people familiar with the matter. The stock fell 9.5 pence, or 3.4%, to 268.35 pence.

BLOOMBERG.COM

### Barclays profit forecast defies share plunge

Barclays, which owns retail bank Absa, may tomorrow post the biggest profit for last year of any European bank, even after the stock declined on concern regulators may force it to raise additional capital, according to research. UK's third-biggest lender is expected to report that net income for the past year more than doubled to £8.96 billion from £4.38 billion a year earlier, according to the median estimate of 13 analysts surveyed by Bloomberg.

BUSINESS DAY (National), Companies & Markets

### SA insurers on the prowl in Kenya

South Africa's big life insurers, excluding Old Mutual, could start looking for acquisition opportunities in Kenya after the east African country said it would kick-start the consolidation of its insurance industry. Kokkie Kooyman, the Global Fund Manager at Sanlam Investment Management (SIM), said last week Liberty, Metropolitan and Sanlam were actively looking at insurance acquisitions in Africa.

BUSINESS REPORT (National)

### Lloyds accused of distorting job market

Lloyds Banking Group, the part-nationalised lender, is driving up market rates for bond and equity salesman and traders with "silly packages" and "guaranteed bonuses" – as it attempts to build a controversial capital markets business. Rivals claim that the bank is distorting the market with "inflationary" offers. The poaching is being led by Andrew Géczy, who heads up Lloyds' wholesale markets division. The former Citigroup banker has been charged by Lloyds Chief Executive Eric Daniels with growing the troubled bank's small capital markets team as the bank attempts to reverse a £3.9 billion loss in the first half of the year.

TELEGRAPH.CO.UK

### Lloyds board appointments for Moreno and Roberts

The former head of the body that looks after taxpayers' stakes in bailed-out banks is to join the board of Lloyds Banking Group, it was announced last night. Glen Moreno, who stepped down from the chairpersonship of UK Financial Investments (UKFI) after a political row over his position as a trustee of a Liechtenstein-based fund, will become Lloyds' senior independent director. David Roberts, the former head of international and retail banking for Barclays, will also join as a non-executive director. Moreno, who was unveiled as acting chairperson of UKFI in January last year, announced his resignation a month later. He was replaced by Sir David Cooksey, who took over from him as chairperson on 1 August 2009.

*BUSINESS.SCOTSMAN.COM*

### Peter Wood seals esure buy-out from Lloyds

Peter Wood, the veteran insurance entrepreneur, has bought esure, the motor insurance business he founded, from Lloyds Banking Group. The deal, first revealed on Telegraph.co.uk, sees Wood buy the bank's 70pc stake for "slightly in excess" of £185 million. The buy-out was backed by Tosca Penta Investments, a private equity vehicle managed by Penta Capital. Wood, who set up Direct Line in 1985, said he had been exploring the deal for almost a year. He already controlled the remaining 30% stake in the business, which also operates the women-only Sheila's Wheels brand. "This move creates a clean base for both companies to move forward pursuing their own insurance strengths unfettered," he added.

*TELEGRAPH.CO.UK*

### Holyrood backs plan for bank bigger than Clydsdale

The Scottish government is backing moves to establish a major new bank that which could, potentially, be six times bigger than the Clydesdale. The efforts have been disclosed by John Swinney, Finance and Sustainable Growth Secretary, who said that the government has now started talking to financial institutions about making or financing such a bid. Ministers believe that not only is there a chance of securing a big banking company for Scotland, but much more competition could be created within the Scottish banking market place, three quarters of which is now controlled by Lloyds Banking Group and RBS. The rare opportunity to create a new financial institution arises because of the enforced sales of parts of their operations by Lloyds and RBS that have been compelled by the European Commission.

*TIMESONLINE.CO.UK*

### George Osborne put on the spot by departure of Sants

Hector Sants' departure as chief executive of the Financial Services Authority (FSA) raises more questions than it answers, and not many of those questions make comfortable reading for either the Conservative Party or the City regulator itself. If, for example, Sants had always intended to step down at the end of his three-year term — as he insisted in his resignation statement this week — then why did the regulator not make that clear? Now that Sants has said that he will step down in the summer, however, many of the most influential figures in the City believe that he will be little more than a lame-duck boss, unable to recruit for senior FSA positions or oversee continuing policy reforms.

*BUSINESS.TIMESONLINE.CO.UK*

### Private banking chiefs scramble to Asia

The world's largest financial groups, including JPMorgan Chase and HSBC, are scrambling to relocate their private banking chiefs to Asia to focus on opportunities in the fast growing region. HSBC is in advanced discussions to move Chris Meares, the global head of its private bank, from London to Hong Kong. A decision is expected shortly, according to people familiar with the matter. Its private bank has more than \$400 billion under management. It is understood that senior executives are pushing for Meares to be based in Asia to position the bank better to capture the region's growing wealth. HSBC declined to comment.

*FINANCIAL TIMES (London)*

### Europe's economy stalls

Europe's economic recovery has stalled, new data out on Friday showed, with the heavyweight German economy slowing to a halt in the fourth quarter of 2009 and Italy switching back to contraction. Elsewhere in Europe, growth slowed to 0.3% in the Netherlands and to 0.4% in Austria but the recovery sped up in France, where growth was at 0.6% for the fourth quarter compared to 0.3% in the third. There was a mixed picture in Central and Eastern Europe too. The Czech Republic fell back into contraction following two quarters of growth, while Hungary's prospects were brighter as the contraction slowed to 0.4%. Europe in general has begun to emerge from what is in most cases record recessions, but the recovery process is expected to be slow and bumpy because business investment and consumer consumption are still weak in many cases.

*FIN24.CO.ZA - FINWEEK*

### China curtails bank lending again

Chinese Premier Wen Jiabao warned citizens to keep a "sober mind" about the challenges ahead in the new year, and China moved to curtail bank lending on Friday for the second time in a month in the latest effort to cool its economy. The country celebrated the arrival of the new year, the Year of the Tiger, on Sunday. "In 2010, China will face a more complicated situation, both at home and abroad," the state news agency Xinhua quoted Wen as saying. Banks were ordered on Friday to increase reserves by half a percentage point - to 16.5% for large lenders and to 14.5% for smaller institutions.

*BUSINESS DAY (National)*

### EU plans to keep tabs on Greece's finances

Days after promising support to debt-laden Greece if necessary, the European Union (EU) will put the country under unprecedented fiscal surveillance this week, hoping to avoid a bail-out. EU finance ministers, meeting today and tomorrow in Brussels, will back the exceptional measure to instil some budgetary discipline into Greece where swollen public deficits and massive debt levels threaten the 16-nation euro zone as a whole.

*BUSINESS DAY (National)*

### Dollar as reserve currency queried

Saudi Arabian central bank Governor Muhammad al-Jasser said yesterday that the dollar would see competition to its status as a reserve currency in the future and that the euro was gaining importance in official reserves. "One should expect competition for the dollar," Al-Jasser, whose country is one of the largest holders of US treasuries, told the Jeddah Economic Forum.

*BUSINESS DAY (National)*

### Japan to debate higher sales tax

Japanese Finance Minister Naoto Kan said yesterday that the government would start the debate on overhauling the sales tax regime next month, indicating that it may consider increasing the 5% levy to help repair the country's finances. Kan said on a Fuji Television programme the government tax panel would also discuss corporate, income and environment taxes.

*BUSINESS DAY (National)*

### Shake-up at Goldman Sachs investment unit

Goldman Sachs Group investment management co-head Marc Spilker is leaving the firm after two decades and will be replaced by a predecessor. Spilker will turn over responsibilities at the end of this month to Edward Forst, who rejoined the firm in September last year, according to internal memorandums on Friday from CEO Lloyd Blankfein and President Gary Cohn.

*BUSINESS DAY (National), Companies & Markets*

### Australian bank advises caution

Commonwealth Bank of Australia said yesterday that global market volatility triggered by Greece's debt crisis showed that it is necessary to retain a cautious outlook on the economy. "Generally speaking we are going to see a good trajectory from where we are but we are going to see the odd wobble," CEO Ralph Norris said yesterday on Sky News Business.

*BUSINESS DAY (National), Companies & Markets*

### INDICATORS

Rand - Dollar \$	7.6945	(-0.0429)
Rand - Sterling £	12.0511	(-0.1184)
Rand - Euro €	10.4915	(-0.0570)
JSE Allshare	26262.4	(-88.19)
Gold	1082.0	(+5.50)
Platinum	1505.0	(-6.00)
Brent Crude Oil	72.2	(-1.84)

The figures quoted are from the close of business yesterday, along with any movement, either up or down, from the previous day.