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PRESS STATEMENT ON THE CONVERSION OF SASRIA ACT (NO 134 OF 1998)

The object of the Conversion of SASRIA Act was to convert SASRIA from a section 21 company to a public company with the State as the sole shareholder. Conversion and registration in terms of the Companies Act of SASRIA LIMITED was effected on 27 September 1999.

The Act provides that the Minister of Finance must determine the portion of the reserves that the converted SASRIA would require to continue with its business as a short-term insurer for special risks. The Act requires that the Minister of Finance must take into account the results of an independent actuarial assessment in determining the level of reserves that is to be retained in the converted SASRIA. In consultation with the Board of SASRIA and representatives from the short-term insurance industry the international firm Tillinghast-Towers Perrin was appointed as actuaries. They have recently presented me with their final report. The report recommends that reserves of R3 billion be retained by SASRIA LIMITED, on condition that re-insurance of at least R2 billion be acquired.

The mark-to-market value of SASRIA LIMITED's reserves on 31 August 1999 was R10,1 billion.

With due regard to the report of the independent actuary and after consultation with the Board of SASRIA LIMITED and the short-term insurance industry, I have resolved that a dividend be declared equal to SASRIA's excess reserves. Based on current market values, the excess reserves are estimated at R7,1 billion. To effect the orderly liquidation of the SASRIA LIMITED investment portfolio the dividend will be paid in tranches as follows:

- A first amount of at least R5,0 billion will be paid during October 1999; and
- the remainder of the dividend will be drawn as the assets are liquidated and the required re-insurance cover is put in place.

The proceeds from the dividend payment, as provided for in the Conversion of SASRIA Act, will be utilised to reduce state debt. The impact on state debt cost for a full financial year will amount to R650,0 million. To negate any possible negative market effects from the liquidation of the investment portfolio of SASRIA LIMITED the government bonds that are held by SASRIA LIMITED will be transferred to government and cancelled. With regard to other equities held by SASRIA LIMITED an asset swap arrangement has been concluded with the Public Investment Commissioners. The liquidation of the SASRIA investment portfolio and the payment of the dividend to the State will therefore have no direct impact on the bond and equity markets.

As indicated, part of the dividend from SASRIA will be paid over to government as progress is being made with the acquiring of re-insurance cover by SASRIA. It is therefore possible that a portion of the dividend might spill over into the 2000/01 financial year. In addition, the amount of government bonds in the SASRIA portfolio that will be cancelled to offset state debt, will not result in a cash-flow to the Exchequer that can be used to reduce government's borrowing requirement. (The bonds that will be cancelled will merely result in a reduction in the stock of debt which will bring about a saving in debt servicing costs.)

The Conversion of SASRIA Act provides that the converted SASRIA must be privatised. Government's objective remains to ensure that special risks insurance remains available to the general public even after SASRIA has been privatised. In order to achieve this objective, certain options, which will include the possibility of changing SASRIA's main business to that of a short-term re-insurer, will be considered. The short-term insurance industry will be consulted on an ongoing basis.

For more information contact Coen Kruger / Brian Molefe / Higgo du Toit at the Department of Finance.
Telephone number (012) 323-1703
Facsimile number (012) 323-1783