

Tides turn and seasons change,  
but our commitment to our  
members never does.

**Life is a beautiful cycle.**

# 2021 PPS YEAR IN REVIEW



FOR PROFESSIONALS  
SINCE 1941

Success is better, shared.

# Message from Izak Smit



In a year in which PPS reached full circle, we showed just how our mutual model again proved its resilience. When it comes to supporting our members and returning value to them, 2021 was extraordinary. In our unique model based on mutuality, all premiums that members pay to our insurance businesses, together with investment growth, are ultimately returned to them, either as claims or as allocations to their Profit-Share Accounts. The only leakage is of course the management expenses to run the business. From this perspective, 2021 has been a most astonishing year. As is to be expected during a worldwide pandemic, life insurance claims payments have exceeded anything that we have ever witnessed in our 80-year history. The investment\* markets also experienced a very good year and the investment returns that we can distribute to our members in the form of Special Benefit allocations to their Profit-Share Accounts, have exceeded those of any previous year. Collectively, the value that was returned to members through claims in 2021, supporting them in times of need, and the value added to Profit-Share Accounts due to investment returns on accumulated past profits, are extraordinary.

The claims experience in 2021 of course reduced operating profit. In fact, COVID-19 claims resulted in our operating profit for 2021, which is basically underwriting profit net of investment returns, ending the year just positive. I would argue that we could not have asked for a better outcome. During a pandemic, and especially given the extraordinary events of the past two years, the focus is (and should be) on claims. We continuously adapted our claims protocols so that we could assist our members as much as possible while trying to ensure fairness between different cohorts of members (for example between those that have suffered a certain condition and those who have not). As a company that is founded on the ethos of mutuality, we were able to do this as there are no shareholder interests to protect or serve. As a result, we went further than what our competitors were able to do with their protocols. The COVID-19 pandemic provided a brilliant opportunity to stay true to our purpose of assisting our professionals in protecting their income and assets, and enhancing their financial security. And yet, despite the enormous value that was returned to members through claim payments, we were still able to declare a small operating profit. This attests to the strength of our model.

\* Past performance is not necessarily indicative of future performance.

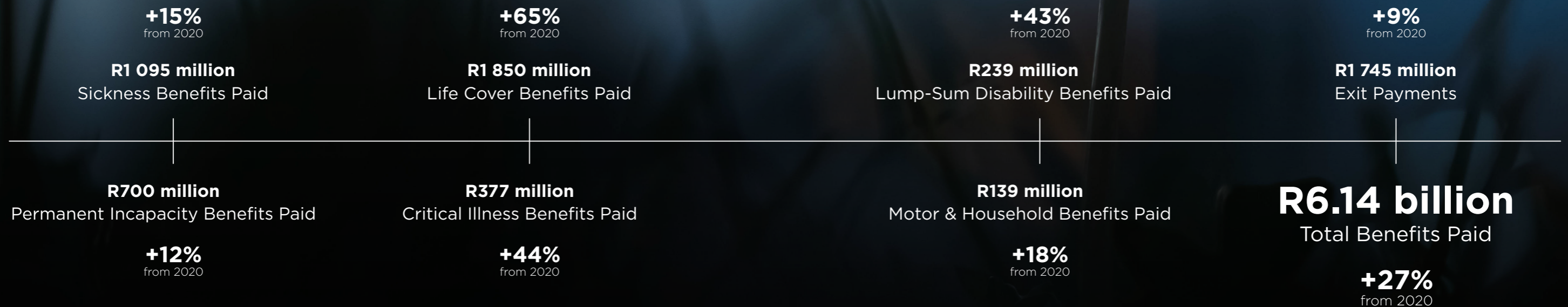


# 2021 Highlights

## Total Benefits Paid in 2021

### The seasons are a beautiful cycle.

Life would not be possible without the yearly seasonal cycle. The winter months are an essential rest period in nature – certain plants and seeds, for example, can't bloom and germinate without a period of cold. And then there's Spring, which, of course, is the ever-important catalyst for growth and new life.



# 2021 at a glance

## Life is full of cycles, PPS is a constant.

As the global pandemic turned the tide on all of us, our members turned to us. We were there, as we always have been, for professionals; paying out R1.4 billion in COVID-19-related claims and R6.14 billion in total benefits.

After this large number of valid claim payments, we are very proud to announce that we still made an operating profit. That, together with our robust and long-term focused investment strategy, earned us investment returns.

It should be noted that there remains a lot of uncertainty in markets and what the impact thereof might be in future. Regardless, our investment strategy will remain long-term focused, and our financial position remains very strong, enabling us to continue to honour our commitments to our members in future.

So, as much as life is full of cycles, PPS remains a constant and is always there to look after our members.

PPS is the only diversified financial services company in South Africa focused exclusively on graduate professionals, that provides tailor-made long- and short-term insurance, investment and healthcare administration solutions. As we operate under the ethos of mutuality, our focus is on creating more value for our members, and because we believe success is better shared, we are there to support graduate professionals to live the lives they aspire to.

## Our Corporate Social Responsibility

### PPS Foundation

Despite the challenges of the past two years, the PPS Foundation continued to support its beneficiaries. The PPS Foundation Bursary Programme remained firm in its mission and bursary payments were reliably made to beneficiaries at the beginning of each semester. In total, 78 bursaries were funded in the last year alone.

In 2021 the PPS Foundation partnered with corporate sponsors like PPSHA and Accredited Resource Consulting Services, which enabled us to increase the number of bursaries awarded. During the year, the PPS Foundation also considered requests for assistance from public tertiary education institutions. One such project was when we supported the University of Cape Town financially following fire damage to its library in April 2021.

### PPS Academy

In 2020, we launched a "lockdown curriculum" and encouraged staff to take up skills and development programmes that were made available to them online. We encouraged staff in 2021 to continue using these resources.

On a practical level, the Academy continued to offer a dedicated digital literacy programme called "Race to 150" in 2021. The programme was specifically designed to assist staff members to develop the skills they need to interact effectively in a digitised world.

The Academy also offers courses and interventions for members and intermediaries which are designed to help them deal with the stresses and challenges they may be facing in their own practices and businesses.

## PPS Life Insurance

The annual premium income of new life insurance business written in 2021 in South Africa and Namibia is a significant 23% up in 2020. It is also 9% more than the previous record year in 2019. New business is the lifeblood of a life assurance business and our channels are indeed healthy and performing very well. Given the professional segment that we serve, the nature of our income protection and life products is such that advice is an important ingredient in the process. Therefore, our only way of distribution is through face-to-face advisers, both internal and external to PPS. About 75% of new business flows to PPS in 2021 were again due to external (independent) financial advisers. They remain important business partners to us, serving our professional members. The other 25% of new business was from our internally employed advisers. This internal channel had an exceptional year in 2021, growing life new business by 28%.

Gross Life premium revenue went up by 4.5% in 2021 supported by a low lapse rate that came in at 5% at the end of the year. The big story of the year to report on is of course claims. As can be appreciated, it was very difficult to anticipate at the start of 2021 the impact that COVID-19 claims would have, despite actuarial model guidance from the South African Actuarial Society. Most of the impact of the second COVID-19 wave that started towards the end of 2020, was felt in the 2021 financial year. The impact of the significant third wave, which reached a peak in July/August 2021, came through in our claims experience in the third and fourth quarters. Total claims were 36% more than in 2020, which was in turn 45% more than in 2019. COVID-19 claims (the ones that were formally acknowledged as such) alone amounted to R1.4 billion in 2021. In 2021, we paid 11 587 COVID-19 sickness claims to the value of R424 million. We also paid 193 COVID-19 death claims to the value of R975 million. We, therefore, paid almost 12 000 claims that were formally acknowledged to be COVID-19 related, but have reason to believe that this number is higher due to some members choosing not to acknowledge this as the underlying reason for their claim. Almost one in ten of our members submitted a COVID-19 claim. These are huge numbers from a historical perspective, but we could absorb these numbers in our income statement without dipping into negative territory (and ignoring investment returns). Our solvency remains strong as PPS continues to honour long-term future commitments to our members.

Management expenses constitute the only "leakage" from the pool that will eventually be returned to our members, either as a claim payment or as Profit-Share allocations. Hence, efficiency ratios are important metrics that we track. Management expenses were in line with budget and breached the target efficiency ratio slightly, mainly due to extra expenditure related to the recovery after the cyber event.

We launched a major enhancement to our Critical Illness Cover in January 2021, extending coverage for critical illness to early-stage diagnoses to allow for much better treatment outcomes. The limit for potential payouts for cancer and cardiovascular illness were also increased, new disease categories were added, and Child Critical Illness benefits were enhanced.

We introduced several learning innovations through the PPS Academy, which have been very well received. These include a series of Did You Know? sessions for financial advisers, which are designed to give them an in-depth understanding of the entire PPS product suite. In addition, we are in the process of developing an online intermediary engagement platform, which will give financial advisers faster access to information and help them to model Profit-Share outcomes for clients who have qualifying PPS products. This will be rolled out in 2022.

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— Izak Smit  
Group Chief Executive Officer

# 2021 at a glance

## PPS Advisory Services and Enablement (ASE)

The ongoing pandemic, a cyber disruption in March 2021, the civil unrest in July 2021, high levels of unemployment and an exceptionally constrained economy all had an impact on performance. Despite this, new risk business sale was up by 28% from 2020, Gross Investments flows grew by 15%, Wills written were up by 31% and new members grew by 22% from last year. In addition, the business achieved a 15 Net Promoter Score, growing by 20% from the previous year.

Members have nevertheless remained cautious about spending in such an uncertain environment, but this has been mitigated by increased awareness of the need for certain key products, especially life cover, medical cover, sickness and permanent incapacity cover, and business continuity cover. As a result, PPS ASE remains the fastest growing agency in the country despite current circumstances according to NMG.

## PPS Healthcare Administrators (PPSHA)

In 2021, our business continued to be affected by the ongoing COVID-19 pandemic. As in 2020, many scheme members lost their jobs or came under financial pressure for various reasons. As a result, a relatively high number of members resigned from their schemes. These included members who had been retrenched by employers that operate closed schemes as well as members who had to resign their memberships of open schemes for financial reasons.

Revenue was 7% up on 2020. Expenses were 9% up on 2020, slightly ahead of budget due to additional spending to improve BBBEE ratings, which are especially important in this market. Profit before tax was in line with 2020. The increase in revenue and profit is mainly a result of marginal growth in membership of the Profmed scheme and very good growth in the KeyHealth scheme, where membership by the end of the year was 2% higher than at the start of the year. Membership resignations across the schemes that we administer were slightly up on 2020, but still quite low by historical standards as members are understandably very reluctant to lapse medical aid membership during a pandemic. However, COVID-19-related deaths contributed to net attrition rates. Part of the strategy of PPSHA is the provision of additional services to existing clients (such as disease and dental management) and this supported the growth in revenue. Improvement in operational efficiencies continues to be a major focus, to keep costs low for our clients.

One of our most notable innovations in 2021 was the introduction of the PPS Wallet for Profmed. This is an add-on savings account that is independent of the main medical benefit, but which works seamlessly with the medical benefit to cover the payment of healthcare expenses. It is available to Profmed members across all scheme options and is highly flexible in terms of the amount that can be paid into the PPS Wallet. The money in the PPS Wallet can be used to pay healthcare expenses for any beneficiary registered on the member's profile. The claims processing is seamless and hassle-free for the Profmed membership, thus enhancing the private client experience.

## PPS Investments (PPSI)

PPSI reached its 15-year milestone at the end of 2021. It has now grown to a significant business with total assets under management of R54.0 billion, up by 25% from R43.1 billion at the end of 2020. It now serves more than 54 000 investors. The 2021 year was arguably the best year in PPSI's history. Gross new business inflows were R7.1 billion. Surplus before interest and tax was 57% up on 2020. This strong growth in surplus demonstrates the benefits if an investment business grows to scale. The good surplus numbers were mainly due to strong financial discipline in expense management, benign investment markets and the good new business performance. Our members with qualifying life products benefit directly from these increased profits as it is added to their Profit-Share Accounts. However, more important than overall profitability is the individual fund performance. Investment performance (relative to benchmarks and peers) on both the retail and institutional side is very pleasing. In the latest Morningstar Fund Ratings, PPS Management Company, which manages the PPS fund range – was ranked within the top three of the 46 competitors.

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— **Izak Smit**  
Group Chief Executive Officer

## PPS Short-Term Insurance

With new business under pressure due to the COVID-19 pandemic, the **PPS Short-Term Insurance personal and commercial lines** business used the opportunity to focus on further digitalising the business as well enhancing the concierge services and introducing travel benefits. These initiatives to future proof the business are in response to the need for convenience by graduate professionals who are time poor.

The introduction of the Profit-Share and the Profit-Share Cross-Holdings Booster for Short Term Insurance personal and commercial lines products is starting to positively impact cross-sell to the PPS membership; this resulted in a 11% increase in new premium written when compared to 2020.

COVID-19 restrictions and an increase in working from home saw members using their vehicles less. This, together with mild weather, led to better than expected claims performance. The claims experience over the last few years, irrespective of the COVID-19 impact, supports our view that the professional market segment is a benign risk pool. This is due to certain behavioural traits common to professionals, like embracing certain personal risk management principles and a general professional ethos.

Lapses were slightly higher than projected, driven mainly by economic conditions; however, it is pleasing to see that the trend shows a decrease in lapses from the previous year.

Our **Health Professions Indemnity** business continues to be on an aggressive growth path. The migration of the Pharmaceutical Society of South Africa Scheme (PSSA) positively impacted new business volumes leading to a year on year growth of 305%.

Gross written premiums increased by 67% from the previous year. The focus on underwriting and understanding the specific risks has resulted in a quality insurance portfolio as reflected in the insignificant loss experience to date despite a highly litigious environment.

The bottom-line financial performance of the business is well ahead of budget, mainly due to good expense management. This business is well on its way to a breakeven position in the next year or two and on track to becoming sustainable in five

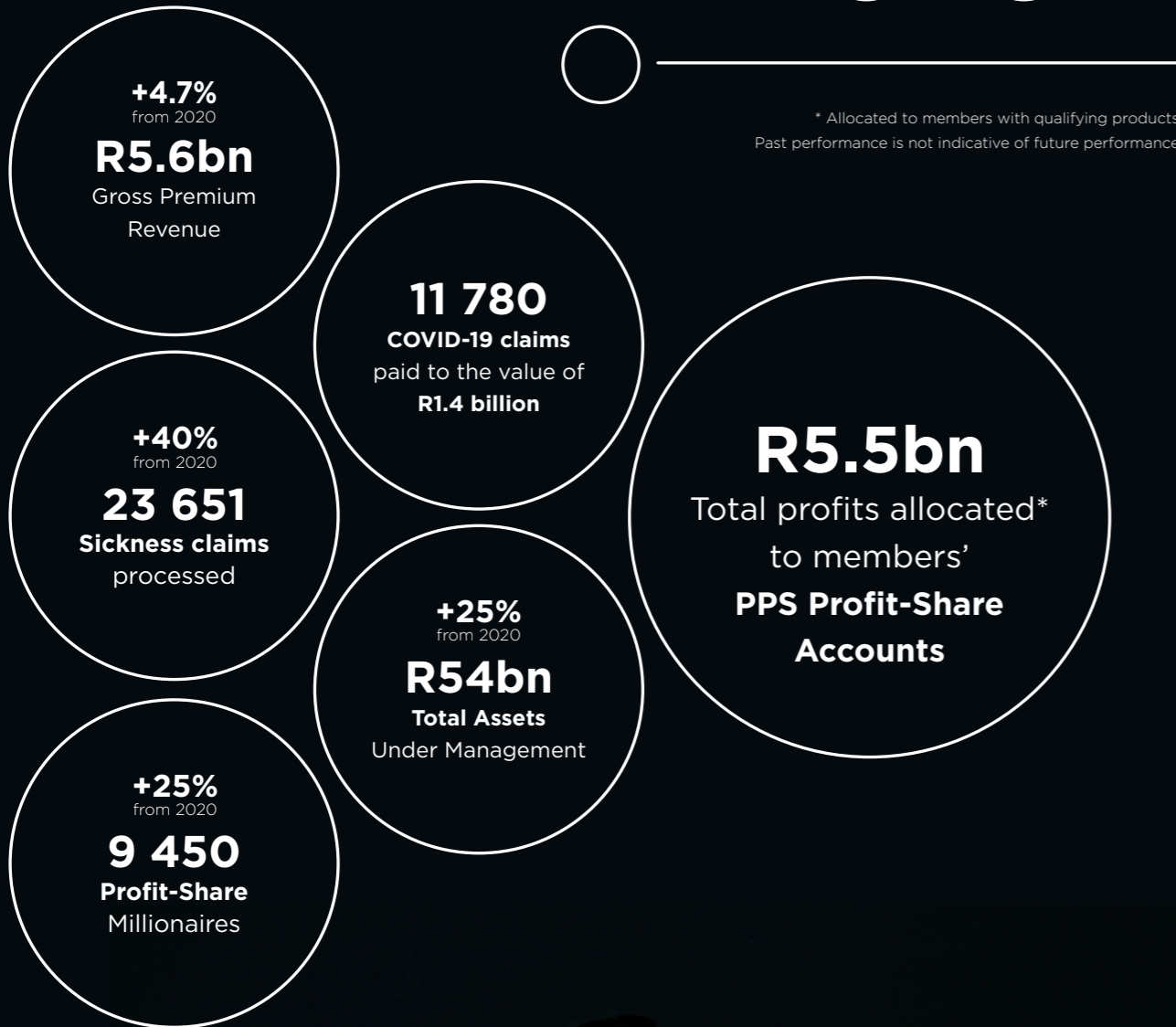
years. New business distribution will be stepped up in 2022, as the proposition of quality indemnity cover is so much in tune with the purpose of PPS: helping members to focus on their professions, enabling them to practice.

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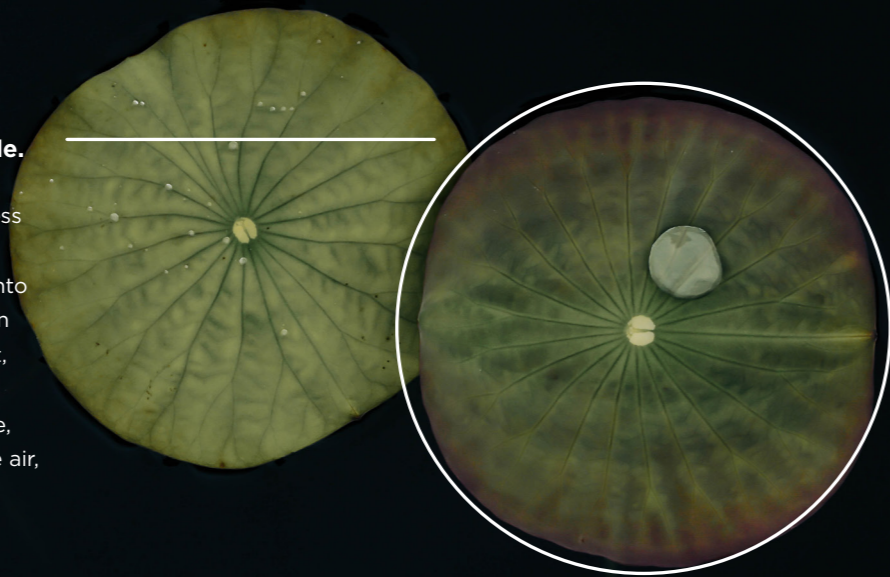
— **Izak Smit**  
Group Chief Executive Officer

# 2021 Highlights



## Photosynthesis is a beautiful cycle.

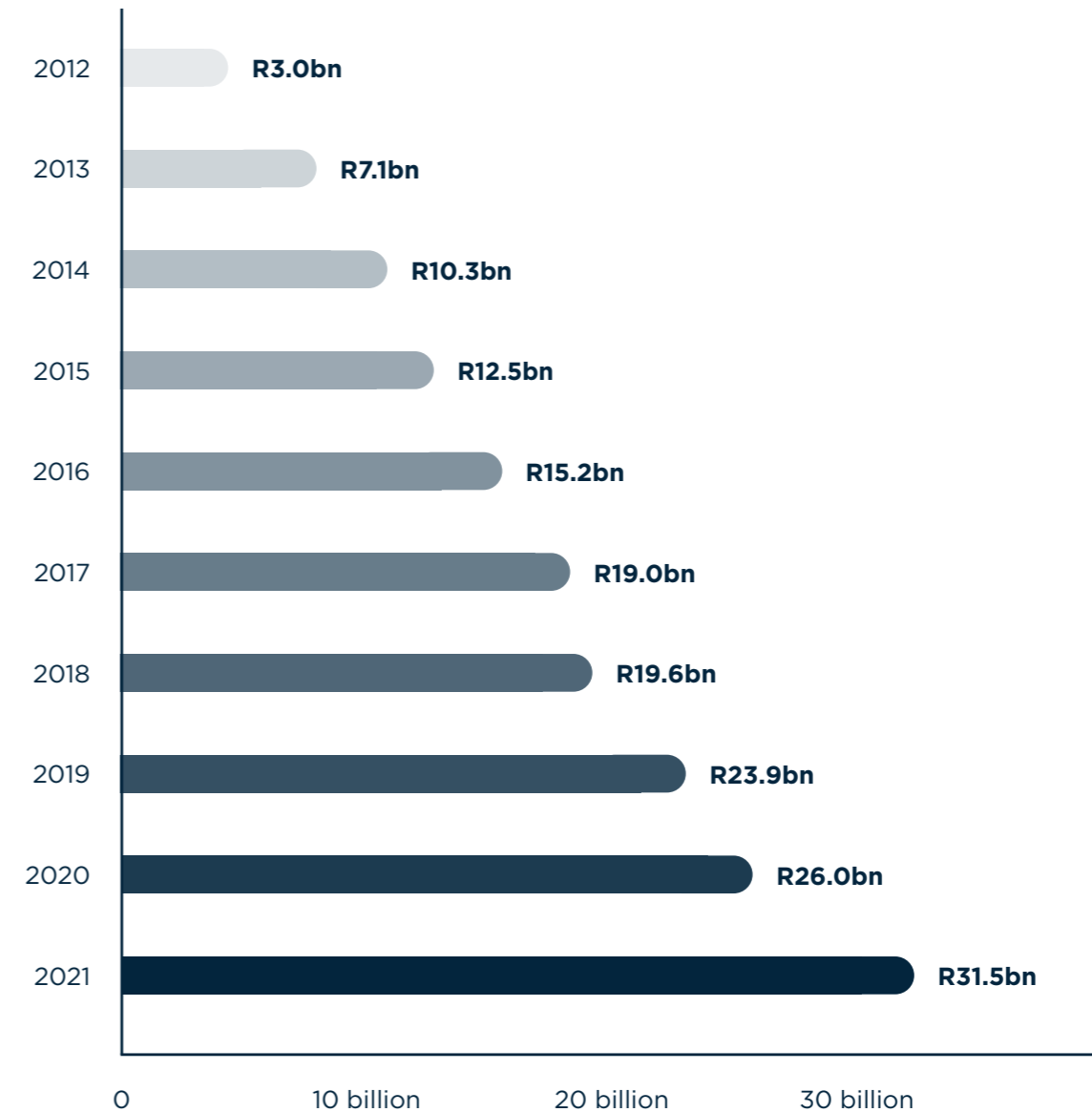
Photosynthesis is the incredible process whereby plants containing chlorophyll convert sunlight and carbon dioxide into glucose, water and oxygen. It results in glucose-rich plant matter for us to eat, water for us to drink and air for us to breathe. And, of course, as we breathe, we expel carbon dioxide back into the air, and so the cycle continues.



## The PPS Financial Results 2021 Highlights

# R31.5bn

TOTAL CUMULATIVE PROFIT-SHARE ALLOCATION TO MEMBERS OVER THE LAST 10 YEARS



At PPS we believe in sharing above all else, even in the most challenging times. The more qualifying products you hold with us, the bigger your Profit-Share allocation.

The PPS Profit-Share Cross-Holdings Booster is allocated over and above the existing allocation. It is tiered according to the number of products a member holds. If they hold PPS life risk products and they buy a qualifying product(s) from one of our subsidiaries or affiliates (PPS Short-Term Insurance, Health Professions Indemnity, PPS Investments, Profmed) this will increase their allocations by a specific percentage.

The Profit-Share Cross-Holdings Booster allocations are not fixed and may differ every year. Allocations take place annually and will be declared alongside Profit-Share. The allocations are dependent on the profitability of PPS subsidiary products. PPS reserves the right to discontinue this offering at its own discretion. Past performance is not necessarily indicative of future performance.



Success is better, shared.

PPS is a licensed insurer conducting life insurance business, a licensed controlling company and an authorised FSP.  
Past performance is not necessarily indicative of future performance. Profit-Share Account is a notional account and vests at age 60.