

# Principles and Practices of Financial Management

## Professional Provident Society Insurance Company Ltd (PPS Insurance)

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PPS Insurance is a licensed Insurer and Financial Services Provider (FSP 1044)

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## **1. Introduction**

The Professional Provident Society was established in 1941 as a mutual society providing benefits to its members. Following a restructuring during 2001, the Professional Provident Society Limited (PPS Limited) was established as the holding company representing members' interests. In 2011, PPS Limited was converted into the PPS Holdings Trust. PPS Insurance operates as a subsidiary of the PPS Holdings Trust and undertakes to provide long-term insurance business exclusively for graduate professionals.

PPS Insurance has no external shareholders and all profits earned by the business are allocated to PPS Holdings Trust ordinary members via their PPS Profit-Share Accounts, a policy benefit of PPS Insurance policies.

This document outlines the PPS Insurance Principles and Practices of Financial Management (PPFM) for our policyholders to understand the Profit-Share allocation principles and practices in place for PPS Insurance, as well as the investment strategy adopted by the PPS Insurance Board.

## **2. Principles and Practices of Financial Management**

This document, which is available on our website and can also be sent to you on request, is intended to explain how we will manage Profit-Share allocations by PPS Insurance to its policyholders, and to confirm alignment with the PPS Provider Policy document which effectively acts as the contract between PPS and its members. PPS Insurance supports the establishment of the PPFM as an important part of the overall governance and financial management of discretionary policyholder benefits.

PPS Insurance will each year certify that we have operated our business in line with the PPFM and inform policyholders if we make changes to it.

We firstly set out the "Principles" and then the "Practices".

Principles are high-level, enduring statements of the standards we adopt and are not intended to change very often. When they do, we will inform affected policyholders at least 31 days in advance.

Practices describe our approach to managing Profit-Share allocations and these may change more often. When they do, we will inform affected policyholders within a reasonable time period thereafter.

If you have any queries about this document, please call us at +27 860 123 777, +27 11 644 4300 or email us at [memberservices@pps.co.za](mailto:memberservices@pps.co.za).

### **3. Governance of the PPS Insurance PPFM**

The adherence of PPS Insurance to the Principles and Practices as set out in this document is the responsibility of the PPS Group Audit Committee, who is required to conduct a review on an annual basis.

The PPFM may change as the economic or business environment changes. Any change to a Principle or a Practice will be approved by the PPS Insurance Board, on recommendation from the PPS Insurance Corporate Actuarial Department, the Head of Actuarial Function, the PPS Group Actuarial Committee and the PPS Group Audit Committee.

At least 31 days before a change to a Principle is implemented, affected PPS Insurance policyholders will be informed and the proposed change will be published on our website. Any change to a Practice will be published on our website and policyholders will also be informed of such a change in our annual communication to policyholders.

### **4. Approval of Unvested Profit-Share Allocations**

The PPS Insurance Profit-Share allocations are recommended by the PPS Insurance Corporate Actuarial Department and the Head of Actuarial Function, following the Principles and Practices outlined in this document. The Profit-Share allocations are declared annually after the completion of the financial statements of the PPS Holdings Trust, PPS Insurance and its subsidiaries, during which the profit or loss for the year available for allocation to members is determined. The Profit-Share allocations are discussed at the Group Actuarial Committee and the Group Audit Committee, and are finally considered and approved by the Board of PPS Insurance.

## **5 Profit-Share Allocations**

### **5.1 Overriding Principles**

The following overriding principles will take precedence over any other principles.

- 5.1.1. PPS Insurance will meet all its contractual obligations, and legal and regulatory requirements. In the event of a conflict arising between the PPFM, as outlined in this document, and the policy conditions, the policy conditions will prevail. Similarly, in the event of any conflict between the PPFM and the legal and regulatory requirements, the legal and regulatory conditions will prevail.
- 5.1.2. Any decisions regarding the allocation of profits or losses will first consider the long-term solvency of PPS Insurance.
- 5.1.3. Profit-Share allocations will be declared having regard to policyholders' reasonable benefit expectations, which have arisen from original contractual entitlements as well as past practice by PPS Insurance, relevant industry practice and official PPS Insurance documentation made available to policyholders by PPS Insurance. The needs, interests and expectations of the policyholders must be considered in balance with the broader strategic needs of the business. These needs and interests will include ensuring the continued solvency of the company, new business sales and other business development needs.

## **5.2 Principles**

- 5.2.1. Because of their importance both to the holders of discretionary participation policies and to the financial strength of PPS Insurance, Profit-Share allocations are approved by the PPS Insurance Board.
- 5.2.2. Profit-Share allocations will be determined annually.
- 5.2.3. Profit-Share allocations will apply only to qualifying policyholders who hold qualifying products and will broadly reflect the investment and operating experience of the business. Qualifying policyholders are ordinary members of PPS Holdings Trust that have purchased a PPS Provider Policy.
- 5.2.4. For the purposes of this document, profits are taken to mean both profits and losses. Profit-Share allocations may be positive or negative.

## **5.3 Practices**

- 5.3.1. Each qualifying PPS Provider policyholder is assigned a notional non-vesting account called the PPS Profit-Share Account. The PPS Profit-Share Account comprises two elements, the Apportionment Account and the Special Benefit Account.
- 5.3.2. Each year PPS Insurance's operating profits are allocated to the Apportionment Accounts and investment returns are allocated to the Special Benefit and the Apportionment Accounts.
- 5.3.3. PPS Insurance's operating profits are allocated to the Apportionment Accounts via a Bonus Allocation. The Bonus Allocation for each product is determined with reference to the value of the insurance cover and takes into account various factors, such as the number of Units of Benefit, the amount of the Sum Assured, the premiums payable and/or the size of the Special Benefit and Apportionment Accounts.
- 5.3.4. A portion of the net investment income is allocated to the Apportionment Accounts by means of the Interest Allocation. The amount of the allocation to each policyholder will depend on the size of the member's PPS Profit-Share Account at the end of the financial year of the Profit-Share allocation.
- 5.3.5. Net realised and unrealised capital gains, and the balance of the net investment income, are allocated to the Special Benefit Accounts by means of the Special Benefit Account Allocation. The amount of the allocation to each policyholder will depend on the size of the member's PPS Profit-Share Account at the end of the financial year of the Profit-Share allocation.
- 5.3.6. The Bonus, Interest and Special Benefit Account Allocations are net of any allowance for amounts required to build up the actuarial liabilities.
- 5.3.7. A degree of balancing is permitted between the different products to prevent excessive volatility in the declared Profit-Share allocation rates.
- 5.3.8. All allocations are non-vesting. Future Profit-Share allocations may be either positive or negative depending on whether profits or losses occur during the financial year. A negative allocation is equivalent to removing previously allocated profits.
- 5.3.9. A special "PPS Investments Bonus" may be allocated to the Apportionment

Accounts of PPS Provider policyholders who also have, or are the member on record for, investments with PPS Investments. This amount is allocated in a similar manner to the Bonus Allocation, with the exception that the allocation is based on the assets with PPS Investments in qualifying products. Further, where these assets are invested in PPS Investments portfolios, they may receive an additional allocation. These amounts are to be allocated at the discretion of the PPS Insurance Board to such policyholders and are dependent on the profits earned by PPS Insurance from the PPS Investments' business, and further dependent on the profitability of the qualifying products and of the PPS Investments portfolios.

- 5.3.10. A special "PPS Medical Aid Products Bonus" may be allocated to the Apportionment Accounts of PPS Provider policyholders who are also members of the Profmed Medical Scheme. This amount is allocated in a similar manner to the Bonus Allocation, with the exception that the allocation is based on the members' contributions in the year to the Profmed Medical Scheme. This allocation is to be made at the discretion of the PPS Insurance Board and is dependent on the profits earned by the PPS Healthcare Administrators, a wholly owned subsidiary of PPS Insurance, in the administration of the Profmed Medical Scheme.
- 5.3.11. PPS Insurance may annually credit a special allocation (the "PPS Short-Term Insurance Company (PPS STI) Allocation") to the Apportionment Accounts of those PPS Provider policyholders who also hold products of PPS STI (excl. HPIC, see 5.3.12). PPS Insurance in its sole discretion in determining this special allocation, shall at the end of each financial year determine the financial performance and available cash flow generated by the PPS STI product/s. The allocation shall be in proportion to the Policyholder's aggregate premium paid to the PPS STI product/s in relation to the total of the aggregate premiums paid by all PPS STI Policyholders.
- 5.3.12. PPS Insurance may annually credit a special allocation (the "PPS Health Professions Indemnity Cover (HPIC) Allocation") to the Apportionment Accounts of those PPS Provider policyholders who also hold the HPIC product. PPS Insurance in its sole discretion in determining this special allocation, shall at the end of each financial year determine the financial performance and available cash flow generated by the HPIC product licensed through PPS Short-Term Insurance, a wholly owned subsidiary of PPS Insurance Company. The allocation shall be in proportion to the Policyholder's aggregate premium paid to the HPIC product in relation to the total of the aggregate premiums paid by all HPIC holding Policyholders, as named insured under the HPIC.
- 5.3.13. PPS Insurance may annually credit a special allocation (the PPS Business Assurance Allocation) to the Apportionment Accounts of those PPS Provider policyholders who also hold the relevant products, as determined by PPS Insurance in its discretion from time to time, under a PPS Business Assurance Policy. PPS Insurance in its sole discretion in determining this special allocation, shall at the end of each financial year determine the financial performance and available cash flow generated by the PPS Business Assurance Policies. The allocation shall be in proportion to the Policyholder's aggregate premiums paid to the relevant Business Assurance products in relation to the total of the aggregate premiums paid by all PPS Business Assurance policyholders in respect of the relevant products.

- 5.3.14. PPS Insurance may annually credit special allocations to the Apportionment Accounts of policyholders who hold products across multiple PPS Group subsidiaries. In determining this special allocation, PPS Insurance in its sole discretion in determining this special bonus, shall at the end of each financial year determine the financial performance and available cash flow generated by PPS Insurance and PPS Group subsidiaries. The allocation shall be in proportion to the Policyholder's Apportionment Account allocations received from PPS Insurance and PPS Group subsidiaries. PPS Insurance may also choose to offer members that hold a Will with PPS Fiduciary Services a discount on their annual safe custody fee, with the size of the discount linked to the number of products held across the multiple PPS Group subsidiaries.
- 5.3.15. Important to note is that the policyholder is only entitled to their full Profit-Share Account on attaining the age of 60 (or on earlier death or full disability claim resulting in natural termination of their policy).
- 5.3.16. Subject to paragraphs 5.3.17, 5.3.18 and 5.3.19, on termination of the policy prior to the age of 60 (other than for the reasons noted in paragraph 5.3.15), a reduced benefit will be payable (Reduced Termination Benefit) to the policyholder. The reduced termination benefit is calculated with reference to the notional balance of the Profit-Share Account at the time of the early termination of the policy. This ensures that allowance is made for the duration that the policy was in force prior to its termination.
- 5.3.17. The value of the Reduced Termination Benefit is calculated by taking:
- a) the balance of the Profit-Share Account, at the time of the early termination of the policy;
  - b) subject to 5.3.16, deducting the interest allocations to the Apportionment Account as PPS Insurance in its discretion may decide;
  - c) deducting from the Special Benefit Account balance an amount determined by PPS Insurance taking into account the number of years until age 60.
- 5.3.18. The forfeiture amount from the Apportionment Account under 5.3.17(b) will not exceed the amount of interest allocations credited to the policyholder's Apportionment Account during the last two financial years as a policyholder of the PPS Provider™ Policy.
- 5.3.19. No payment will be made from the Special Benefit Account where cover is terminated by PPS Insurance in terms of the provisions of the PPS Provider™ Policy or where any relevant legislation prevents or restricts payment to the policyholder.
- 5.3.20. Where a policy is terminated or matures during the course of the year, interim Profit-Share allocations are added on a pro-rata basis, based on the previous year's Profit-Share allocation declarations.
- 5.3.21. Interim investment income and capital gains or losses are brought into account based on the actual performance (net of taxes and expenses) of the underlying assets of the PPS Profit-Share Account up until the month prior to the policy termination or maturity. Should there be significant market movements in the subsequent period up until exit, there may be an adjustment made to the final benefit payable to reflect this.

## **6 Investment strategy**

### **6.1 Principles**

The PPS Insurance investment strategy (encapsulated in the PPS Insurance Investment Management Policy and Investment Mandates) aims to optimise sustainable long-term returns on behalf of members, having regard to:

- The long-term strategic investment performance requirements for PPS Insurance's assets.
- The framework of the investment mandates for PPS Insurance.
- The regulatory restrictions applicable to the mandates set by PPS Insurance, including the limits within which PPS Insurance may invest in unlisted assets (such as physical properties, infrastructure and private equity) and alternative strategies including hedging strategies
- The market risk and investment limitations imposed on the portfolios managed for PPS Insurance.
- The process of appointing, reviewing and terminating fund managers applicable to the portfolio mandates set by PPS Insurance, as set out in the terms of reference of the PPSMM investment committee. The PPSMM investment committee is a sub-committee of the PPSMM Board established with a view to exercise appropriate oversight over PPSMM investment mandates associated with the PPS Group.
- The process of analysing PPS Insurance's Asset Liability Management (ALM) position against risk limits.
- The manner in which investments are made to ensure the security, quality, liquidity and profitability of PPS Insurance's whole portfolio.

PPS Insurance's assets will be invested in an appropriate and broad range of suitable investments in accordance with the PPS Insurance Investment Management Policy and Investment Mandates as approved by the PPS Insurance Board.

PPS Insurance's assets will only be invested in strategies whose risks can be identified and understood, measured, assessed, monitored and reported on, and as far as possible be managed and controlled.

PPS Insurance's assets will be invested in a manner that considers responsible investment and Environmental, Social and Governance factors will be embedded in the decision-making process.

The PPS Insurance Investment Management Policy and Investment Mandates are reviewed from time to time and revised as required to ensure these documents remain relevant and appropriate.

Maximum and minimum exposures for different asset classes are set in accordance with the PPS Insurance Investment Management Policy objectives. Maximum exposures to any one counter party are specified.

Investments may be made in derivatives or similar instruments if they are appropriate to the objectives of the investment portfolio and meet the related investment restrictions as set out in the investment mandates.

## **6.2 Practices**

An investment management mandate and agreement exists between PPS Insurance and its fund manager (PPS Multi-Managers), which sets out the required investment strategy, guidelines and benchmarks, fees payable and related requirements. The benchmarks are set taking into consideration the levels of risk inherent in each asset class.

The PPS Insurance Board reviews the performance of the investment portfolios and ongoing appropriateness of PPS Insurance's assets regularly, and is responsible for approving significant investment-related decisions. PPS Insurance has an investments department, which conducts the fund accounting and compliance functions required.

Currently, the assets backing the PPS Profit-Share Account are invested in a mix of listed equities, property, fixed interest investments, international assets and cash. Asset allocation ranges are set, along with performance targets and benchmarks. The mix of different asset classes is premised on the long-term investment view of the PPS Insurance Board, and as such short-term fluctuations in performance can be expected.