FOR PROFESSIONALS

SINCE 1941

QUARTERLY BUSINESS BRIEF

APRIL 2018


pps
FOR PROFESSIONALS
SINCE 1941
SUCCESS IS BETTER, SHARED.
PPS members enjoy more than just professional cover. In 2017, our members enjoyed their share of R3.7 billion allocated to their unique Profit-Share Accounts, further reinforcing our passion for mutuality. In fact, in the past financial year, our group assets* accumulated to R35.3 billion, proving that success is better, shared.
Discover our shared success in our financial report.
Visit PPS.co.za
*Excluding unit trusts for third parties.
Life Insurance | Investments | Financial Planning | Short-Term Insurance | Medical Aid
PPS offers unique financial solutions to select graduate professionals with a 4-year degree. PPS is an authorised Financial Services Provider.

SUCCESS IS BETTER, SHARED.

PPS allocates R3.7 billion in profits to members in 2017

Built on the ethos of mutuality, PPS, a financial services company focused exclusively on graduate professionals, showed a strong performance in the 2017 financial year, allocating R3.7 billion in profits to its members. This is in addition to the R2.9 billion in total benefits paid.

"Success is better, shared," says CEO of PPS, Izak Smit. "PPS members enjoy more than just professional cover. In 2017, our members were able to enjoy their share of R3.7 billion allocated to their unique Profit-Share Accounts, further reinforcing our passion for mutuality."

The company's ability to perform in a tough economic environment was achieved through leveraging technology for cost-efficiencies, tight expense management and a significant rise in investment profits.

There are currently 4 400 PPS members who have over a million rand in their PPS Profit-Share Accounts. Profits are allocated to members' PPS Profit-Share Account annually. These profits accumulate over members' working lifetime and at retirement, can be transferred to PPS Investments for further investment growth.

Smit is pleased with the company's robust growth in 2017, which saw gross premium revenue exceeding R4 billion for the first time - a 12% increase year on year. The Group's total assets, (excluding unit trusts for third parties), increased to R35.3 billion. PPS Investments increased assets under management to R28.6 billion with new investment flows rising 14%. This is partly attributed to members reinvesting their money with the investment business at retirement.

Smit adds, "PPS has evolved to an end-to-end financial partner for our members."

Smit attributes this healthy performance to graduate professionals' growing appetite for PPS's unique solutions and the ongoing support the company receives from intermediaries.

"We have seen a strong surge in support from intermediaries and were delighted to win the Long-Term Insurer of the Year: Risk Product category, at the prestigious Financial Intermediary Association (FIA) awards last year. Intermediaries are key business partners and we will continue to work closely with them in the future."

A focused strategy and strong growth have underpinned the company's evolution into a fully-fledged financial services company, offering a wide range of solutions tailored exclusively around the needs of graduate professionals. The PPS offering now spans long- and short-term insurance, investments, financial planning, fiduciary services and healthcare administration.

Looking ahead to 2018, the company will continue to focus on growth across the full range of financial solutions. PPS also plans to roll out digital tools and initiatives which will further enhance the service experience for members and intermediaries.

Smit concludes, "We are delighted by the performance of PPS during 2017. We were able to pay substantial claim benefits, as well as provide significant profit allocations. These results continue to demonstrate the benefits of belonging to a financial services group operating under the ethos of mutuality."

*Source: PPS media release.

2022

By Dirk Vorster,
Manager: Group Marketing

Cars will run on seaweed. Humans will live to be 300. Robots will penetrate the depths of outer space. That's what some experts predict for the Class of 2022.

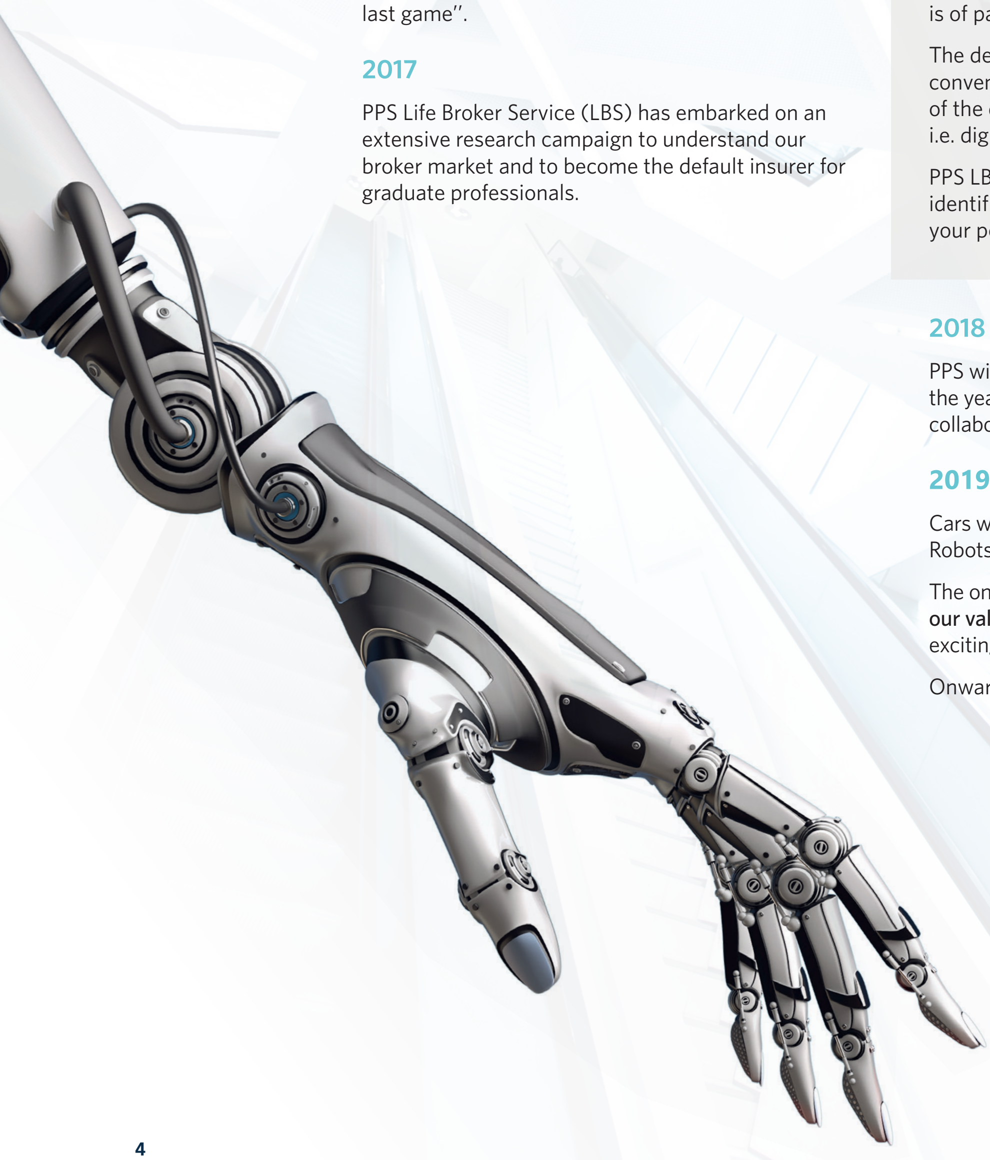
POSSIBLE? MAYBE

PPS is at the cutting edge of innovation, but we believe that we are all still human – the warm handshake, the conversation and comradery will always be part of our brand promise! You have confirmed this by voting for us as the best long-term insurer of risk products in 2017.

The award created a great sense of pride internally, but as the saying goes: ''You're only as good as your last game''.

2017

PPS Life Broker Service (LBS) has embarked on an extensive research campaign to understand our broker market and to become the default insurer for graduate professionals.



YOU HAVE SPOKEN AND WE HAVE LISTENED!

The results highlighted that we are on the right track, however, we need to improve our value proposition to become brand leaders and provide you, our valued intermediary, with the necessary tools to become brand leaders in the community you serve.

We have identified key areas and our focus will be directed on innovative system enhancements *inter alia*, ease of doing business with PPS, improve the processing time of application forms and seamless claims experience. Furthermore, it is evident that marketing of the PPS brand to ensure brand equity is of paramount importance.

The delivery of sales collateral is no longer conventional and this necessitates a re-engineering of the delivery of brochures and associated support i.e. digitisation in consumable ''bites''.

PPS LBS in partnership with PPS Investments has identified a magnitude of opportunities to increase your portfolio.

2018

PPS will engage with you extensively throughout the year to explore opportunities on how we can collaborate and launch new initiatives on your behalf.

2019-2022

Cars will run on seaweed. Humans will live to be 300. Robots will penetrate the depths of outer space.

The only constant is PPS being there for you – our valued broker – and to achieve new heights in this exciting new era we are entering as mutual partners.

Onwards and upwards!

2017 CLAIMS STATISTICS

By Motshabi Nomvethe

Life insurance is an important part of holistic financial planning, yet, so many people don't want to think about it, until they are beset by an event. PPS has a long-standing reputation of protecting our members dreams and their financial wellbeing.

In 2017 PPS paid claims to the value of R1.7 billion, broken down as follows:

CLAIMS PER BENEFIT:**

BENEFIT	AMOUNT
Sickness	**R473 400 412**
Permanent Incapacity	**R410 375 392**
Death	**R607 447 309**
Disability	**R109 040 357**
Critical Illness	**R160 790 000**

This brings our total claims paid over the last 10 years to R16.7 billion.

Altogether, we paid over 20 500 claims, across all benefits. This translates to just over R7 million per working day that was paid to members or their families to remove the financial worry and stress that comes with a claim event.

SICKNESS BENEFITS

PPS was founded primarily to assist and provide for members who are unable to work due to illness. We paid R473.4 million in sickness claims, which is 27% of all claims paid. This is a significant amount, especially when you consider that the majority of our sickness claims are short duration, high frequency claims.

Cancer and musculoskeletal conditions increased significantly, when compared to 2016.

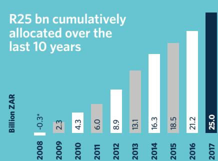
INCAPACITY BENEFITS

Our Sickness, Partial and Permanent Incapacity Benefits are designed to aid members through the natural progression of a long-term illness that may render them unable to work for more than a total period of 2 years, whether the condition is permanent or not.

Psychological illnesses and injury were the top conditions with the youngest recipient, being 29 years. This shows yet again, that even young people are not immune to being ill for extended periods, if not permanently. 78% of the Permanent Incapacity claims are being paid at 100%.

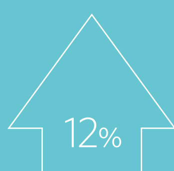
TOTAL ALLOCATIONS TO MEMBERS

R3.7 billion



*Including negative investment returns as a result of the global financial crisis

TOTAL ASSETS*



R35.3 billion

*Excluding unit trusts for third parties.

DEATH CLAIMS

The number of death claims increased by 22% in 2017, and made up 34% of total claims paid in 2017. The increase was mainly due to an increase in the average benefit amount. This means that our members are moving closer to insuring themselves for their full needs, which is encouraging, given that according to research by True South Consultants, the South African life insurance industry is generally underinsured on average by R2 million per income earner. The consequences of this underinsurance are dire, especially for young and vulnerable dependents.

DISABILITY

When it comes to the causes behind disability, neurological and diseases of the musculoskeletal and connective tissue head up the list. There was a 13% increase in the value of total claims paid for disability events and the recipients' ages range from 28-66 years.

CRITICAL ILLNESS

Claims for this benefit totalled 9.1% of the value of all claims paid. This is up 35% from 2016. 72% of critical illness claims were for severity A conditions and received a 100% benefit payment. This has reduced from 2016, as we start to see more claims being paid at the lower severity levels. This is great news for members, as it means they are being diagnosed earlier, which improves their chances of recovery.

CANCER SNAPSHOT

In 2017, we paid a combined total of R248 million for cancer-related claims.

Globally, the number of people with cancer is expected to increase by more than 75% by 2030*. Cancer is already a leading cause of death in many high-income countries and is set to become the major cause of morbidity (sickness) and mortality. This was evident in the number of cancer claims that we processed, across all the benefits. In each benefit category, cancer featured strongly as a top cause of claim.

MORE THAN JUST INSURANCE

At PPS, we did more than just pay claims. We also allocated more than R3.7 billion into members' Profit-Share Accounts. This is made from any profits that are left from our operating profits, after we have paid for claims, operating expenses and maintained our reserves, to guarantee future claim payments. PPS members not only have peace of mind, knowing that their needs are protected with a company that pays all valid claims. Our members also get to share in the profits of the company. Because, at PPS, we believe that success is better, shared.

*World Health Organisation's International Agency for Research on Cancer
**PPS Life Risk Claims

IT PAYS TO BE WITH **PPS**

By Wimpie Mouton,
Executive: Life Broker Services

In 2009, PPS introduced Premiums Under Advice (PUA) to reward you, our loyal intermediary, for your ongoing efforts in attracting new members to PPS, reviewing their portfolios and providing ongoing service to them. Over the years the model has evolved and in 2013, the PhD level was introduced. This tier was aimed at rewarding intermediaries who have to provide service to a large client base.

In 2015 Life Broker Services undertook to get even closer to our intermediaries. This journey helped us to really get to understand some of the unique challenges that you face. Some of these included:

1. The minimum threshold to get into the Bachelors tier for PUA was high, which made it unattainable, especially for new entrants;
2. PPS did not recognise the full value that some advisers play in servicing an aging client base that potentially has little need for risk benefits as their needs shift more towards retirement planning. These changes, however, still require your time and advice in servicing and maintaining your clients' risk business.

It is against this backdrop that we made enhancements to our PUA model to address these challenges.

PUA ENHANCEMENTS

1. The threshold to get into the Bachelors tier has been significantly reduced from 150 000 to 50 000 incentive points for the production year! Intermediaries achieving more than 50 000 incentive points during 2017 will qualify for a Bachelors Bonus in 2018
2. A new tier, Professor, has been introduced, specifically to cater for advisers who have a large book (R500 000 monthly API), but who find that they have less opportunity to sell additional risk business, but continue to play a huge portfolio servicing role to their members. Intermediaries in this category will qualify for at least Professor status regardless of incentive points achieved during 2017

BACHELORS HONOURS MASTERS PHD PROFESSOR

PUA SUMMARY:

TIERS AND QUALIFYING CRITERIA

An in-force PPS contract must exist and the quality measures must be complied with.

	BACHELORS	HONOURS	MASTERS	PHD	PROFESSOR
QUALIFYING POINTS	50 000	300 000	600 000	900 000	over 3-year period 150 000
% OF MONTHLY PREMIUM	1%	2%	3%	4%	1.5%
OTHER CRITERIA	Lump sum paid annually, following year after status achieved	Payable as and when status reached monthly	Payable as and when status reached monthly	Payable as and when status reached monthly	In-force premiums of R500 000 or more per month Lapse rate less than 6%

BENEFITS OF PUA

- Increased cash flow, lower qualifying requirements
- Start earning PUA as soon as a client is on your portfolio, either through new business, or a letter of authority
- PUA grows with your business and changes as your business needs change
- For Honours, Masters, PhD and Professor categories, PUA is paid on an as and when basis, for PPS benefits that are in force
- Cross-sell opportunities - more products mean higher PUA
- PUA increases with the PPS declared annual benefit increases
- Each year, PUA increases with new business with entry date more than a year ago
- Premium increases due to age-rated premium pattern translate to higher PUA

Being rewarded for providing a service to your clients has never been easier. From as little as 3 policies with an average premium of R2000*, you can start earning. Speak to your Life Specialist, to find out just how easy it is.

*Client, premium and risk profile dependent.

WHAT'S IN STORE IN 2018?

By Luigi Marinus,
Portfolio Manager at PPS Investments

The start of a new year is usually when questions around investment predictions arise, especially questions around predictions for asset classes over the next 12 months. As always, at the top of the list of questions is the rand and the domestic equity market.

A new crowd favourite is Bitcoin and the family of cryptocurrencies including Ethereum, Ripple and who knows what's next. After nearly 10 years, I recently re-read The Black Swan, by Nassim Nicholas Taleb. It was a strong reminder that not only are predictions difficult, but the unknowns may have the most significant impact. By definition these cannot be anticipated, but is there anything we think we should look out for in 2018?

As South Africans we are accustomed to politics being a meaningful part of our daily conversation. With the outcome of the ANC elective conference at the end of 2017 and the seeming shift in internal powers there is bound to be an enhanced political drive leading into the national elections in 2019. The election of Cyril Ramaphosa as ANC president and most recently as the president of South Africa was viewed as being positive for the economy.

We saw this playing out with the appreciation of the rand post the conference and again with the appointment of our state president. The next step will be to see if actual measures will be put in place in order to make business easier for South African companies and whether this in turn can have a positive influence on the unemployment level in South Africa. The hope is that this can be one of the catalysts that can improve the Gross Domestic Product (GDP), which for an emerging market economy has been disappointing.

DID YOU KNOW?

The rand strengthened roughly 12% against the dollar in 2016 and further strengthened by nearly 10% in 2017.

In terms of economic indicators, both inflation and the interest rates are at relatively low levels, which means the Reserve Bank will need to continue the balancing act of considering a decline in interest rates without unduly risking the possibility of increased inflation.

For the most part, inflation forecasts have remained within the 3% to 6% target band for 2018, but revisions of this metric have, at times, been quite wide. The rand may have been the surprise package of 2017. After strengthening roughly 12% against the dollar in 2016, the rand further strengthened by nearly 10% in 2017. This unsurprisingly came with a fair amount of volatility and highlighted the difficulty in trying to forecast in the liquid currency market.

The current view is that historical valuations suggest that the rand may be undervalued and may continue to strengthen as a result. However, as with all financial valuations, the timing and volatility are unknown.

In terms of valuations, the domestic equity market experienced a particularly strong 2017, which begs the question as to the possibility of another strong year in 2018. While this may be impossible to answer, it is important to note where returns have come from and what the impact will be if this reverses.

A number of the large listed companies get the majority of the earnings in foreign markets. An important consideration for equity managers in 2018 is whether these large corporations are valued prudently, and whether conditions are conducive to them performing well or whether local earning companies have been devalued to the extent that they are priced cheaply and are set to benefit from prevailing economic conditions.

With all these question marks around the economic impacts in South Africa in 2018, we must remember that we do not operate in a bubble. Arguably the biggest impact on interest rates and asset class returns has been the global appetite for risk. South Africa and other emerging markets have benefited when developed markets have taken the risk-on trade and bought equities and high yielding securities.

Q&A

Question: According to the South African Reserve Bank, what is the inflation target range?

Answer: 3% - 6%

THE MAGIC OF MAN AND TECHNOLOGY

By Tandisizwe Mahlutshana,
Executive of Marketing at PPS Investments

You have probably heard of them: robo advisers. Although I dislike the term, as it denies human connection in its existence and usage. Nonetheless, these are digital financial advice tools or platforms. Introduced in 2008, they have surged in popularity across the globe as digital transacting continues to define the future.

Whereas in the beginning these tools were seen purely as a direct distribution play, the reality (as also evidenced by global success stories) is that these tools are even more effective when placed in the hands of the adviser, giving clients an added layer of options to use in their financial journeys when appropriate and agreed with their advisers.

A large share of this growth is expected to be absorbed by leading digital financial advice providers such as Vanguard's Personal Advisor Services (PAS), which recently reached a major milestone by surpassing US$100bn in assets under management after launching its digital wealth management platform in mid-2015, while smaller start-ups will likely struggle to gain scale.

As a traditional financial house itself, the success of Vanguard in the digital financial advice space can be attributed not only to the clear market need for digitally delivered wealth management but also its "model, which integrates a robust online experience, advanced technology, and a human adviser".

While humans appreciate the convenience and experience they get from digital offerings, still, going for a coffee and talking to another human being about one's expectations and fears and being held by the (human) hand throughout the journey can never be replaced by any technology.

Although with a great deal of advanced technology development capital, start-up digital financial advice providers are, however, expected to struggle to gain ground in this budding industry.

Traditional financial houses with established brands are therefore well positioned to acquire and leverage the technology from the start-ups to offer a hybrid distribution model comprising digital and traditional human intervention.

According to research, and as is the case with Vanguard PAS, 90% of assets into digital financial advice tools are from existing clients. This can be attributed to the power of the brand capital – experience, trust, integrity and dependability etc.

Continued success in this sprouting trade will likely favour those who cease to disintermediate their supporting financial adviser community, instead investing in building a tool that will also empower them. A tool that can be accessible to them for use in their practices to not only be able to service their entire client base regardless of geographical positions, but also offer them a quality service, backed by robust technology, as if such a service was through a personal interaction.

Furthermore, while these tools are built with intuitive technologies thereby necessitating minimal human intervention during a transacting process, further fortunes will favour those who still ensure that a human adviser (either through a web-chat functionality or by telephone) is available at a click of the button on the tool.

The notion that such technologies are developed only for the consumption of the Millennials is also not accurate. Indeed, various studies show that Baby Boomers are fast embracing the benefits digital platforms (including digital financial advice tools) have to offer.

A survey conducted by retail investor data researcher Hearts & Wallets, among investors aged 53 to 74 with assets of US$500 000, found that the use of digital resources by this group has increased by 50% currently using them, as well as 30% of retirees.

As a result, a trend of developing digital financial advice platforms specifically for retirees is also gaining ground with unique offerings such as "a dedicated human financial adviser" and a "concierge service" which will gather and input information; help with social security and Medicare applications; advise on volunteer, second career and travel opportunities; and even help find home care for aging parents.

In a world where brand loyalty is achieved through creating valuable experiences for consumers, empowering them with the right tools to be in control of their goals and aspirations, allowing them to choose how they want to be serviced (personally, online and/or a hybrid of both), a future without digitally delivered wealth management – necessitated by ensuing consumer trends across the age spectrum – is more than improbable.

This is a time when traditional financial houses and independent financial advisers need to form an even stronger partnership to ensure the delivery of quality and frictionless experiences to clients, and in return clients will remain loyal.

Q&A

Question: Research shows that among investors aged 53 to 74 with assets of US$500 000 have increased usage of digital resources by ____%.

Answer: 50%

TAKING LESSONS FROM THE BUMPY

By Shaun Ruiters,
Executive of Business Development at PPS Investments

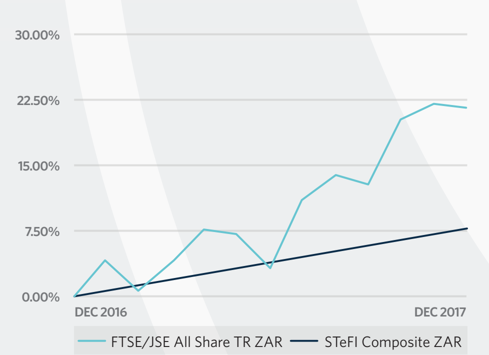
Over the last 100 years there have been several market crashes (the 1973 crash, Black Monday, the dot com bubble burst and the sub-prime crisis). All these events impacted the global and local market in a significant way over the shorter term.

A BUMPY RIDE

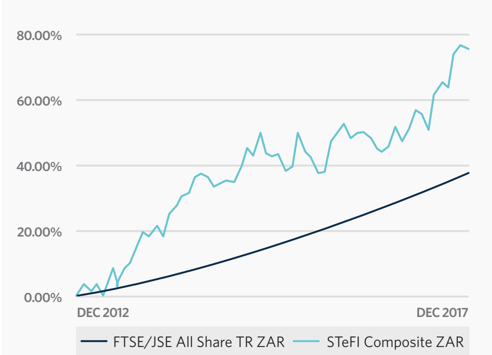
In 2017 alone, South Africa experienced quite a tumultuous time in the markets. The year gone by was peppered with events that shook the market. There were two Cabinet reshuffles, the country's credit ratings were downgraded by two agencies and most recently, the Steinhoff debacle emerged.

In isolation, these events had a knock-on effect and resulted in substantial levels of volatility in the market. For the equity markets represented by the JSE All Share Index (ALSI), the one-year period to 31 December 2017 was a tale of two halves. In the first six months, negative news caused the ALSI to underperform cash, while in the second half, the ALSI substantially outperformed cash.

Despite this outperformance in the second half of the year, December was still plagued by losses suffered by many investors shedding substantial wealth off the back of the Steinhoff fiasco. Within the context of 2017, one could say that an investment in cash would have been a far more 'enjoyable ride' under the circumstances.



ALSI 1-YEAR PERFORMANCE SOURCE: MORNINGSTAR



ALSI 5-YEAR PERFORMANCE SOURCE: MORNINGSTAR

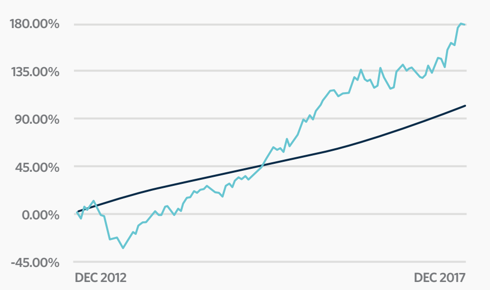
SPECKS ON THE HORIZON

In retrospect, these significant events that shook the market appear as specks on the horizon when viewed over the long term.

When looking at the 5- and 10-year graphs of the ALSI relative to cash to 31 December 2017, we can see that over the long term, equities have offered investors a substantial premium in return above cash (as measured by the STeFi Composite Index), despite the short-term losses in equities caused by market events.

While the journey may appear to be on the beaten track, the outcome is far more favourable in the end.

YEAR



ALSI 10-YEAR PERFORMANCE SOURCE: **MORNINGSTAR**

NOT THE WORST, NOT THE LAST

While 2017 feels like a record year for losses and volatility, it actually pales in comparison to the worst one-year period over the last 10 years. Let's take the one-year period from March 2008 until February 2009 where investors experienced abysmal returns as low as -37.6%. However, in the context of the 10-year period, equities still offered a cumulative return of more than 60% above cash.

Looking back over the last 10 years, we have experienced the great financial crisis, new guard such as the US President Donald Trump taking over the global super powers and closer to home, a bun fight within the ruling party. Notwithstanding all of these factors, the markets were still able to deliver real returns for investors. When we consider the same events over 15 years, the ripple effect seems less obvious.

In the context of these tumultuous periods and our own investment journey, the foreseeable future will remain a difficult terrain to navigate.

STICK WITH IT

A common pitfall for many investors is reacting to short-term market fluctuations caused by these significant events, by making drastic changes to their investments. What tends to happen is that taking this approach often ends in a sub-optimal outcome.

At times, investors will have to endure market 'shocks' and navigate these difficult terrains, but this is the reason why financial advisers always talk about the benefits of diversification. Essentially, a well-diversified portfolio ensures that no matter what your exposure is to the market event, some of your investments will perform well and others may falter.

The average investor will be much better off in the long term by simply holding a well-diversified portfolio with a level of market risk that is appropriate for their investment time horizon.

The road to 2018 and beyond should be paved with lessons learned from the bumpy 2017 road trip. Map out your journey, enjoy the scenery, avoid taking risky shortcuts and stay on track. You may hit speedbumps and detours on the road, but in the end the reward will be that you've reached your desired destination in the time that you set out to.

And that is a journey worth taking.

Q&A

Question: What events shook the market in 2017?

Answers: Cabinet reshuffle, credit ratings downgrades and the Steinhoff debacle.

DID YOU KNOW?

Over the long term, equities can offer investors returns above cash despite the short-term losses in equities caused by market events.

WHY SA'S INSURANCE INDUSTRY IS IMPORTANT FOR ECONOMIC GROWTH

The announcement of South Africa's slight economic upswing was unexpected, but well received. While a large amount of focus was placed on the contribution made by the agricultural and mining sectors, the value that the finance industry has played should not be overlooked.

MORE SPECIFICALLY THAT OF THE INSURANCE INDUSTRY

In February this year, government announced a 1.3% growth in GDP, slightly higher than the 1% that Treasury was expecting. The third highest positive contributor to this was the finance industry at 1.9%.

The first benefit of the insurance industry to the increase is obvious. The collection of member premiums contributes directly to GDP.

But, there are secondary benefits that are often overlooked. The combination of the social protection mechanism supports graduate professionals, and creates an environment that allows for the expansion of commercial activities.

Insurance relieves or reduces the financial burden caused by events beyond anyone's control. This allows contributing members of society an opportunity to recover from unforeseen incidents such as illness, accidents or death. Allowing them to continue contributing to the economy with limited financial loss.

The added benefit is the security that insurance provides. This support, that insurable financial losses may be regained, creates more certainty for individuals who want to benefit from a slight increase in economic growth by starting or expanding their businesses.

THE ROLE OF INSURANCE BROKERS IS BECOMING MORE VITAL

For members to have the security that insurance offers, they need to have adequate cover.

The risk factors that professionals need to be insured for are changing. In addition to the traditional requirements, provision needs to be made for external conditions such as water shortages, epidemics and product recalls.

Despite the increased need for insurance portfolios, the awareness levels of the importance of these financial products is low. In addition, the role of the broker is often misunderstood. Often when members do not consult a broker, they don't have adequate cover. This leaves many vulnerable to potential losses, that they may not be able to recover from.

This is where the role of the broker is invaluable. They have the ability to assist with financial portfolio's, not just by mitigating potential financial loss but also by advising on how to increase investments and savings.

Brokers offer risk analysis and financial planning analysis that assists in informing members on which financial services products they should choose.

By doing this, insurance companies and brokers play a pivotal role in developing the local economy. But for this to happen, brokers need to be able to provide the advice and support that members require.