

Principles and Practices of Financial Management

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

**Effective from 1 January 2007
Last Reviewed November 2023**

Head Office: 18 Robert Mugabe Avenue,
Windhoek, Namibia
Telephone: 061 411 300
Website: www.pps.com.na

PPS Insurance (Namibia) is a registered long-term insurance provider regulated by the Namibia Financial Institutions Supervisory Authority.

CONTENTS		Page
1	Introduction	2
2	Principles and Practices of Financial Management (PPFM)	2
3	Governance of the PPS Insurance Namibia PPFM	3
4	Approval of Unvested Profit-Share Allocations	3
5	Profit-Share Allocations	3
6	Investment Strategy	7

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 Namibia operates as a subsidiary of PPS Insurance Company within the PPS Holdings Trust and undertakes to provide long-term insurance business exclusively for graduate professionals.

PPS Insurance Namibia 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 Namibia policies.

This document outlines the PPS Insurance Namibia Principles and Practices of Financial Management (PPFM) for our policyholders can better understand the Profit-Share allocation principles and practices in place for PPS Insurance Namibia, as well as the investment strategy adopted by the PPS Insurance Namibia 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 Namibia 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 Namibia supports the establishment of the PPFM as an important part of the overall governance and financial management of discretionary policyholder benefits.

PPS Insurance Namibia 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 30 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 +264 61 411 300 or email us at nammemberservices@pps.com.na.

3. Governance of the PPS Insurance Namibia PPFM

The adherence of PPS Insurance Namibia 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 Practice will be approved by the PPS Insurance Namibia Board, on recommendation from the PPS Insurance Corporate Actuarial Department, the Valuator, the PPS Group Actuarial Committee and the PPS Group Audit Committee.

At least 30 days before a change to a Principle is implemented, affected PPS Insurance Namibia 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 Namibia Profit-Share allocations are recommended by the PPS Insurance Corporate Actuarial Department and the Valuator, 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 Namibia.

5 Profit-Share Allocations

5.1 Overriding Principles

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

- 5.1.1. PPS Insurance Namibia 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 Namibia.
- 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 Namibia, relevant industry practice and official PPS Insurance Namibia documentation made available to policyholders by PPS Insurance Namibia. 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 Namibia, Profit-Share allocations are approved by the PPS Insurance Namibia 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 Namibia'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 Namibia'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 "RA Bonus" may be allocated to the Apportionment Accounts of PPS Provider policyholders who are also premium paying members of the PPS Retirement Annuity Fund. This amount is allocated in a similar manner to the Bonus Allocation, with the exception that the allocation is based on the members' PPS Retirement Fund premiums in the financial year. The amount is allocated at the discretion of the PPS Insurance Namibia Board and is dependent on the income received by PPS Insurance Namibia in respect of the PPS Retirement Annuity Fund less the expenses of running the Fund.
- 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 amount is to be allocated at the discretion of the PPS Insurance Namibia Board and is dependent on the profits earned by the PPS Healthcare Administrators, a wholly owned subsidiary of PPS Insurance Company, in the administration of the Profmed Medical Scheme.
- 5.3.11. 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).
- 5.3.12. Subject to paragraphs 5.3.13, 5.3.14 and 5.3.15, on termination of the policy prior to the age of 60 (other than for the reasons noted in paragraph 5.3.11), 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.
- 5.3.13. 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 5.3.13, deducting the interest allocations to the Apportionment Account as PPS Insurance Namibia in its discretion may decide;
 - c) deducting from the Special Benefit Account balance an amount determined by PPS Insurance Namibia taking into account the number of years until age 60.
- 5.3.14. The forfeiture amount from the Apportionment Account under 5.3.13(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.
- 5.3.15. No payment will be made from the Special Benefit Account where cover is terminated by PPS Insurance Namibia in terms of the provisions of the PPS Provider™ Policy or where any relevant legislation prevents or restricts payment to the policyholder..

5.3.16. 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.

5.3.17. 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 Namibia 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 Namibia's assets.
- The framework of the investment mandates for PPS Insurance Namibia.
- The regulatory restrictions applicable to the mandates set by PPS Insurance Namibia, including the limits within which PPS Insurance Namibia 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 Namibia.
- The process of appointing, reviewing and terminating fund managers applicable to the portfolio mandates set by PPS Insurance Namibia, as set out in the terms of reference of the PPSMM investment committee.
- The process of analysing PPS Insurance Namibia'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 Namibia's whole portfolio.

PPS Insurance Namibia'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 Namibia Board.

PPS Insurance Namibia'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 Namibia'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 exist between PPS Insurance Namibia 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 Namibia Board reviews the performance of the investment portfolios and ongoing appropriateness of PPS Insurance Namibia'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 Namibia Board, and as such short-term fluctuations in performance can be expected.