



## **The mutual advantage**

*As the global recession deepens, more and more banks and financial service providers are experiencing unprecedented financial pressure. Boards are instructing management to batten down the hatches. But, John Marsden, CFP & National Sales Director of PPS, believes very few are ideally structured to ride out the storm.*

“PPS was founded as a society in 1941, by practising professionals, to provide specifically tailored benefits to its members. It was a mutual society – owned and controlled by the members, exclusively for the members. A lot has changed since then, but not our ethos of “mutuality”. PPS still exists only for the benefit of our members, all of whom are graduate professionals. There are no external shareholders – only members, who receive their share of our profits through the unique *PPS Surplus Rebate Account (SRA)*,” explains Marsden.

“Over the past five years, a total of R6.9 billion has been shared in this manner. It’s just another way in which PPS works towards its vision, which is to create wealth and offer peace of mind and financial security to its members,” says Marsden.

“Don’t make the mistake, though, of looking at the *SRA* as just another form of dividend,” Marsden cautions. “It is, in fact, what gives a company with a mutual character, like PPS, its added strength. There is no pressure from shareholders to focus on short-term results, the intense pressure of P:E ratios, the need to continually drive your share price up; nor is it exposed to emotional buying and selling of shares. As a result, our executives and board can focus on what is in the best interest of PPS members, long term.”

“When it comes to taking tough decisions, the board of directors at a company that operates as a mutual, like PPS, is not subject to pressure from large institutional investors. Our non-executive directors are drawn from the ranks of the membership. So, any decision they take can only be for the benefit of members. In that sense, when the financial weather does turn stormy, it is the members, advised by our highly professional management team, who will decide if, when and how any surplus is handled. Members act in the best interests of the PPS membership only, which ensures maximum financial rigour, prudence and long-term stability,” says Marsden.

“The world’s biggest listed insurer, AIG, has been teetering and, after a government bail-out of \$150 billion, may well be broken up and sold off. In sharp contrast, two of America’s largest mutual life insurers, New York Life and Massachusetts Mutual, have been growing from strength to strength. In fact, in August 2007, just as the current crisis was really starting to gather pace, Standard & Poor’s upgraded New York Life to AAA, its highest rating possible. That rating has subsequently been endorsed by Fitch and Moody’s,” says Marsden.

“Like PPS, these are companies anchored around the needs of members, as opposed to the investment community. In fact, New York Life has an advertising campaign that

points this out quite succinctly: *We're Main Street. Not Wall Street. New York Life*. I like that, it tells the story," says Marsden.

**Ends**