

Financial stability in challenging times



Summary Report and Accounts For the year ended 31 December 2009

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About MPS

The Medical Protection Society is the leading provider of comprehensive professional indemnity and expert advice to doctors, dentists and health professionals around the world.

We are a mutual, not-for-profit organisation offering more than 265,000 members help with legal and ethical problems that arise from their professional practice. This includes clinical negligence claims, complaints, medical council inquiries, legal and ethical dilemmas, disciplinary procedures, inquests and fatal-accident inquiries.

Fairness is at the heart of how we conduct our business. We actively protect and promote the interests of members and the wider profession. Equally, we believe that patients who have suffered harm from negligent treatment should receive fair compensation. We promote safer practice by running risk management and education programmes to reduce avoidable harm. MPS is not an insurance company.

The benefits of membership are discretionary – this allows us the flexibility to provide help and support even in unusual circumstances.

Chairman's statement



Nicholas Davies
Chairman of the Council

Alex Orrow 2008

It is unlikely to come as a surprise to practising doctors and dentists that, over the last year, demand for MPS services continued to rise in most countries in which we operate. I believe this partly springs from tensions created by increased professional regulation and accountability, at a time when governments and insurers are demanding more from healthcare on increasingly limited resources.

We have also noticed a worrying recent rise in civil claims against general practitioners in the UK. Although many of these claims are for relatively small sums, associated legal expenditure remains stubbornly high. In addition, costs of defending members against various disciplinary tribunals and regulatory bodies have continued to increase strikingly, by 20–30% per annum over the last ten years. In the UK, the GMC's fitness to practise panels now scrutinise the conduct of more than 300 doctors a year, in increasingly complex issues.

For the doctor or dentist concerned, a claim or disciplinary hearing is a hugely disruptive and distressing event. MPS exists to offer the strongest possible personal and professional support in these situations. The member will usually need to attend several meetings with their legal team at considerable inconvenience both to themselves and their patients. To meet this challenge we have already expanded our existing offices in both London and Leeds but, in order to provide a service that is even more accessible, especially to members in Scotland, we opened an office in Edinburgh in May. We were delighted that Sheila McLean, Professor of Law and Ethics in Medicine at the University of Glasgow, was able to cut the proverbial ribbon at a ceremony that attracted many distinguished members of the devolved Scottish health service.

MPS, as a mutual organisation, takes extreme care to invest members' funds so they may be relied upon when needed, possibly many years in the future. Two striking cases are described in a recent issue of our publication *Casebook* where claims had to be settled arising from incidents in the distant past. In the first, appendicitis in a girl of seven was not treated in a timely fashion, resulting in sterility which did not become evident until 22 years later. In the second, a woman whose slipped femoral epiphyses were not recognised throughout childhood and early adult life subsequently required bilateral hip replacements at the age of just 35. These gaps of more than 20 years between the doctors' errors and subsequent recognition of the resulting harm are overwhelming arguments for the MPS model of occurrence-based indemnity. These doctors had valid membership at the time of their inactions and so did not need to rely upon regularly renewing an insurance policy year after year, never knowing when past mistakes might come back to haunt them in the form of a solicitor's letter of claim.

We all recognise that some doctors and dentists are more conscientious than others. I suspect that most who read this report will not be surprised to learn that a minority of members account for a majority of expenditure on both claims and non-claims. Some members, who have not had occasion to call on MPS services and

so might consider themselves better doctors, or perhaps lucky, resent paying the same subscription as colleagues who make considerable demands on our funds.

Some doctors have suggested we charge subscriptions according to a member's claims and disciplinary history – difficult, when there can be a gap of more than 20 years for this history to be revealed. Our preferred approach, fully in keeping with the mutuality of MPS, is to make every attempt to support the doctor and show ways in which risks inherent in clinical practice may be reduced.

Our experience gives us a strong position from which to offer such support. During 2009 we established a committee to oversee the continuing expansion of our educational and risk management programme, chaired by Dame Janet Husband, recently President of the Royal College of Radiologists. We are fortunate to have the benefit of her skills and experience in this field. As part of this programme we delivered a substantial number of workshops in 2009 to promote safer clinical practice.

Much litigation springs from poor communication, and we place particular emphasis on improving this. Handovers have become a growing problem as shift work is more common in hospitals. The GMC demands "clear communication with healthcare colleagues", yet too often handovers consist of casual, throwaway remarks. Increasing use of telemedicine also brings a raft of new pitfalls.

Members will know that MPS indemnity is subject to the discretion of MPS Council. This often allows us to support a member under circumstances that lie outside the scope of an insurance policy's small print. However, we must exercise discretion in a manner that is fair and equitable to all members, which can sometimes be challenging. We have established an ethical committee, drawn from Council and senior MPS staff, to offer expert oversight of the way these decisions are made – and I believe this committee is making an important contribution.

During the last year, Dr Alan Crouch, a general practitioner in Yorkshire, stepped down as chairman of our main medical committee that advises MPS file handlers on civil claims. He has been succeeded by Miss Susan Sellers, Consultant Gynaecologist and Obstetrician in Bristol. Susan has been Vice-Chairman of the committee since 2003, and we wish her well in her new role.

Two medical members of Council retired in the summer, Professor Sir Ravinder Maini and Dr Mark Dinwoodie, although Mark will be continuing to contribute to our educational programme. We thank them for their valuable contributions over the years. In keeping with our central ethos of "doctors for doctors", we extend a warm welcome to two new medical members of Council, Dr Yasmin Drabu and Dr Mark Davis.

Nicholas Davies
Chairman of the Council

Chief Executive's report



Tony Mason
Chief Executive

Alex Orrow 2008

Our commitment to providing doctors and dentists with the skills necessary to meet the ever increasing challenges to their professional lives will continue, as well as our commitment to safe practice.

Last year proved to be another 12 months of great uncertainty on the financial markets, particularly with regard to exchange rate movements, although fortunately stock markets had recovered some ground by the end of the year. I am therefore pleased to report that overall our investments did well, but we saw a significant and unexpected increase in the value of claims paid out and we have increased our reserves for outstanding claims in response to this.

MPS finished 2009 with total assets of around £1.4 billion, a rise of £200m in the year. After providing for outstanding reported claims and other liabilities, the amount available to meet future claims from adverse clinical incidents, which had already occurred by the end of 2009 but had not yet been reported to MPS, increased from £797m to £913m. This was a reasonably good result considering the poor claims experience but was disappointing compared to our expectation at the start of the year.

The worst of the adverse claims experience has been in the UK and South Africa, although we are beginning to see a rise in both the frequency and average size of claims in most countries in which we operate around the world. Of major concern has been a quite startling increase in the value of high claims in the UK, where some settlements have leapt by 40% or more as compared with similar claims settled in the recent past. This is a worrying trend as it will inevitably mean higher subscriptions for all our UK members; a similar worrying trend is also beginning to emerge in South Africa. The value of a claim for catastrophic injury in the UK is now higher than virtually anywhere else in the world including most of the States in the USA. There must be a question mark over whether society can afford such awards and we will continue to call for a public debate on what is fair and appropriate compensation.

An important development on the claims front is the appearance of Lord Justice Jackson's Review of Civil Costs in

England and Wales. It is a wide ranging and even-handed report, which is fair to both claimants and defendants. Amongst many recommendations, he is keen to put claimants back in the position they used to be in before conditional fees agreements were allowed, so that they once again have a financial interest in the way their claim is managed. The most important recommendation is that After the Event insurance cover and success fees should no longer be recoverable for claims conducted under conditional fee arrangements. He also tackles the problem of disproportionate costs, often a feature in small claim settlements and recommends that there should be a new test of proportionality taking into account all the factors of the litigation, not just the fact that the costs were necessarily incurred.

MPS contributed significant amounts of data to Lord Jackson's Review and we made several submissions both in writing and in person during the process. We are pleased with the result, as we believe, if implemented, it will significantly reduce the cost of litigation as a result of lower legal fees, which will be beneficial to most parties, apart from, perhaps, claimant law firms. I know that one person who will be particularly delighted about the Review is my predecessor, Dr John Hickey, who wrote the following in the MPS Annual Report three years ago:

"Inflated claimant costs are a silent scandal that should be investigated and steps taken to prevent the few who are benefiting at the expense of the many."

It is not only the UK that has suffered from excessive claimant costs but also other countries in which we operate, with Ireland in particular requiring a similar overhaul of the civil costs regime. There have recently been calls in Ireland for a major judicial review of legal costs and MPS fully supports the need for this.

Meeting with key stakeholders, including government officials, politicians and regulators, is an important part of our role in

protecting the interests of members. Our aim is to try and ensure that any decisions taken regarding new legislation or regulatory changes affecting professional practice are done on an informed basis, which can be quite a challenge. 2009 was a particularly busy year on this front and we were faced with critical issues in Ireland, South Africa and New Zealand, which required considerable effort to ensure favourable outcomes. MPS will always be proactive in this area and our aim is to meet with all interested parties on a regular basis to discuss topical issues. The more helpful we can be, the greater the likelihood that we will be listened to when problems arise.

MPS is always looking at how we can enhance our service. We understand that our members lead busy lives and we try to find ways to make contacting us as easy and hassle free as possible. Amongst several initiatives, during 2009 we opened a new office in Edinburgh, which will provide improved access for our members in Scotland; we commenced major IT projects to enable all our members to communicate with us more efficiently over the internet; and we are planning to extend our hours of operation in the UK office for membership queries, which will facilitate access not just for UK members but also members in several other countries and time zones.

Our efforts to increase the focus on our international operations have continued and we remain committed to ensuring that our publications are relevant to members wherever they are based. With regard to this, we welcome feedback from members on our current range of publications and new ideas for articles on topical issues. Our communications department would welcome approaches from anyone who is interested in contributing.

Having successfully introduced in New Zealand in 2006 a confidential counselling service for members, we started a similar counselling service in South Africa last year, which has been very favourably received by our members there. It has become clear that there is a real need for this type of support for members and we will be introducing further counselling services for members in Hong Kong, Singapore and Malaysia in 2010.

Amongst the islands of the West Indies, we have members in more than 15 countries and setting fair and consistent subscription rates over such a wide variety of economies and size of populations is a real challenge. A full actuarial review was carried out last year with the aim of achieving a fairer balance to the subscriptions, and this has resulted in some major changes with several countries and specialties paying more but a majority of members paying less.

It is a fundamental part of MPS's philosophy that subscriptions should be fair and we try as far as possible to achieve this. It does not mean that every member will be happy with their level

of subscription and we are fully conscious that for some high-risk specialties the subscriptions charged can be a substantial part of a doctor's income. We always try to ensure that our subscriptions do not impact on the practice of medicine in a country and where the cost of practising reaches unacceptable levels we will lobby government to try to obtain financial support or a change in the law to help the specialty concerned.

Our focus at MPS on producing high quality education continued in 2009. Last year we provided more than 350 skills-based workshops designed by the Cognitive Institute to whom I have referred in previous reports. The Cognitive Institute, now part of MPS, is one of the world's leading specialist training companies in communication skills for doctors and dentists.

In addition, we have provided more than 200 other workshops and risk assessments and more than 300 lectures worldwide. 2010 will see the number of events increase to more than 1,000 and the introduction of an e-learning system, which has been in development over the last year.

Our commitment to providing doctors and dentists with the skills necessary to meet the ever increasing challenges to their professional lives will continue, as well as our commitment to safe practice.

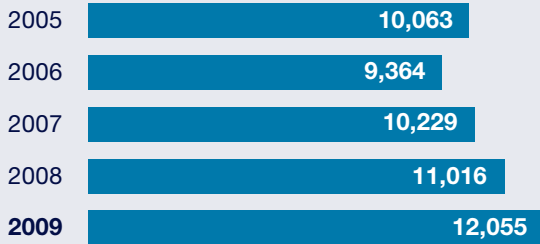
The outlook for 2010 remains difficult, with the medical and dental professions continuing to face major challenges. I have already mentioned the worrying trend in the value and frequency of claims, but the other issue on which I will continue to speak out is the fact that there has never been a time when our members are under so much scrutiny with potentially career threatening outcomes. My concern is that if doctors and dentists continue to believe that they are under sustained attack and fear the stress of prolonged investigation for one or two mistakes in a career, then many of those who are the most caring and conscientious will decide to leave their profession early or, even worse, decide not to train in the first place.

I strongly believe that there needs to be a recognition and acceptance by the public that mistakes will always occur and that perfect outcomes should not be taken for granted. Mistakes should be openly investigated in a "no blame" environment so that lessons can be learned without fear of retribution. I also call on regulators to only investigate cases where there is a real and justified risk of significant impairment in a practitioner's fitness to practise. Doctors and dentists are ordinary citizens but the standards of behaviour that are increasingly expected, not only in their working environment but also their private lives, make it virtually impossible for them to live up to those standards every moment of the day.

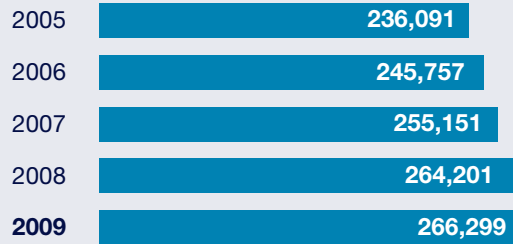
Tony Mason
Chief Executive

Statistics

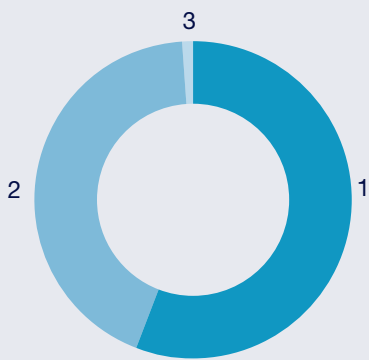
Worldwide medical cases opened by year



Membership numbers



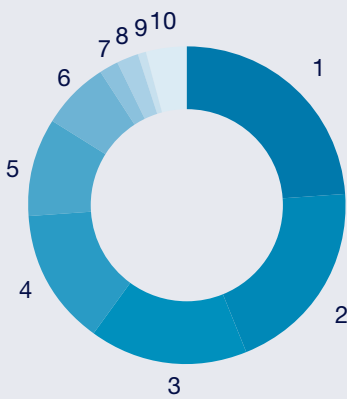
Worldwide medical claims 2009



- 1. Percentage settled **56%**
- 2. Percentage successfully resisted **43%**
- 3. Percentage to trial* **1%**

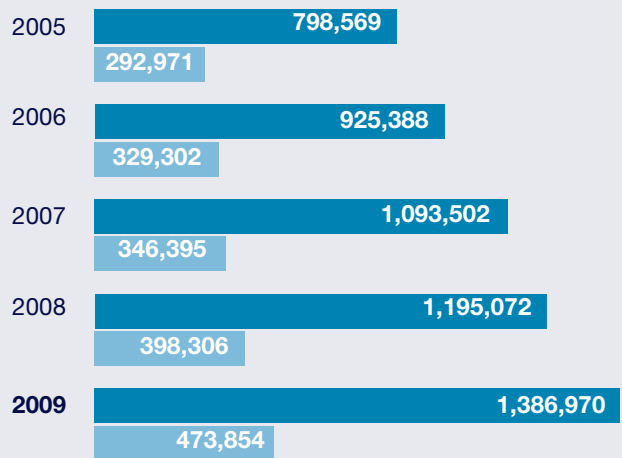
*Of those claims which went to trial 73% were defended successfully

Worldwide medical cases opened in 2009 by type



- 1. Complaints **24%**
- 2. General medicolegal advice **20%**
- 3. Claims and related matters **16%**
- 4. Adverse incidents **14%**
- 5. Medical Council **10%**
- 6. Inquests **7%**
- 7. Ethical **2%**
- 8. Disciplinary **2%**
- 9. Criminal **1%**
- 10. Other **4%**

Net assets versus reported claims reserve (£'000)



- Net assets before reported claims reserve
- Reported claims reserve

Finance Director's report



Simon Kayll
Finance Director

Alex Orton 2008



...It is in members' interests that their indemnity organisation is financially robust, so that they have the assurance that they will receive the assistance they need no matter when that need may arise.

It is well known that there can sometimes be a very long delay between an adverse incident and the payment of compensation; in extreme cases this can be over 20 years, as was illustrated by case reports in the January 2010 edition of *Casebook* and which are also referred to in the Chairman's statement. Consequently, it is in members' interests that their indemnity organisation is financially robust, so that they have the assurance that they will receive the assistance they need no matter when that need may arise.

Financial stability

For this reason, MPS has for some years now pursued a financial target, which has been derived in a similar manner to that of a regulated insurance company and is designed to ensure the long-term financial stability and viability of the organisation. Through the use of this target MPS ensures that it has assets sufficient to cover all of its potential claim responsibilities – those reported and those yet to be reported – whilst also maintaining a margin of assets left over to provide a “cushion” against the impact of unexpected adverse events.

In the last two years, MPS has experienced examples of just such unexpected adverse events. Last year, I reported that MPS's financial position had been challenged by the extreme falls in global investment markets. In 2009, MPS's financial position was again challenged, this time by the unexpected growth in its claims responsibilities (the details of which are provided below).

I am pleased to report that despite these adverse events and taking the last two years together, MPS has managed to increase the value of funds available to meet future liabilities and charges by £166m over that period.

Financial overview

The value of funds available to meet future liabilities and charges increased during the year by £116.3m, such that the value at the year end was £913.1m. This compares to an increase in 2008 of £49.7m and a closing balance at the end of 2008 of £796.8m.

Under the claims-incurred indemnity that MPS provides, subject to the exercising of discretion, MPS will assume responsibility for claims that are yet to be reported from incidents that took place before 31 December 2009 – so-called “unreported claims”. As MPS has already collected a subscription for the period to which these relate we consider it appropriate to have sufficient funds to meet the expected cost of these potential claims if and when discretion is exercised to assist. This is what the £913.1m of funds is for and, as stated in Note 15 to these accounts, this sum is more than sufficient for that purpose.

Whilst the fund of £913.1m remains more than sufficient to meet the estimated cost of these potential claims, the margin by which this sum exceeds the estimated value of these potential claims has declined in the year. This is because the estimated value of the potential claims has increased in the year by more than the increase in assets to meet these claims – which is contrary to expectations. The increase in assets was more than expected, as a result of favourable investment performance and this just points to the exceptional and unexpected development in potential claims, which mirrors the development of reported claims. More detail on the development of reported claims is provided below.

Financial performance

Subscription and other income

Members' subscription and other income increased by £23.3m, 9.2% (2008: £20.2m, 8.7%). As in past years, this is a combination of both increases in subscription rates and an increase in member numbers. Although the increases in subscription and member numbers varies between countries and even between different groups of membership, in general MPS's subscription rates increased between 0% and 6% in 2009 and the number of members who pay a subscription increased by a little over 4%.

MPS continues to set subscription rates with the benefit of advice from independent consulting actuaries, which it

considers are necessary to meet the future costs that will arise from adverse incidents in the year to which the subscriptions relate. In the long run it is not in MPS's, members', or their patients' interest to set rates that are insufficient to meet these future costs.

Claims costs and associated legal costs

These are the costs incurred in defending and settling claims of negligence in the year, plus the change in the value of the expected future cost of claims of negligence between the start of the year and the end of the year. Such costs were £190.9m in 2009 (2008: £160.5m) an increase of £30.4m or 18.9% in the year (2008: £60.0m, 59.7%).

On the face of it, the figures above show a significant increase in claims costs in 2008 and a more modest increase in 2009. However, this does not show the true underlying picture as the figures are distorted, partly by the impact of exchange rate movements over the last two years on MPS's non-sterling claims values and partly by the need to pay a retrospective tax charge in 2008, which is included in the £60.0m identified above. (An explanation of the impact of exchange rate movements is provided below.)

If these distortions are stripped out of the figures, then the increase in claims costs for 2008 was about £17m and for 2009 was about £80m. An increase in claims costs from year to year is to be expected as MPS has been successful in growing its membership base year on year and inflation will also contribute to an increase in costs. However, the 2009 increase of £80m is quite exceptional. There are a number of different reasons for the increase, but the primary one has been the growth in the expected future value of UK medical claims.

When a claim is first reported, it is usually accompanied by a brief description of the facts and an experienced claims handler will estimate the likely cost of settling the claim, based on the facts available. As time goes on, more information about the potential loss will become clear and the claims handler will continually update their expectation of the cost of settling the claim. The information that leads to a change (not always an increase) in the expected settlement value may be specific to the case, or may be related to an issue general to all similar cases. In 2009, analysis suggests that both specific and general issues were responsible for the large rise in claims costs.

During 2009, MPS increased the expected future costs of settlement of all of its larger UK claims (which are almost exclusively medical) to reflect trends seen in cases being settled in the year. One of the drivers for this has been the need to increase the expected settlement to reflect the increasing cost of future care for those individuals who, as a result of medical negligence, need help. It is now not unusual to see claims where the current annual cost of future care is pleaded at about

£200,000 for those individuals with greatest need, although to date MPS has been successful in settling at levels below this. This, in conjunction with normal or near normal life expectancy for such individuals, means that lump sum settlements in excess of £5m are no longer rare.

Insurance recoveries

When settling subscriptions, MPS does so based on an expectation of the future number and cost of claims. If actual claims experience is worse than expected, then MPS will have failed to collect sufficient income to cover the cost. One reason for this may be due to an unexpected level of catastrophic claims. To help mitigate this, MPS passes the risk that claims may be settled above a certain level to a third party, through insurance. MPS has mitigated the cost of unexpected catastrophic claims experience in this way for many years.

The increase in anticipated recoveries of £19.7m is more than 19 times the anticipated increase in recoveries for 2008 (£1.0m) and nearly 12 times the anticipated increase in recoveries for 2007 (£1.7m) and is again a reflection of the deterioration in claims seen in 2009.

Advisory and associated legal costs

These are the costs associated with assisting members with all matters other than claims of negligence and the change in the year of the outstanding value of all such claims reported where discretion has been exercised. The costs for 2009 were £46.8m (2008: £42.9m) an increase of £3.9m, 9.1% (2008: increase of £11.4m, 36.1%).

As with claims costs above, the reported figures are distorted by exchange rate movements and the impact of retrospective tax in 2008. If these are stripped out, then the 2009 increase was £7m, 18% (2008: increase of £6m, 19%).

Some of the increase is due to the ever-growing demand for these services, the growing complexity of cases put before regulators and the growth in member numbers. However, some of the increase (£1.8m) was due to a change in the way that the outstanding reserve for reported matters is calculated, to bring it into line with the reserving for other claims. The reserve for outstanding reported matters represents MPS's best estimate of the external legal costs which will have to be incurred to manage these matters to conclusion. But there will also be an internal cost for MPS staff to work on these claims up to the point of conclusion, and so it is prudent that this future cost should also be provided for. This additional provision has been included this year for the first time.

Education, publications and external relations

These are the costs of developing and delivering education and risk management services to members as well as providing a variety of publications, with the aim of reducing risk, and liaising

with regulators, legislators and professional representative bodies around the world on behalf of members and the wider professions, on matters relevant to MPS and its members.

MPS is now into its third year of developing and delivering educational and risk management services for members. We continue to believe strongly that it is appropriate for MPS to provide these services and indeed to use subscription income to fund a certain level of these services.

Consequently, the costs devoted to this area continue to grow, up by £2.3m, 74% in 2009, (2008: £1.0m, 49%). This increase in costs is partly an investment in staff and training to support and deliver educational and risk management services, and partly the actual costs of delivering services. In 2009, MPS delivered 550 educational events to members around the world and it is planned to increase this to more than 1,000 in 2010.

Administration expenses

These are the costs of running the business, other than those costs related to the management of claims or the provision of education and external relations, which are dealt with elsewhere. Thus this leaves common services such as finance, IT, human resources and office accommodation, as well as marketing and membership services.

The costs have increased in 2009 by £0.2m, 1.2% (2008: £4.0m, 35.2%). The large increase in 2008 was partly related to costs for the first year of increased office accommodation in Leeds and London. Similarly, but to a lesser extent, some of the 2009 increase is due to the opening of a new office in Edinburgh in early 2009. During 2009 MPS increased staff numbers by 49 in the year, however, the relatively modest increase in administration expenses indicates that most of this resource was directed to claims handling, which is included in the claims cost line, medico and dentolegal services, which is included in the advisory costs line and educational, publications and external relations, as discussed above.

Loss on exchange movements

MPS experiences a profit or loss on exchange movements in two ways: one is through trading and the other is through the matching of assets and liabilities.

■ Trading

As part of its business, MPS will receive income and pay costs in non-sterling currencies. Whenever it does this there may be a period of time between entering the income or costs due in the books of account and then entering the actual receipt or payment. If the exchange rate moves during this time, whilst there will be no difference in local currency between the initial entry and subsequent entry, there may be a difference in sterling terms and this will result in a profit or loss on exchange. This impact is relatively minor compared to the impact from matching assets and liabilities.

■ Matching

MPS has claims liabilities in many different countries. It is important to ensure that the assets held to meet the future costs of these claims are held in the same currency, so that exchange rate movements do not alter MPS's ability to fund these claim liabilities. Although the exchange element of the assets and liabilities are closely matched, accounting disclosure requirements dictate that in the published accounts, the exchange movements related to the claim liabilities are included within the claims cost line and the exchange movements related to assets are included in the line "loss/(profit) on exchange movements", which seems to suggest that MPS is exposed to large levels of profit or loss due to exchange rate movements. This is not actually so.

Investments

MPS holds investments to meet the future cost of claims for which it already has a liability, reported claims, and those potential claims for which it will have a liability, subject to the exercising of discretion, "unreported claims". The primary purpose of these investments is to match the claim and potential claim liabilities, firstly by currency and then by maturity. Consequently, much of MPS's portfolio is held in government bonds, particularly UK index-linked bonds. A much smaller proportion is held in return seeking assets such as equities and within this section of the portfolio there is considerable diversity to reduce the risk associated with such assets.

MPS's investments increased in the year by £164.6m, 14.5% (2008: £117.0m, 11.5%), to end the year at £1,297m. This increase is a combination of the addition of the excess of annual subscription income over costs incurred in the year, which in 2009 added £55m (2008: £93m) and the investment return on existing funds, which itself is a combination of investment income before tax of £23m (2008: £27m) and a capital increase net of management fees of £87m (2008: a decrease of £3m). This represents an investment return after tax and management fees of a little over 6% (2008: 1%).

During the year equity performance was very good, with UK equities returning nearly 30% and international equities performing nearly as well, although exchange rate movements meant that the return of these in sterling terms was slightly lower than achieved in local currency terms. However, in absolute terms these performances served only to return markets to about the levels seen at the start of 2008. By contrast, bond markets did not fare as well, with a positive performance for UK index-linked stocks but a negative performance in sterling terms for European and US bonds.

Conclusion

In 2008, MPS experienced significant volatility in investment markets and then in 2009 experienced large increases in its claim liabilities. Despite these two unexpected adverse events, MPS's financial position is not significantly different at the end of 2009 than it was at the start of 2008.

A strong financial position is vital for members' peace of mind because it is quite common for members to seek assistance in relation to matters arising from an adverse incident which occurred many years previously. Members need to be assured that, if this happens to them, their defence organisation will still be there to provide them with that much-needed assistance.

Such financial stability comes from the prudent setting of subscriptions to meet the estimated cost of future potential claims as well as careful financial management and the mitigation of related risks. The last two years shows that MPS has been very successful in each of these areas.

Simon Kayll
Finance Director

MPS Council



Standing from left to right: The Lord Bradley, Mary Favier, Kevin Lewis, The Lady Vallance, Simon Kayll, Leela Kapila, Frank Attwood, Yasmin Drabu, Mark Davis, Taj Hassan, Ian Croxford, Richard Youell and Kathryn Harley. Seated from left to right: Tony Mason, Nicholas Davies, Sir Peter Morris.

President

Sir Peter Morris AC FRS FRCS FMedSci³

Vice-President

Professor John Bonnar MA MD FRCPI FRCOG

Chairman of the Council

Nicholas Davies MA DM(Oxon) MRCP FRCA

Chief Executive

Tony Mason BSocSc FIA

Members of the Council

Frank Attwood BSc(Econ) FCA FRSA ACIS MAE^{1 2 4 5}

The Lord Bradley PC BA(Hons) MPhil¹

Ian Croxford QC LLB¹

Nicholas Davies MA DM(Oxon) MRCP FRCA *Chairman*^{2 3 4 5 6}

Mark Davis MB ChB MRCGP DRCOG DoccMed FRCPEd⁷ (Appointed 10 June 2009)

Mark Dinwoodie MA(Cantab) MB BS DGM DRCOG DCH DFSRH FRCGP T(GP) MMed (Dundee)^{1 3} (Retired 10 June 2009)

Yasmin Drabu MB ChB DCH FRCPath FRCP (Appointed 10 June 2009)

Mary Favier MB BCh MICGP MRCGP^{2 3}

Kathryn Harley BDS MSc FDSRCS(Edin) FDSRCS(Eng) FDSRCP(S Glas) FFGDP(UK) (*ex officio*)^{2 6 7}

Taj Hassan MD FCEM MRCP DA FRCSEd^{4 7}

Leela Kapila OBE MB BS FRCS FRCPCH(Hon)^{1 3}

Simon Kayll BA(Hons) FCA MBA^{4 5}

Kevin Lewis BDS FDSRCS(Eng) FFGDP(UK) LDSRCS(Eng)

Professor Sir Ravinder Maini FRS BA MB BChir FRCP FRCPE Hon DSc (Glasgow) FMedSci^{1 3} (Retired 10 June 2009)

Tony Mason BSocSc FIA *Chief Executive (ex officio)*^{3 4 5 6}

The Lady Vallance JP MA MSc PhD^{1 3}

Richard Youell JP MA^{2 4}

- 1 Members of the Audit Committee
- 2 Members of the Remuneration Committee
- 3 Members of the Nominations Committee
- 4 Members of the Board of MPI (London) Limited
- 5 Members of the Board of MPS Risk Solutions Limited
- 6 Members of the Board of Dental Protection Limited
- 7 Members of the Educational Advisory Committee

Financial statements

Statement of the increase in funds available to meet future liabilities and charges

Year ended 31 December 2009

Notes		2009 £'000	2008 £'000
	Income		
	Members' subscriptions and other income	275,650	252,377
	Expenditure		
1	Claims costs and associated legal costs (including costs of insurance)	190,873	160,472
2	Insurance recoveries	(19,700)	(1,013)
3	Advisory costs and associated legal costs	46,806	42,906
4	Education, publications and external relations	5,461	3,139
5	Administration expenses	15,640	15,453
6	Loss/(profit) on exchange movements	12,570	(48,940)
		251,650	172,017
	Excess of members' subscriptions and other income over expenditure	24,000	80,360
	Income and gains/(losses) from investments	110,676	(6,234)
	Deficit on revaluation of fixed assets	(838)	(1,763)
	Actuarial (loss)/gain on defined benefit pension scheme	(8,140)	683
7	Taxation	(9,348)	(23,387)
8	Increase in funds available to meet future liabilities and charges	116,350	49,659

Statement showing funds available to meet future liabilities and charges

At 31 December 2009

Notes		2009 £'000	2008 £'000
	Fixed assets		
9	Tangible assets	8,606	8,705
10	Investments	1,296,999	1,132,392
		1,305,605	1,141,097
	Current assets		
11	Debtors – due within one year	13,925	5,223
11	– due after one year	26,714	13,692
	Bank deposit accounts	88,812	93,995
	Cash at bank and in hand	4,073	1,199
		133,524	114,109
12	Creditors	(50,346)	(64,099)
13	Provision for liabilities	(473,854)	(398,306)
14	Pension (liability)/asset	(1,813)	3,965
15	Funds available to meet future liabilities and charges	913,116	796,766

Notes to the financial statements

1 Claims costs and associated legal costs (including costs of insurance)

Claims costs are the value of damages paid to claimants, the value of any award of costs paid to claimants and the increase in amounts set aside for claims (including associated legal costs) that have been reported and where discretion has been exercised, or is expected to be exercised. Associated legal costs represents the value of in-house and external legal costs paid in the year associated with the management of all claims. Costs of insurance represents the amount MPS has paid to third party insurers to transfer some of the risk to these insurers. This is normal practice and provides added protection for MPS's assets in the event of unexpected catastrophic claims experience.

2 Insurance recoveries

This represents the amounts recovered or recoverable from third party insurers on claims for which a provision has been made in these accounts.

3. Advisory costs and associated legal costs

Advisory costs are the cost of employing in-house doctors, dentists, lawyers and their administrative support to manage claims other than for negligence. Associated legal costs are the legal costs paid in the financial year relating to advisory activities and the movement in the provision for the future costs of managing claims that have been reported and where discretion has been exercised, or is expected to be exercised.

4. Education, publications and external relations

Included under this classification are costs associated with developing and delivering education, publications and risk management services to members with the aim of reducing risk, and liaising with regulators, legislators and professional representative bodies around the world on behalf of members and the wider professions, on matters relevant to MPS and its members.

5. Administration expenses

This is the cost of employing staff, running the offices, marketing, travel, etc, except for the costs included under claims costs, advisory costs and education, publications and external relations costs above.

6. Loss on exchange movements

The majority of the losses on exchange movements relate to the restatement of international investments and cash assets held to match international liabilities. These losses are substantially offset by a corresponding decrease in international liabilities, which is included in costs within the increase in the overall claims provisions.

7. Taxation

Because MPS is a mutual, it pays tax only on the income it receives from its investments, any gain it realises when it sells investments, unrealised gains on government and corporate bonds and trading profits of its subsidiary companies.

8. Increase in funds available to meet future liabilities and charges

The amount of £116.3m represents the increase in funds available to meet liabilities for events occurred but not yet reported at the balance sheet date, and is the difference between the figures for 2008 and 2009 at the bottom of the statement of funds available to meet future liabilities and charges on page 10.

9. Tangible assets

This represents the market value of the freehold property at 31 December 2009 plus the purchase price of all other tangible assets bought by MPS, less depreciation.

10. Investments

This is the market value on 31 December 2009 of all the investments held by MPS on that day. MPS's investments consist of a mixture of government and corporate bonds, equities and other return seeking assets, infrastructure funds and cash, both UK and international. The aim of the investment portfolio is to match the profile of MPS's reported and potential claims.

11. Debtors

This is the amount owed to MPS at 31 December 2009 by third parties. This includes £35.6m recoverable from insurers (see note 1), based on the value of all outstanding claims.

12. Creditors

This represents amounts that MPS owes to third parties at 31 December 2009. This includes £38m of subscriptions received from members before 31 December 2009, but relating to indemnity periods after 31 December 2009 (deferred income).

13. Provision for liabilities

This is a provision for the discounted future settlement value of all reported claims relating to negligence and other matters, as well as a provision for the internal costs of managing those claims to conclusion.

14. Pension liability

In accordance with accounting regulations, the difference between the value of the assets and liabilities of MPS's pension scheme at 31 December 2009 is included in the accounts, resulting in a pension deficit of £1.8m.

15. Funds available to meet future liabilities and charges

Under the claims-incurred basis of indemnity that MPS provides, there were at 31 December unreported incidents which may give rise to claims in the future; so-called Incurred But Not Reported (IBNR) claims. These potential claims, which do not constitute a contingent liability because recognition of the liability is dependent on Council exercising its discretion, will, to the extent to which Council exercises that discretion, become MPS's responsibility. The funds at 31 December 2009 (£913.1m) on the statement showing funds available to meet future liabilities and charges, are more than sufficient to cover the IBNR, based on an actuarial assessment prepared by an independent firm of consulting actuaries.

Principal activity

MPS is a mutual society, the function of which is to protect, support and safeguard the character and interests of medical and dental practitioners and other healthcare professionals. It is a non-profit-making company limited by guarantee and all income and property must be applied solely towards its objects as defined by MPS's Memorandum of Association.

One of MPS's objects is to grant indemnity to members in respect of claims and demands arising from their professional practice, which may result in the payment of costs and damages. The Articles of Association set down in paragraph 40 that "the grant of indemnity shall be entirely in the discretion of the Council who shall have power to impose such terms and conditions on the grant of any indemnity as it thinks fit and may in its absolute discretion limit or restrict such indemnity or decline altogether to grant the same."

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Solicitors

MPS retains a panel of over 40 law firms around the world to provide advice to members

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