ABOUT MPS

The Medical Protection Society Limited ("MPS") is the world’s leading protection organisation for doctors, dentists and healthcare professionals. We protect and support the professional interests of more than 300,000 members around the world. Membership provides access to expert advice and support together with the right to request indemnity for complaints or claims arising from professional practice.

Our in-house experts assist with the wide range of legal and ethical problems that arise from professional practice. This can include clinical negligence claims, complaints, medical and dental council inquiries, legal and ethical dilemmas, disciplinary procedures, inquests and fatal accident inquiries.

Our philosophy is to support safe practice in medicine and dentistry by helping to avert problems in the first place. We do this by promoting risk management through our workshops, E-learning, clinical risk assessments, publications, conferences, lectures and presentations.

MPS is not an insurance company. All the benefits of membership of MPS are discretionary as set out in the Memorandum and Articles of Association.

Photos of Council: © Alex Orrow
All other photography: © MPS/Paul Cliff © MPS/Mike Bagley © MPS/Todd Beltz
This document comprises the Strategic Report, as included in The Medical Protection Society Limited (MPS) Annual Report 2015, and further supplementary information. This document does not contain sufficient information to provide as full an understanding of the results and the state of affairs of MPS as does the MPS Annual Report 2015.

For further information please refer to the MPS Annual Report 2015, which can be accessed online at www.medicalprotection.org or www.dentalprotection.org.
**RISING PRESSURES**

**Issuses Impacting Members**

**Global Trends**
- Growing and ageing population
- Changing burdens of disease
- Increasing costs
- Increased expectations around quality, transparency, and an enhanced patient experience

**Ireland**
- High cost of clinical negligence at a time of wider economic stress
- Health budget under pressure

**Caribbean and Bermuda**
- Increased accountability from new regulatory bodies
- Rise in mosquito-borne diseases

**Type of Medical Cases 2015**
- Complaints 4,080 24.0%
- General medicolegal advice 3,815 22.1%
- Adverse incidents 2,789 16.0%
- Claims and related matters 2,613 15.0%
- Medical Council 1,732 10.0%
- Inquests 1,261 7.4%
- Others 529 3.1%
- Disciplinary 353 2.0%
- Criminal 73 0.4%

**Type of Dental Cases Opened**
- Complaints 3,255 41.0%
- Claims and related matters 1,685 21.1%
- General dentolegal advice 1,601 20.1%
- Dental Council 571 7.1%
- Others 429 5.4%
- Adverse incidents 330 4.0%
- General dental services 106 1.3%

**Total Cases Opened by Year**
- 2009: 12,048
- 2010: 13,050
- 2011: 14,221
- 2012: 16,298
- 2013: 16,657
- 2014: 17,423
- 2015: 17,265

**Total Claims by Year**
- 2009: 1,534
- 2010: 1,691
- 2011: 1,752
- 2012: 2,256
- 2013: 2,106
- 2014: 2,245
- 2015: 2,108
SINGAPORE
- Demand for new health information technology and treatments

UNITED KINGDOM
- Indemnity issues for new models of care
- Workforce shortages

HONG KONG
- Increased scrutiny by governments, the media, and consumers

SOUTH AFRICA
- High cost of clinical negligence
- Lack of a robust complaints system leading to more claims

MALAYSIA
- Growth of medical tourism: patient consumerism and the rise in expectations

NEW ZEALAND
- Changing the patient experience in the public health system
- Government initiatives to increase access to care

AUSTRALIA
- Pressure to contain costs and demonstrate value
- Ongoing health care workforce challenges

REST OF THE WORLD
- 61
- 36

* Indemnity provided through a regulated Australian provider

DENTAL MEMBERSHIP BY YEAR
- 2011: 225,033
- 2012: 232,591
- 2013: 239,957
- 2014: 245,811
- 2015: 245,816

MEDICAL MEMBERSHIP BY YEAR
- 2010: 55,291
- 2011: 58,752
- 2012: 62,131
- 2013: 64,098
- 2014: 66,826
- 2015: 68,626
MPS BY YOUR SIDE

ADVICE AND SUPPORT

Impartial and expert advice on a wide range of issues, including Medical/Dental Council issues

- Tailored advice from an expert colleague who knows the challenges you face
- Help in formulating a response to a complaint, and assist and support you through to its resolution
- Independent and confidential counselling service if you are suffering from stress and anxiety
- Available 24 hours a day, seven days a week for urgent advice

EDUCATION, PUBLICATIONS, AND EVENTS

Free professional development resources, including educational workshops, come as part of your membership benefit. In 2015, this included:

- 40 publications (22 Medical, 18 Dental)
- 259 Factsheets
- 12 Ethics Modules
- 81 Advice books and booklets
- 24 Position statements and briefing documents
We understand the ever-changing world in which you work, and are proud to be your partner. Every penny of membership subscriptions is used for the benefit of members, to support you now and long into the future.

DISCRETIONARY INDEMNITY AND REPRESENTATION

Robust indemnity for legal and compensation payments*

You can request assistance with any action, proceeding, claim or demand arising from your professional practice including:

- Clinical negligence claims
- Investigations by regulatory bodies
- Disciplinary procedures
- Criminal proceedings
- Indemnity for Good Samaritan acts

* Applies to members whose membership incorporates the right to request indemnity

CAMPAIGNING FOR CHANGE

On your behalf, we work with governments and other decision-makers to advocate changes and defend the interests of you and those of the profession. In 2015, this included:

- Irish tort law reform: Challenging Costs of Clinical Negligence in Ireland, Dec 2014
- Raising tort law reform with the NHSE and the Department of Health
- Irish government consultation on PPOs
- Briefing MPs and Lords in the UK on a number of issues such as the Medical Innovation Bill, regulatory reform, and the cost of clinical negligence
As a healthcare professional, your world is constantly changing. Healthcare systems around the world are dealing with increasing costs, changing structures, new technologies, rising patient expectations and high levels of regulation. All this is happening at a time when demand for healthcare is rapidly rising. While these challenges often place increasing pressure on your work and personal life, it is good to know there is someone on your side and looking out for you.

Against this backdrop of change, we are continually adapting our services to help you navigate the pitfalls that can lead to a complaint or claim. This means offering more support, advice, and defence, that is tailored to your needs. I am pleased, then, to present this report which details how we have worked with members and on their behalf over the past year.

BY YOUR SIDE
You carry big responsibilities and can be exposed to big risks. You are held to account, often publicly, for the decisions you make. Our priority is you, our members, and our aim is to offer the same level of attention, compassion and protection for you as you do for your own patients.

Although members have often associated us with assistance in difficult situations – handling claims, complaints and regulatory hearings – many more are now seeing us as their true partner in risk reduction, using our services throughout their career.

We do all we can to help you learn the skills you need to avoid situations that can result in complaints and claims, including: the opportunity to speak to an expert colleague through our confidential advice line; free, fully-accredited educational workshops; and a library of publications, factsheets, and guidance materials.
Against this backdrop of change, we are continually adapting our services to help you navigate the pitfalls that can lead to a complaint or claim.

Your membership provides access to expert advice and support together with discretionary indemnity for complaints or claims arising from professional practice. If a problem should ever arise, we can offer impartial advice and a team that is here to support you when you need it. We can provide access to experts in the medicolegal and dentolegal field who can guide you through whatever situation in which you find yourself and explain what you can do to stop it escalating.

Inevitably, some cases do progress and we understand the detrimental effect this can have on your health and mental wellbeing. Some 72% of doctors and 95% of dentists whom we surveyed last year experienced mental health issues, such as stress, anxiety, and low self-esteem as a result of investigation. Remember, if you find yourself in this position, our counselling service offers immediate access to support 24 hours a day, seven days a week, and face-to-face counselling sessions can be arranged near to you and at your convenience.

CAMPAIGNING FOR CHANGE ON YOUR BEHALF
Like you, we believe prevention is better than cure. We work hard to promote and defend your legal interests in the regulatory and legislative environments. We seek to play an active role in shaping public policy and regulation that impact on you, using our considerable medicolegal and dentolegal expertise to inform debates about changes that affect your professional practice. We also strive to influence positive changes that will benefit the profession as a whole.

PLANNING NOW FOR YOUR FUTURE NEEDS
There is more we want to do to ensure that we are able to provide you with the best possible service, not just today but long into the future. Change brings an opportunity for growth. As a result, we are driving change on a number of fronts to deliver industry-leading, world-class service. We are continuing to invest in our internal processes, expand our membership service and look at ways to develop new products. Our Chief Executive, Simon Kayll, will discuss this in more detail in his report.

My fellow Council members and I share a passion for this organisation and for the extraordinary members we serve, as well as an excitement for the future ahead. I would like to thank them and in particular, Professor Sir Peter Morris, who completed his term as President of MPS in 2015. We welcome Professor Sir Ravinder Maini as the incoming President, along with Mr Ian Eardley and Dr Jim McLenanachan who both joined Council in 2015. I would also like to thank all the staff of MPS and our various partners around the world for the commitment they show to providing the best possible service to members.

Finally, I thank you for your continued membership and assure you that we will continue to earn your trust and respect every day not only for what we achieve, but for how we do it.

Kay-Tee Khaw
Chairman of the Council
In 2017, MPS will celebrate 125 years of service to members. In that time, our membership has grown from a small number of English doctors to over 300,000 doctors, dentists and other health professionals in a number of countries around the world. Our longevity, size and international experience give us unparalleled experience of medico/legal and dento/legal matters, meaning we are uniquely placed to understand and respond to your needs.

SUPPORTING MEMBERS THROUGH CHANGE

In a fast changing environment, we are adapting our service to reflect your evolving needs.

In 2014, we embarked on a major change programme to improve the focus, efficiency and effectiveness of our service to you. This change programme has been wide ranging and should conclude in 2017.

As I reported last year, we chose to start this change programme with our claims management function, as claims are by far the largest area of cost to members. We have developed a new approach to triage claims that are notified. This has been operational for about a year and the results show improvements in the speed with which we are managing the early stages of claims, the speed with which we are resolving smaller claims, and have resulted in a saving in costs. The next stage, which is being rolled out in 2016, is to achieve similar results in the resolution of the more complex claims.

We are also undertaking a similar review of our approach to handling the other matters we assist with beyond claims. This can be any matter arising from a member’s clinical practice, including: reports to the regulator, fatal accident enquiries, disciplinary hearings, clinical reports and much more. Improvements in our management of these cases will be realised in 2017.

A third area of our change programme is the development of a new membership administration system. The benefits of this project, which will be realised in 2017, will enable us to offer you a more flexible and tailored service, affording you greater accessibility and freedom to manage your own membership.
These changes will also improve our ability to analyse member data and to assess risk both by speciality and defined areas of practice, ensuring that we continue to offer the most appropriate and comprehensive protection for members.

**THE COST OF CLINICAL NEGLIGENCE**

The increasing number and cost of clinical negligence claims and, in many countries, the increasing demands of professional regulators have resulted in a growing demand for our services. This has caused us to increase subscriptions by, in many cases, more than the increase in your incomes. We are acutely aware that our subscriptions are becoming less affordable and, as a member-owned organisation, we are taking a number of steps to try and contain the size of possible future subscription rises.

We are a not-for-profit, mutual organisation, which means that all the subscriptions that you pay are retained within MPS for the benefit of members. We have no third party shareholders and pay no distributions to third parties.

As we have no third party shareholders, our only source of capital is from our members. To ensure the long-term viability of the organisation so that we can offer assistance to you in your time of need, we must charge subscriptions that we believe are necessary to cover the costs that we could potentially meet in the future on your behalf.

**CHAMPIONING CHANGE ON YOUR BEHALF**

Costs relating to claims for clinical negligence make up the largest element of your membership subscription. We are doing all we can to ensure that when a member reports a claim to us, we can resolve it as quickly and as expeditiously as possible. In resolving claims we always ensure we act in your best interest and where applicable, defend that interest robustly.

The other side of the equation is trying to influence the number and size of claims. In this respect we have done a lot of work, primarily in the UK, Ireland and South Africa, to argue for changes in both the legal system and the tort law system, to reduce the number and the size of claims.

The overall cost of clinical negligence claims is a significant drain on the funding of public healthcare systems, and there needs to be a balance between the interests of individual patients, who are deserving of compensation following negligent treatment, and the interests of the wider society. We have done much in 2015 to lay out the problem, to suggest changes and to advocate change; this includes launching *Challenging the Costs of Clinical Negligence: The Case for Reform* in South Africa. This is a long term strategy that will take time.

Our advocacy work continues in other areas too, for the benefit of the wider membership and the medical and dental professions. In 2015, we gave evidence to a meeting of the Health Select Committee in Ireland and submitted written evidence to a Health Select Committee inquiry in the UK. We are also working with NHS England to understand the indemnity needs for the new models of care that are being developed.

**MATCHING RISK AND PRICE**

As the cost of professional protection rises, we find that members are keen to ensure that the cost they pay represents the risk of their particular practice. We continually review our analysis of practice risk and try and create ever greater differentiation in our pricing to meet this growing demand from members. For example, in dentistry we introduced a new, higher subscription for members undertaking implants, and in medicine, we introduced a higher rate for ophthalmic surgeons carrying out refractive laser surgery. These changes benefit the wider membership who are not involved in this work by keeping their subscriptions lower than would otherwise have been the case without such differentiation.
MANAGING ADVERSE MEMBER RISK
On a similar theme, we have a very small number of members, a fraction of one percent, whose risk profile is significantly worse than that of their peers and who incur a significant cost, which has to be borne by the wider membership. Our practice is to increase the member’s subscription and work with them to try and reduce their risk for the future. In the most extreme cases, we will decline to offer terms for the renewal of their membership.

IN SUMMARY
I am acutely aware that the current high cost of clinical negligence claims in many countries around the world means that members are finding membership subscriptions increasingly difficult to afford. We are working hard to do what we can to address the escalating costs that drive subscriptions.

To ensure that we are delivering the best service possible, we continue to improve our internal processes so that claims and cases can be resolved as quickly and cost effectively as possible, without compromising MPS’s reputation for robust defence of members when appropriate. On your behalf, we continue to advocate changes in legal processes and tort law to reduce the frequency of negligence claims and to reduce their size. In addition, we are carefully managing the risk that a very small minority of members pose to the wider membership and are proud to provide an extensive range of education and risk management, to support our members in understanding and managing their own risk.

In the past eight years, we have seen the costs of clinical negligence claims rising faster than anticipated; but with investments performing at least in line with expectation. However, as the Finance Director’s report shows in more detail, 2015 has seen a reversal of this with claims costs performing closer to expectation whilst investment performance has been well below expectations.

I feel enormously fortunate to be part of the remarkable work of this organisation. Each day, I have the great honour of working for you, the 300,000 plus members, who entrust us with your professional indemnity and support. On behalf of my colleagues and myself, I want to thank you for your continued membership and assure you that we will continue to challenge ourselves to set the standard for excellence for medical and dental defence.

Simon Kayll
Chief Executive
HOWARD KEW
Executive Director – Finance and Risk

I am pleased to be able to report a sum of £97.2m as total comprehensive income in 2015 (compared to £11.8m in 2014), after a year which has seen some encouraging signs in the area of claims development, but volatile, and in many cases, declining investment markets.

The overall size of the balance sheet (total assets less current liabilities) has increased by 4.1% to £2,345.4m as at 31 December 2015 from £2,252.5m at the end of the previous year, whilst the funds available to members have also increased from £1,206.5m at the end of 2014 to £1,303.8m (+8.1%) at the end of 2015.

Income from members’ subscription and other miscellaneous sources has grown by 8.6% from £390.5m to £423.9m.

Our other principal source of income is investments where income is down from £39.4m in 2014 to £25.7m in 2015, a reduction of 34.7%. And whilst the overall size of our invested assets has grown modestly to £2,132.6m (from £2,099.1m at the end of 2014), this outcome is considerably lower than we would have expected when setting our subscriptions.

It is also important to note that MPS is an international organisation, and whilst the UK generates the majority of the income and the costs, a significant proportion of our members are not UK based. When viewing this from a financial perspective, this helps diversify the risks we carry but also can create volatility in the reported numbers. In particular, the currency markets in 2015 showed a considerable appreciation in the value of sterling against the Euro and the Rand. This had the effect of reducing the value of our liabilities in these currencies but also reduced the value of both our income and our assets too.

THE COST OF CLINICAL NEGLIGENCE CLAIMS

Looking at the numbers in more detail, it is encouraging to see a reduction in our most significant cost line, the reported claims and associated legal costs in the year, which fell to £165.4m in 2015, some £109.7m lower than the equivalent figure of £275.1m in 2014.

This is reflected in the balance sheet position which shows our overall provision for liabilities falling very slightly to £971.4m at the end of 2015, compared to £979.3m at the end of the previous year.

The £165.4m figure for reported claims is made up of a number of different elements, and reflects not just claims we have settled in 2015, but also estimates of the ultimate costs of new claims received in the year, and the changes in value of estimates of cases that remain unsettled. This is the first time in recent years that we have seen a year-on-year reduction in this area, and whilst we cannot directly attribute cause and effect with any certainty, it is valuable to consider the possible reasons.

Firstly, we have been able to refine our assessment of the surge of claims that were reported around the time of the introduction of the UK tort law reforms in April 2013, known as The Legal Aid, Sentencing and Punishment of Offenders Act (LASPO). From the outset we believed that a significant number of these claims were potentially unmeritorious and, having mounted a robust defence, it has become clear that many are indeed without merit. Consequently, we have been able to reduce or even remove the estimates we held against these claims.

As almost all claims brought after April 2016 will be under the new regulations we should soon have a clearer picture of whether the
The introduction of LASPO will reduce the number of unmeritorious claims brought. We incur significant costs repudiating such claims against members and we are only too aware of the personal impact claims can have; so not only do we keenly await evidence of this long sought outcome, we are also seeking further tort reform to reduce the overall burden of claims on members.

As referred to earlier, it is important to note that our Euro and Rand denominated claims will have reduced in value over the year due to the relative weakening of those currencies against sterling.

Also, 2015 saw the first year when we could expect to see benefits from our investment in the way in which we process claims on behalf of members. In part, this is to meet the increased sophistication of claimant lawyers who often look to maximise their own income at our members’ expense. As the costs of claims are closely related to the time it takes to settle them, we are focussed on early assessment and decision making on how we should proceed. We expect further benefits to be realised in 2016.

Finally relating to claims, 2015 was a year in which we saw a little less development of very large claims. In proportion to our overall number of claims, the frequency of very large claims is relatively small, but as they are of very high value, they are of considerable importance. Any variance from the expected number will have a disproportionate effect and in 2015 this was helpful to the financial position.

LONG TERM CONSIDERATIONS

However, the 2015 statements only relate to a single calendar year and it is critical to understand that MPS is managed on a long term basis, to ensure that our finances do not prevent us exercising our discretion to support members and meet future potential obligations.

The vast majority of members are entitled to seek assistance on the “occurrence based” principle. This means that the income we collect in 2015 is held on behalf of members to meet the risks arising from their clinical activities in 2015, acknowledging that these funds need to be invested in anticipation of the costs crystallising in future years. Consequently, we must always consider the longer term future position of the organisation when setting subscriptions and managing the financial position.

When looking out further we have concerns in several areas, including the total cost of settlement as discount rates are reduced, the propensity for patients to sue for damages against clinicians and claimant lawyers becoming ever more skilled and resourceful. This leads us to increase our estimates of potential future costs, and hence affects the cost of subscriptions in general.

INVESTMENT MARKET

Turning to the organisation’s assets, many members will know that whilst 2014 was challenging, 2015 proved to be an even more difficult year in investment markets. We operate with a modest investment risk appetite and seek to protect members’ capital value, but because we have a very large and diversified fund of invested assets, it was difficult to avoid the decline experienced in most major asset classes globally.

This is clearly shown when analysing income and the change in fair value which show a combined loss of £50.4m in 2015 (compared to a contribution of £33.4m in 2014). Whilst some of this loss can be attributed to exchange rates, and therefore be offset by reductions in claims reserves, there was an underlying reduction in the value of investments and hence significant underperformance relative to that which would have been anticipated when setting membership subscriptions.

We continually review how we can best protect members’ capital whilst seeking an appropriate level of return, but in 2015 this did not prove to be possible, though the improved position on claims development means we are able to report a positive net result and have some guarded optimism for the future.

NEW FINANCIAL REPORTING STANDARDS

For the first time, the 2015 financial statements are presented under the requirements of the new UK Financial Reporting Standard 102 (FRS 102), the adoption of which is now mandatory for companies such as MPS. The objective of the new standard is to enable users of accounts to receive high-quality understandable financial reporting consistent with the size and nature of the entity and the needs of the user.

Adoption of these new reporting standards has required us to revise certain accounting policies, which in turn have an impact on some of the reported numbers when compared to prior years. We are also required to restate our 2014 results under the new requirements. The most significant area of impact is around investments; FRS 102 requires changes in fair value of investments to be recognised in the statement of comprehensive income, whereas previously such movements went directly to balance sheet reserves. In addition, deferred tax relating to certain investment fair value movements is now required to be fully provided for within the financial statements. The impact of these changes, along with all other relevant items, is covered in more detail in note 25 to the financial statements, in the MPS Annual Report 2015.

Howard Kew
Executive Director – Finance and Risk
The Council presents its Strategic Report for the group for the year ended 31 December 2015.

**PRINCIPAL ACTIVITY**

MPS is the leading medical defence organisation of its kind around the world. It 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 not-for-profit 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 state that “the grant of an indemnity shall be entirely in the discretion of the Council, who shall have the 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”.

In addition to the principal activity of the holding company, the group has a number of subsidiary companies that complement and support the activities of the group.

MPI (London) Limited (MPI), which is registered in England, holds the invested assets on behalf of MPS. MPI has a separate Board which is responsible for implementing the investment strategy approved by the Assets and Liabilities Committee of MPS Council. Funds are invested with third party fund managers and MPI does not undertake any direct investment activity. The MPI Board is also responsible for overseeing the investment performance of the third party managers.

Dental Protection Limited, which is registered in England, is a non-trading company. However, it has an active Board, which provides insight on dental issues which impact MPS.

Cognitive Consulting Group Pty Limited is registered in Australia and provides education and training in communication skills and risk management to medical practitioners.

DPL Australia Pty Limited is also registered in Australia, where it manages the administrative affairs of our dental members in Australia.
MPS Risk Solutions Limited (MPSrs) is registered in England and is a general insurance company, authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In June 2012, MPS made a strategic decision that MPSrs would withdraw from the insurance market, to enable MPS to focus on its core business of providing discretionary indemnity. MPSrs provided professional indemnity, malpractice, product and public liability cover to corporate healthcare providers. Claims brought whilst policies were in force will continue to be managed to the highest standard using existing claims expertise. On 10 December 2015, under part VII of the Financial Services and Markets Act 2000 (FSMA), the Board resolved to undertake a transfer of the business and will work towards this during 2016.

MPS has a further subsidiary, The MPS Periodical Payment Trustee Limited, a Corporate Trustee, which has been appointed as Trustee to the MPS Periodical Payment Trust and is responsible for the safe keeping of assets, and payments due, in respect of Periodical Payment Orders made in settlement of claims against members.

BUSINESS PURPOSE
MPS exists to serve its members. MPS aims to ensure that it remains a strong viable entity to meet its current and future commitments to members and that it continues to provide much-needed services to members for years to come.

MPS will meet the costs of assisting members subject to payment of the appropriate subscription, compliance with the rules of the Memorandum and Articles of Association, the scope of the benefits of membership and discretion. If a member requests assistance then MPS will pay all reasonable costs related to an incident for which it exercises its discretion to assist. These costs may include representation before a regulatory body, assistance with disciplinary proceedings and indemnity for damages and costs in cases of negligence. Payment will be made even though it may be years after the incident occurs before a matter is raised, and the costs are incurred.

In addition, MPS has developed and continues to develop a range of non-clinical educational courses and risk management assessments for members worldwide to help reduce risk and so improve patient care. The educational courses take the form of workshops, lectures and web-based learning and focus on communication and interpersonal skills, practice systems and processes, professionalism and ethics.

FINANCIAL TARGETS
Despite the risk mitigation identified below on the pages that follow, it is impossible for MPS to eliminate risks associated with its business activities. Consequently, MPS needs to ensure that it has the financial resources to cope with the remaining unmitigated risk so that it can provide members with the assurance they need that MPS will be in a position to respond to their requests for assistance no matter when these are made.

To this end, MPS has set long-term financial targets to ensure that its assets exceed the estimated value of both its reported claims and potential requests for assistance in relation to incidents not yet reported. This is to protect against the risk that claims may, for many reasons, when eventually settled, cost more than anticipated. The financial targets have been set such that even if these claim values were, within certain parameters, to be higher than expected, or, again within certain parameters, the value of invested assets was to be lower than expected, then MPS would still have sufficient funds to meet all of its reported claims and unreported potential requests for assistance.

FINANCIAL PERFORMANCE FOR THE YEAR
As a not-for-profit organisation, MPS has to reflect the cost of clinical negligence claims in the membership subscriptions we charge. In 2015, the cost of claims in a number of different countries resulted in an increase in member subscriptions for members in the specialities that were impacted, resulting in an overall increase in subscription income. Administration costs also increased, reflecting our response to the increased demand for our services to members and continued investment in strategic change projects to help MPS achieve its goals, in particular the long-term financial target noted above. Investment performance was disappointing for the second year running, reflecting the significant downturn in most major investment markets worldwide.

Claims performance in the year was better than anticipated, though we continue to estimate significant increases in our potential future costs to meet claims for incidents that have occurred but about which we are not yet aware.

More detail of the financial performance for the year is provided within the Finance Director’s report on pages 14 - 15.
KEY MARKETS
MPS offers membership in a number of different international markets. This international perspective allows many members to practise in different countries and still enjoy the benefits of MPS membership. It also allows MPS to use its wide and diverse experience for the benefit of all its members. During 2015, MPS undertook a review of its key markets and confirmed the following are areas where we will continue to invest in developing our membership offering.

MPS’s key markets are:
• Australia* • Caribbean and Bermuda
• Hong Kong • Ireland • Malaysia
• New Zealand • Singapore
• South Africa • United Kingdom
* Non-indemnity dental membership

MPS has a strong position in all of the above key markets.

MEMBER NUMBERS
The business aim is to grow membership in a controlled manner without increasing the overall risk exposure of the organisation. The 2015 increase in total members, including those who are not required to pay a subscription, was 0.6% (2014: 2.8%).

FUTURE DEVELOPMENTS
The Chief Executive’s report refers to developments during the year and touches on future developments.

For the coming year, MPS will continue to focus on our members’ needs by delivering a high-quality, cost-effective service, along with the development and provision of education and risk management courses to members and the continued strengthening of our relationship with regulators, legislators and professional representative bodies. To ensure these aims are met now, and in the future, our strategic change programme will continue through 2016. Our largest project, which concentrates on commissioning an entirely new member administration system, will be our main priority, though it will be 2017 before members will be able to see and experience the considerable benefits it will deliver. Meanwhile, during 2016, members whom we assist with claims will benefit from the conclusion of another significant change project, which has involved a redesign of our claims processes to deliver improvements to both efficiency and service quality.

The Council recognises the impact that subscription increases have on members and is keen to limit such increases where possible and appropriate. The Council has proposed that the investment strategy be reviewed during 2016 to assess whether a different balance between risk and return might be acceptable, bearing in mind the need to safeguard members’ assets (see also the “Principal Risks and Risk Management – Market Risk” section that follows).
EMPLOYEES

MPS staff are vital in providing high quality service to members, and MPS focuses strongly on retaining and recruiting the best.

The extent to which the role of staff is taken seriously is borne out by one of the five pillars of the MPS Vision: “Exceptional staff”. This states that MPS values an empowerment culture where all contributions are supported; there is great focus on the development of staff; key talent will be identified and nurtured; continuous training will be implemented to maintain technical excellence across MPS; and a new pay and performance management framework has been designed and successfully implemented.

MPS strongly believes in the value of diversity in the workforce. We seek to strengthen this commitment in a variety of ways, including ensuring that all recruitment advertising and selection methods are as objective and free from bias as possible, that training and promotion opportunities are available to all staff and that managers are trained to recognise the importance of diversity and to deal with equal opportunities issues.

MPS has a Staff Consultative Group which complies with the requirements of the Information and Consultation of Employees Regulations 2005. The Group gives an opportunity for staff to raise issues which are important to them directly with the Chief Executive and provides a facility for two-way feedback.

MPS underwent a mid-term review against the Investors In People Framework in January 2015. This review identified significant positive developments from the last full assessment carried out in June 2013 and indicated that MPS was operating to a high standard against the Framework.

The results of our most recent staff survey, in October 2015, further endorsed the progress being made in this area. The results reflected high overall engagement among staff, significant improvements against some weaker areas highlighted by the previous year’s survey and a strong performance in comparison with the other organisations against which MPS was benchmarked.

CHANGE IN ACCOUNTING STANDARD (FRS 102)

FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” is the main new United Kingdom Generally Accepted Accounting Practice (UK GAAP) standard, and is effective for accounting periods beginning on or after 1 January 2015.

This standard is largely based on International Financial Reporting Standards, and gives rise to a number of key differences both structural and numerical compared to the previous framework. Note 25 to the accounts in the MPS Annual Report 2015 illustrates the main transitional changes, including where applicable a reconciliation of the restated 2014 figures to those reported previously.

PRINCIPAL RISKS AND RISK MANAGEMENT

All businesses face risks of one kind or another and prudent management of the business requires identification, quantification, management and mitigation of these risks; MPS is no exception. The key risks and relevant mitigating factors are detailed below and the process of the management of risk is detailed in the section on Internal Control in the Report of the Council in the MPS Annual Report 2015.

RESERVING RISK

MPS provides an indemnity to members for the costs and damages associated with claims of negligence and the costs associated with other claims. At any time there are, as a result of past adverse incidents, claims that have already been reported and potential claims that have not yet been reported (unreported claims). Subject to discretion, MPS will be responsible for all of these claims.

For MPS to be responsible for paying these claims, it needs to be able to assess the value of these claims and ensure that it has sufficient assets (“reserves”) to meet the expected total costs. The value of these claims is estimated by MPS and the reserving risk is that the eventual payments required to meet the claims may exceed the sums estimated as the cost of the claims.

The uncertainty around estimating the value of all claims is greater for unreported potential claims than for those that have been reported. For unreported potential claims, the uncertainties include the number and severity of claims arising, how long it is likely to take from the date of the adverse incident to the making of a claim and how many of these may become large claims. The uncertainties for the reported claims are a little narrower, but still considerable.
In addition to the variation inherent in the claims, there are also external factors - mainly changes in legislation - which can have a profound impact on claim estimates. MPS has seen a number of changes in legislation in the UK in the past, nearly all of which resulted in an increase in the cost of claims. This includes the introduction of periodical payment orders and the reduction in discount rates. The discount rate is the rate used to ‘translate’ future cash flows, to be paid under the settlement agreement, into a lump sum value in current money terms: the lower the discount rate, the higher the value of the lump sum. The discount rate in England and Wales is set by the Lord Chancellor and is currently 2.5%. In other countries, the rate at which future cash flows are discounted to a current value lump sum will be part of the settlement negotiations.

The likelihood of variation in the total outcome from the expected estimate diminishes with the increasing size of the portfolio. In addition, the geographical diversity of the portfolio also helps to reduce the overall variation of expected returns. A larger more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

**Mitigation**

MPS maintains a large geographically diverse portfolio of risk and this is a key step in helping to reduce the variation of outcome around the expected mean.

A further step relates to ensuring the quality of the expected outcome in the first place and this relies heavily on the accuracy of data used and the quality of analysis in determining the expected outcome. MPS uses the skill of its internal staff to determine accurate estimates for individual claims and ensures that levels of skill are maintained by supporting ongoing training initiatives. It also has many checks and balances in its internal systems to allow regular review and monitoring of these estimates to help ensure a high degree of accuracy and consistency. MPS uses the experience of its consulting actuary, Lane Clark & Peacock LLP (LCP), to use the internal individual claim estimates and membership data to arrive at a statistical reserve for the likely cost of all reported claims and an estimate of the potential future costs of unreported requests for assistance. (See note 21 to the financial statements in the MPS Annual Report 2015.)

**UNDERWRITING RISK**

MPS charges a subscription based on the expected volume and value of claims made against those members paying the subscription. There is a risk that the volume or value of claims brought against those members will turn out to exceed the expectations contained within the subscriptions and thus MPS will not have collected sufficient subscription income.

**Mitigation**

Again, the skill of staff and advisers is important as is the quality of internal systems. In addition, MPS carefully reviews all applications and makes an assessment on those risks that it is willing to accept. MPS also runs an internal programme to identify individual members who appear to represent a higher than normal risk and tries to work with them to reduce their risk. In some cases members are not accepted into, or do not continue in, membership as we consider their risks to be too high. MPS continues to invest in improving and developing the systems, resources and processes involved in the management of member risk. MPS purchases insurance to reduce the impact of catastrophic high claims.

**MARKET RISK**

Subscriptions collected in any one year are invested until they are needed to pay the costs arising from the year in which the subscriptions were received. The greater the return MPS can achieve from investments, the less it would theoretically need to charge in subscriptions. However, the greater the investment return that MPS is trying to achieve from its invested assets, the greater will be the fluctuations in the value of those assets and thus, the greater will be the risk that MPS will see a fall in the value of its assets. Such volatility in the value of MPS’s assets is, when asset values fall, damaging to the strength of the balance sheet and significant volatility in investment returns makes it more difficult to plan for the longer term.

**Mitigation**

MPS has historically adopted a prudent investment strategy that carefully identifies and sets limits on the levels of risk acceptable in its portfolio of assets, thereby reducing the likely volatility of returns. These limits necessarily restrain the potential returns achievable from the portfolio but help safeguard against significant deterioration in the strength of the balance sheet. External professional advice is regularly sought and investment performance is subject to detailed review in conjunction with advisers. Wherever practical, risks arising from currency fluctuation and investment liquidity are minimised.

The risk of asset value volatility is addressed in a number of ways. Firstly, the majority of assets are held in bonds and short-term money market funds, which generally have a lower level of volatility. Secondly, those assets held primarily to achieve an investment return are invested in a diverse portfolio. The equity element of these assets is held in a number of different portfolios, each investing in different geographic areas; and the equities are augmented by other return-seeking assets which help to reduce volatility further, because returns from these assets are less than perfectly correlated with the returns from equities.
CURRENCY RISK
MPS holds assets to meet the costs of reported claims and potential future requests for assistance. These costs may fall due in a number of different currencies. If the assets are not held in the same currency as the costs then there is a risk that movement in exchange rates will alter the relative value of the assets to the costs.

Mitigation
MPS's strategy is to minimise currency mismatches between its assets and potential future costs. This is achieved by either holding assets in the same currency, and to the same value, as the expected costs, or through a currency hedging programme designed to protect against currency mismatches.

LIQUIDITY RISK
This is the risk that there will be insufficient liquid assets available to meet payments when they fall due. This could either result in an inability to make the payment or the need to realise an illiquid investment before maturity, which could be costly.

Mitigation
In managing liquidity risk, MPS needs to balance the ability to gain an investment return on its assets and the ability to have sufficient funds to pay liabilities as they fall due. MPS operates a sophisticated system through major clearing banks to ensure that an appropriate level of funds is available on a daily basis. When required, but that these are invested in pooled money market funds at other times. In addition to this, the invested assets include a short-term money market portfolio with an average weighted maturity of a maximum of 12 months, which provides additional liquidity should it be required.

CREDIT RISK
This is the risk that someone who owes money to MPS will fail to pay. MPS has little risk from a failure by members to pay subscriptions, because if payments are not made, the non-paying members will not be entitled to the benefits of membership (such as advice or assistance with claims). MPS's main credit risk arises from a failure of its insurers, a failure of a bank with which it holds deposits, or a failure of some of the counterparties involved in the derivative financial instruments that form part of MPS's investment portfolio.

Specific comment on this risk in relation to derivative financial instruments is provided on page 22.

Mitigation
MPS has stated policy on the acceptable risk profile for its insurers. This policy states the requirement to spread the risk across a number of insurers and dictates the acceptable financial security rating for insurers. Bank credit ratings are reviewed before deposits are made with specific institutions, and deposits are spread across a number of counterparties to mitigate against bank failure. MPS does not review the credit risk of counterparties in derivative financial instruments, but instead agrees parameters with its investment managers as to what security rating is acceptable for such counterparties. However, MPS does receive collateral on revalued derivative positions when appropriate.

INTEREST RATE / INFLATION RISK
MPS holds over a half of its invested assets in bonds. An increase in interest rates will cause a fall in the price (value) of bonds, as bond prices move inversely to changes in interest rates.

The impact on MPS's liabilities is more complicated. The main influences on the cost of large claims (in the UK) are those elements that reflect compensation for future costs or losses: these are mainly loss of earnings and cost of future care. An estimate of the lump sum required to provide for these future costs is determined by reference to the discount rate. The discount rate might be expected to change with changing interest rate expectations, but in the UK it is in fact fixed, by the Lord Chancellor, who conducted a second phase of consultation on the level of this rate, which ended on 7 May 2013. It is not currently known when the Lord Chancellor will report his latest review. However, with the introduction in 2005 of periodical payments as an alternative to lump sum or structured settlements, compensation can be provided as a regular monthly payment for the life of the claimant. Since the determination of the Appeal in the Thompstone case, the cost of future care is subject to indexation by a wage related measure and this can make settlement by way of periodical payments a more attractive option for claimants.

Specific comment on the interest and inflation risk in relation to derivative financial instruments is provided on page 22.

Mitigation
Interest rate exposure for bond assets is mitigated firstly by having a broad range of bond holdings, with different sensitivities to interest rate movements; and secondly by holding a predominance of index-linked bonds, where increasing inflation is allowed for in the rebasing of the capital value and coupon amount. Further mitigation is provided by the ability to reduce the tax charge as a result of indexation. In addition, MPS uses interest rate swaps as a means of protecting bond assets against the potential impacts of rising interest rates. MPS's response to the risk inherent in periodical payment orders is firstly to ensure that it has an appropriate investment make-up to closely match the liabilities; and secondly to ensure that it has sufficient assets to allow a margin in case of unexpected changes in interest and inflation rates.
OPERATIONAL RISK
Any organisation will be exposed to operational risk, that is to say the risk that a failure in its operations may incur an additional cost. Examples for MPS might include costs associated with a major failure of IT systems, cyber-attacks, fraud, flood, fire in one of the offices or theft of its assets.

Mitigation
MPS has done much to ensure that it has IT back-up systems and contingency plans in the event of failures or disasters, such that there will be minimal disruption to its business. It also spends time reviewing and testing its internal business systems and processes, to ensure that they are sufficiently robust, to ensure accuracy of the data on which business decisions are based, and to mitigate the risks of error, fraud and theft.

DERIVATIVE FINANCIAL INSTRUMENTS
MPS maintains a currency hedging programme to mitigate currency risks where it does not hold sufficient assets in a particular currency to match its liabilities in that currency.

MPS also maintains a UK interest rate swap programme to mitigate potential losses from its index-linked bonds portfolio, which may arise when UK interest rates rise.

Additionally, the company’s investment managers held derivative financial instruments to enhance investment returns. The net recognised gains and losses arising from holding these contracts are included in note 5 to the financial statements in the MPS Annual Report 2015, under other investment income.

All gains and losses from derivative financial instruments are reported in the statement of comprehensive income.

RISK CHARACTERISTICS OF DERIVATIVE FINANCIAL INSTRUMENTS

INTEREST RATE RISK
Some of MPS’s derivatives, such as the UK interest rate swap programme, are sensitive to interest rate movements; so it is necessary to determine the interest rate risk to which such contracts will be exposed. This is done by comparing the risk of the underlying asset against the risk of the derivative, using a formula to determine the number of contracts that need to be held. This risk is then considered together with the risk of interest rate-sensitive investments where derivatives are held for full or partial hedging of the risk.

CREDIT RISK
Credit risk encompasses all forms of counterparty risk. The company manages this risk through its investment policy, which sets out the type and quality of investments that can be held and the maximum exposure to any particular investment. Derivatives held to enhance returns are short-term in nature with low credit risk. For longer-term derivative contracts, credit risk is managed by utilising collateral accounts between the respective counterparties, which are selected in agreement with the investment managers.

APPROVAL
This report was approved by the Council on 13 April 2016 and signed on its behalf by:

David Wheeler
Company Secretary
33 Cavendish Square, London, W1G 0PS
OFFICERS AND MEMBERS OF THE COUNCIL AND COMMITTEES

PRESIDENT
Professor Sir Peter Morris  AC FRCS FMedSci 2 3
(retired 10 June 2015)

Professor Sir Ravinder Maini  BA MB BCH RCP FRCP Hon DSc (Glasg)
FMedSci FRCS 1 3 (appointed 10 June 2015)

VICE-PRESIDENT
Professor John Bonnar  MA MD FRCP FRCOG

CHAIRMAN
Professor Kay-Tee Khaw  CBE MA MB BCH MSc FRCP FFPHM FMedSci

VICE-CHAIRMAN
Mr Simon Pashby  BA(Hons) FCA

CHIEF EXECUTIVE
Mr Simon Kayll  BA(Hons) FCA MBA

MEMBERS OF THE COUNCIL

The Lord Bradley  PC BA(Hons) MPhil 1 2 3

Richard Brennan  MB BCH MICGP FRCP LRPC&P SI 1

Ian Croxford QC LLB 1 2

Mark Davis  MB ChB MRCP DRCOG DOccMed FRCPed 3

Yasmin Drabu  MB ChB DCH FRCPATH FRCP 1

Ian Eardley  BA(Hons) MB BCH MA FRCS MChir FRCS (Urol) (appointed 1 November 2015)

Patrick Forbes  MB CH FRCPG 7

John Gibson  BDS MB CHB PhD FRCP(Glas) FDS(OM) RCPS(Glas) FFDRCS(Edin) (ex officio) 6

Simon Kayll  BA(Hons) FCA MBA Chief Executive (ex officio) 6 7

Howard Kew  BSc(Hons) PGCE 6 7

Kay-Tee Khaw  CBE MA MB BCH MSc FRCP FFPHM FMedSci Chairman 1 2 3 4 5 6 7

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

Jim McLenachan  MB CHB MRCP FRCP (appointed 1 November 2015)

Simon Pashby  BA(Hons) FCA 1 2 4 7

Sally Scutt  BA(Hons) MBA MA 1 2

1. Members of the Audit and Risk 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 Assets and Liabilities Committee
These summary financial statements are an abridged version of the financial statements presented in the MPS Annual Report 2015, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”) and the requirements of the Companies Act 2006.

This summary financial information does not contain sufficient information to provide as full an understanding of the results and the state of affairs of MPS as does the MPS Annual Report 2015, and are not MPS’s statutory accounts for the year ended 31 December 2015. The statutory accounts are to be filed with the Registrar of Companies.

The independent auditor’s report on the consolidated financial statements presented in the MPS Annual Report 2015: (i) was unqualified; (ii) included a statement that the information given in the Strategic Report and the Report of the Council in the MPS Annual Report 2015 was consistent with the financial statements and that statement was also unqualified.

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**Year ended 31 December 2015**

<table>
<thead>
<tr>
<th>Notes</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members’ subscriptions and other income</td>
<td>423,929</td>
<td>390,461</td>
</tr>
<tr>
<td>Expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims costs and associated legal costs (including costs of insurance)</td>
<td>165,390</td>
<td>275,128</td>
</tr>
<tr>
<td>Movement in projected insurance recoveries</td>
<td>(10,860)</td>
<td>(7,528)</td>
</tr>
<tr>
<td>Advisory costs and associated legal costs</td>
<td>67,717</td>
<td>55,564</td>
</tr>
<tr>
<td>Education, publications and external relations</td>
<td>9,524</td>
<td>8,754</td>
</tr>
<tr>
<td>Administration expenses</td>
<td>29,800</td>
<td>24,994</td>
</tr>
<tr>
<td>Finance cost (unwinding of discount)</td>
<td>32,900</td>
<td>43,600</td>
</tr>
<tr>
<td>Loss on exchange movements</td>
<td>5,483</td>
<td>9,124</td>
</tr>
<tr>
<td>Movement in provision for doubtful debts</td>
<td>(439)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>299,515</td>
<td>409,636</td>
</tr>
<tr>
<td>Surplus/(deficit) of members’ subscriptions and other income over expenditure: continuing operations</td>
<td>124,414</td>
<td>(19,175)</td>
</tr>
<tr>
<td>Income from investments</td>
<td>25,747</td>
<td>39,446</td>
</tr>
<tr>
<td>Change in fair value of investments</td>
<td>(72,662)</td>
<td>76,397</td>
</tr>
<tr>
<td>Change in fair value of derivatives</td>
<td>(3,463)</td>
<td>(82,395)</td>
</tr>
<tr>
<td>Other finance income</td>
<td>420</td>
<td>418</td>
</tr>
<tr>
<td>Actuarial gain/(loss) on defined benefit pension scheme</td>
<td>7,745</td>
<td>(738)</td>
</tr>
<tr>
<td>Taxation</td>
<td>15,045</td>
<td>(2,112)</td>
</tr>
<tr>
<td>Total comprehensive income for the financial year</td>
<td>97,246</td>
<td>11,841</td>
</tr>
</tbody>
</table>
## CONSOLIDATED BALANCE SHEET
### At 31 December 2015

<table>
<thead>
<tr>
<th>Notes</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>£'000</td>
<td></td>
<td>£'000</td>
</tr>
</tbody>
</table>

### Fixed assets
- Intangible assets
  - 2015: 7,042
  - 2014: 2,961
- Tangible assets
  - 2015: 19,763
  - 2014: 19,506
- Investments
  - 2015: 2,132,562
  - 2014: 2,099,096
  - Total: 2,159,367

### Current assets
- Debtors - due within one year
  - 2015: 37,053
  - 2014: 23,739
- Debtors - due after one year
  - 2015: 50,890
  - 2014: 26,941
- Bank deposit accounts
  - 2015: 139,528
  - 2014: 133,034
- Cash at bank and in hand
  - 2015: 9,962
  - 2014: 8,987
- Pension asset
  - 2015: 17,546
  - 2014: 7,218
  - Total: 254,979

### Creditors - amounts falling due within one year
- 2015: (68,947)
- 2014: (68,960)

### Total assets less current liabilities
- 2015: 2,345,399
- 2014: 2,252,522

### Creditors - amounts falling due after one year
- 2015: (544)
- 2014: (444)

### Provision for liabilities
- 2015: (971,385)
- 2014: (979,317)

### Derivative liabilities
- 2015: (69,700)
- 2014: (66,237)

### Funds available for members
- 2015: 1,303,770
- 2014: 1,206,524
NOTES TO THE SUMMARY
FINANCIAL INFORMATION

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. The impact of the discounting applied is shown separately in the Finance cost line. 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. MOVEMENT IN PROJECTED INSURANCE RECOVERIES
This represents the movement in the year in the amounts recovered or recoverable from third party insurers on claims submitted in the year 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 claims costs and associated legal costs (see note 1).

7. TAXATION
Because MPS is a mutual, it pays tax only on the income it receives from its investments, any unrealised or realised gains on its investments, and trading profits of its subsidiary companies.

8. TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR
The amount of £97.2m represents the increase in funds available for members for events occurred but not yet reported at the balance sheet date, and is the difference between the figures for 2014 and 2015 at the bottom of the balance sheet.

9. INTANGIBLE ASSETS
This item relates to software at cost less amortisation, and also intellectual property rights acquired by a group company, The Cognitive Consulting Group Pty Limited, in Australia in connection with the delivery of education and training.

10. TANGIBLE ASSETS
This represents the purchase price of all tangible assets bought by MPS (excluding software), less depreciation.

11. INVESTMENTS AND DERIVATIVE LIABILITIES
This is the market value on 31 December 2015 of all the investments held by MPS on that day. MPS’s investments consist of a mixture of government and corporate bonds, equities, derivatives, 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. In accordance with the requirements of FRS 102, liabilities arising on derivative financial instruments are disclosed separately in the balance sheet.
12. DEBTORS
This is the amount owed to MPS at 31 December 2015 by third parties. This includes £34.9m recoverable from insurers (see note 1), based on the value of all outstanding claims.

13. PENSION ASSET
In accordance with accounting regulations, the difference between the value of the assets and liabilities of MPS's pension scheme at 31 December 2015 is included in the accounts, resulting in a pension asset of £17.5m.

14. CREDITORS
This represents amounts that MPS owes to third parties at 31 December 2015. This includes £53.9m of subscriptions received from members before 31 December 2015, but relating to indemnity periods after 31 December 2015 (deferred income).

15. 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 costs of managing those claims to conclusion (£936.2m), and a provision for deferred tax (£35.2m).

16. FUNDS AVAILABLE FOR MEMBERS
MPS seeks to hold a long-term surplus which is available to support requests for assistance which are likely to arise in the future from both current and past members. The principal reason that this surplus is held is to meet the cost of potential claims on members for incidents that have already occurred, but which have not been notified to MPS prior to the year end. The cost of these potential claims is not recognised as a liability of MPS unless and until MPS exercises its discretion to assist. However, the Council needs to take these potential future costs into careful consideration when managing the financial position of the company.

MPS estimates the expected cost of future requests for assistance arising from incidents already incurred by reference to past experience and projected trends of the potential number and magnitude of these requests. As discretionary indemnity is provided on an occurrence year basis and the period for actual claims to be made can be several years, the estimated projections require financial modelling over long emergence periods.

MPS Council has engaged an independent firm of consulting actuaries to help model and determine likely levels of future claims in accordance with relevant actuarial guidance. It is, however, an estimate, and given the long term nature of these potential requests, the actual costs of assisting with those matters where assistance is granted could vary considerably. MPS retains the absolute right not to assist, but seeks to act in the interests of members as a whole when deciding to accept liability for claims emerging, and for the purposes of this disclosure has modelled the acceptance of requests at levels projected in line with prior years.

At the end of 2015, the Council’s estimate of this potential future cost, if it agrees to assist, was £1,434m (2014: £1,290m).

These potential costs do not constitute a liability, contingent or otherwise, and are therefore not recognised in the balance sheet, because recognition of the liability is subject to MPS exercising its discretion to assist or not (see accounting policy note 3) of the MPS Annual Report 2015 for further details). These potential requests may, to the extent to which the Council exercises that discretion to indemnify, become an MPS liability over time under the occurrence basis of indemnity that MPS provides to its members.

17. CHANGE IN ACCOUNTING STANDARD (FRS 102)
FRS 102 is a significant change to the accounting rules applicable in the UK and Republic of Ireland, and came into force for this accounting year.

This change gives rise to a number of key differences both structural and numerical compared to the previous framework, and 2014 comparative figures have been restated accordingly. Further detail, including reconciliations of 2014 figures as published compared to those stated in this report, can be found in the MPS Annual Report 2015.